# GENESIS LAND DEVELOPMENT CORP.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**For the three and six months ended June 30, 2012**

August 9, 2012

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# GENESIS LAND DEVELOPMENT CORP.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**For the three and six months ended June 30, 2012**

(All dollar amounts are in thousands except per share amounts and as noted in %)

Dated August 9, 2012

*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 unaudited condensed consolidated interim financial statements and the notes thereto for the three and six months ended June 30, 2012 prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have been reviewed by the Corporation's Audit Committee, consisting of three independent directors and adopted by the Board of Directors. Additional information, including the Corporation's Annual Information Form, is available on SEDAR at* ***www.sedar.com****.*

# 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 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 estimated corporate tax rate and the number of dwelling sites that Genesis will actually develop and sell. 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 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, general economic conditions; 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; interest rates; availability of equity and debt financing; the impact of newly-adopted accounting principles on Genesis' accounting policies and on period-to-period comparisons of financial results; economic conditions in Western Canada, not realizing on the anticipated benefits from the transaction 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.*

## NON-IFRS MEASURES

This MD&A refers to funds from operations ("FFO") that does not have any standardized meaning within IFRS and therefore may not be comparable to similar measures provided by other companies. FFO is provided as it is considered informative for management, shareholders and analysts. FFO is a meaningful additional financial measure of operating performance, as it adjusts for certain items included in IFRS net income that may not be reflective of the long-term operating performance of the Corporation.

FFO does not represent cash flow from operating activities as defined by IFRS, is not indicative of cash available to fund all liquidity requirements, including capital growth, and should not to be considered as alternative to IFRS net income or IFRS cash flow from operating activities for the purpose of evaluating operating performance.

## THE CORPORATION

Genesis is a Calgary-based real estate development corporation focusing on the development and sale of residential, commercial and light industrial properties. The Corporation's vertically integrated operations include:

- the acquisition of raw land held for future development, including the planning, servicing and marketing of urban communities and resort properties in Western Canada;
- the construction and sale of single- and multi-family homes through Genesis Builders Group ("GBG"), a wholly-owned subsidiary of the Corporation; and
- the development of commercial, industrial and office properties.

The Corporation's primary focus is on development lands in and around the cities of Calgary and Airdrie.

The Corporation is listed for trading on the Toronto Stock Exchange (the "Exchange" or "TSX") under the symbol "GDC".

The Corporation's active projects during the six months ended June 30, 2012 were:

| Community | Location | Phases/Sites under development | Phases being sold |
|---|---|---|---|
| Bayside | Airdrie | | 4,6,7,9 |
| Canals | Airdrie | 6 | 5,6,7B |
| Sage Meadows | NW Calgary | 4 | 1,2 |
| Kinwood | NW Calgary | 2 | 1,2 |
| Sage Hill Crossing | NW Calgary | 1,2,3,4,5,6,7 | 3,4,5,6,7 |
| Saddlestone | NE Calgary | 5A,6,12(MF) | 1,2,3,4,12(MF) |

*MF – Multi-family

For a complete list of all properties please refer to the AIF for the year ended December 31, 2011.

## EXECUTIVE SUMMARY

The Corporation achieved net earnings of $0.11 and $0.25 per share – basic and diluted for the three and six months ended June 30, 2012, respectively, compared to $0.08 and $0.16 per share – basic and diluted for the same periods in 2011. The increased earnings for the six months ended June 30, 2012, result from the sale of 83 lots in Saddlestone phase 3 and 4. These lots had higher margins relative to the 80 lots sold in Sage Meadows phase 1 and 2 during the same period in 2011.

## KEY FINANCIAL PERFORMANCE INDICATORS

The Key Financial Performance Indicators ("KPIs") that the management of Genesis use to measure the performance of the Corporation are as follows:

1. Funds From Operations is an earnings measure.
2. Funds From Operations per share is an earnings measure.
3. Earnings Per Share is an earnings measure.
4. Debt to Gross Book Value is a leverage measure.
5. Debt (Total Liabilities) to Equity ratio is a leverage measure.
6. Return on Equity is a measure of return on shareholders' capital at risk.
7. Return on Assets is a measure of return on asset value.

Key Performance Indicators are calculated as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Funds From Operations | 6,301 | 3,675 | 15,275 | 2,237 |
| Funds From Operations per share | 0.14 | 0.08 | 0.34 | 0.05 |
| Earnings Per Share - Basic and Diluted | 0.11 | 0.08 | 0.25 | 0.16 |

| | For the twelve months ended | |
|---|---|---|
| | **June 30, 2012** | **December 31, 2011** |
| Return on Equity | 8.2% | 6.4% |
| Return on Assets | 4.1% | 3.0% |

| | **June 30, 2012** | **December 31, 2011** |
|---|---|---|
| Debt (Total Liabilities) to Equity ratio | 0.50 | 0.60 |
| Debt to Gross Book Value | 21.4% | 23.6% |

For the calculation of debt to equity ratio, refer to the 'Liquidity and Capital Resources' section.

Funds from operations were calculated as follows:

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| **($'s)** | **2012** | **2011** | **Change** | **%** | **2012** | **2011** | **Change** | **%** |
| Net earnings being comprehensive income attributable to equityholders of the parent | 4,839 | 3,604 | 1,235 | 34% | 11,031 | 7,127 | 3,904 | 55% |
| Deferred taxes | 1,462 | 71 | 1,391 | 1,959% | 3,845 | (4,954) | 8,799 | 178% |
| Impairment losses | - | (14) | 14 | (100%) | 399 | 23 | 376 | 1,635% |
| Non-controlling interest in respect of the above | - | 13 | (13) | (100%) | - | 41 | (41) | (100%) |
| Funds from operations | 6,301 | 3,674 | 2,627 | 72% | 15,275 | 2,237 | 13,038 | 583% |
| FFO per share - basic and diluted | 0.14 | 0.08 | 0.06 | 75% | 0.34 | 0.05 | 0.29 | 580% |

The increase in FFO is mainly due to the sale of lots with better than average margins, sale of single-family homes and sale of two multi-family sites by a joint venture in Kinwood.

Debt to Gross book value is calculated as follows:

| ($'s) | June 30, 2012 | December 31, 2011 |
|---|---|---|
| **Debt** | | |
| Financings excluding deferred financing fees | 79,212 | 89,989 |
| | | |
| **Gross Book Value** | | |
| Real estate held for development and sale | 290,528 | 299,916 |
| Property and equipment | 352 | 2,062 |
| Other assets | 78,576 | 77,654 |
| Deferred financing fees | 1,232 | 1,758 |
| Gross Book Value | 370,688 | 381,390 |
| | | |
| Debt to Gross Book Value | 21.4% | 23.6% |

Gross book value means the book value of the assets of the Corporation and its consolidated subsidiaries plus accumulated depreciation in respect of property and equipment, and deferred financing fees. Other assets include amounts receivable, other operating assets, deferred income taxes and cash and cash equivalents.

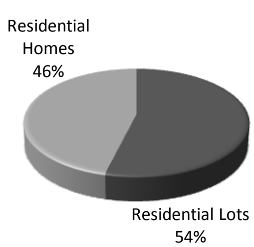
## RESULTS OF OPERATIONS

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| ($'s) | 2012 | 2011 | Change | % | 2012 | 2011 | Change | % |
| Net earnings attributable to equity holders of the parent | 4,839 | 3,604 | 1,235 | 34% | 11,031 | 7,127 | 3,904 | 55% |
| Net earnings per share - basic and diluted | 0.11 | 0.08 | 0.03 | 38% | 0.25 | 0.16 | 0.09 | 56% |

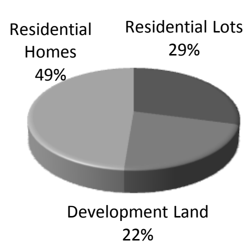
### Revenue, Cost of Sales and Gross Margin

The revenue mix for the three and six months ended June 30, 2012 and 2011 is as follows:

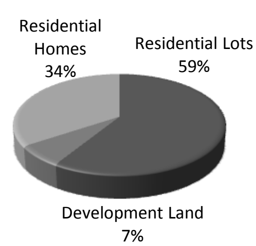
**Three months ended June 30, 2012**



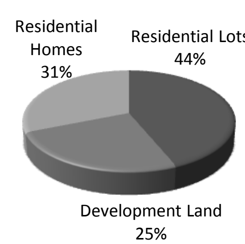

**Three months ended June 30, 2011**




**Six months ended June 30, 2012**

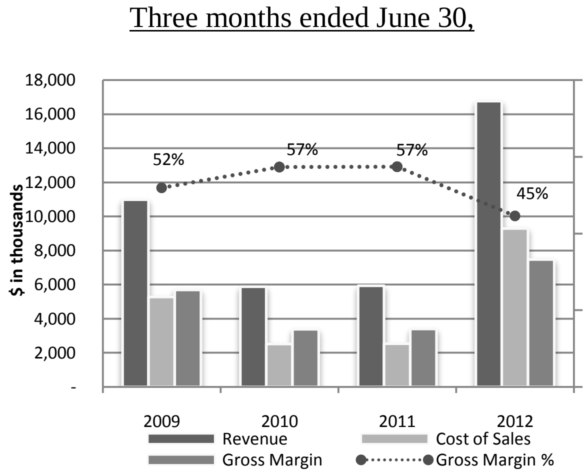


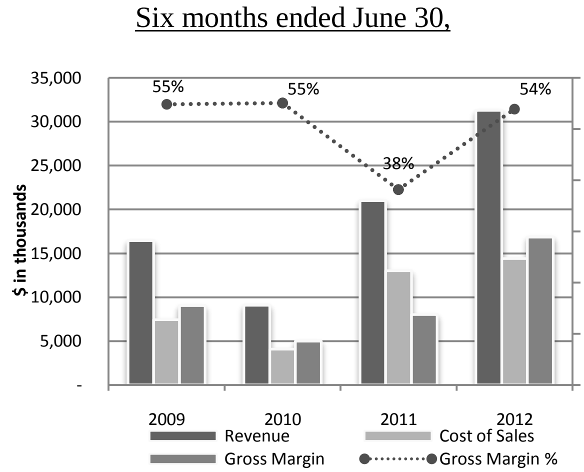

**Six months ended June 30, 2011**



**Residential Lots**

Revenue, Cost of Sales and Gross Margin




| ($'s) | Three months ended June 30, 2012 | 2011 | Change | % | Six months ended June 30, 2012 | 2011 | Change | % |
|---|---|---|---|---|---|---|---|---|
| Residential lot revenue | 16,751 | 5,929 | 10,822 | 183% | 31,271 | 21,020 | 10,251 | 49% |
| Cost of sales | (9,288) | (2,528) | 6,760 | 267% | (14,410) | (12,999) | 1,411 | 11% |
| Gross margin | 7,463 | 3,401 | 4,062 | 119% | 16,861 | 8,021 | 8,840 | 110% |
| Gross margin % | 45% | 57% | | | 54% | 38% | | |
| Number of lots sold | 100 | 32 | 68 | 213% | 175 | 114 | 61 | 54% |
| Average revenue per lot | 168 | 185 | (17) | (9%) | 179 | 184 | (5) | (3%) |
| Average cost of sales per lot | 93 | 79 | 14 | 18% | 82 | 114 | (32) | (28%) |

Revenue increased during the three and six months ended June 30, 2012, due to the sale of 50 and 53 lots in the communities of Bayside and Canals, respectively, and sale of 27 and 28 lots, respectively, in Sage Meadows phase 1 and 2. The Corporation also sold 12 and 83 newly completed lots, respectively, in Saddlestone phase 3 and 4. Other lot sales were achieved in the community of Kinwood by a joint venture. The increased lot sales also reflect mild improvement of Calgary's housing market in general.

The cost of sales per lot was lower for the six months ended June 30, 2012 compared to 2011 due to the sales mix. The lots sold in 2012 were mainly in the Calgary communities of Kinwood and Saddlestone, which have a lower cost to develop as compared to lots sold in 2011 in the community of Sage Meadows due to various additional infrastructure requirements.

The cost of sales per lot was higher for the three months ended June 30, 2012, compared to 2011 due to the sales mix. The lots sold during the three months ended June 30, 2012, included lots in Sage Meadows phase 1 and 2 with a higher cost base driving up the average cost per lot for the quarter.

**Development Land**

| ($'s) | Three months ended June 30, 2012 | 2011 | Change | % | Six months ended June 30, 2012 | 2011 | Change | % |
|---|---|---|---|---|---|---|---|---|
| Development land revenue | - | 4,514 | (4,514) | (100%) | 3,600 | 12,158 | (8,558) | (70%) |
| Cost of sales before write-down | (12) | (2,991) | (2,979) | (100%) | (2,362) | (7,584) | (5,222) | (69%) |
| (Write-down) Recovery | - | 14 | 14 | 100% | (399) | (23) | 376 | 1635% |
| Gross margin | (12) | 1,537 | (1,549) | (101%) | 839 | 4,551 | (3,712) | (82%) |
| Gross margin % | - | 34% | | | 23% | 37% | | |

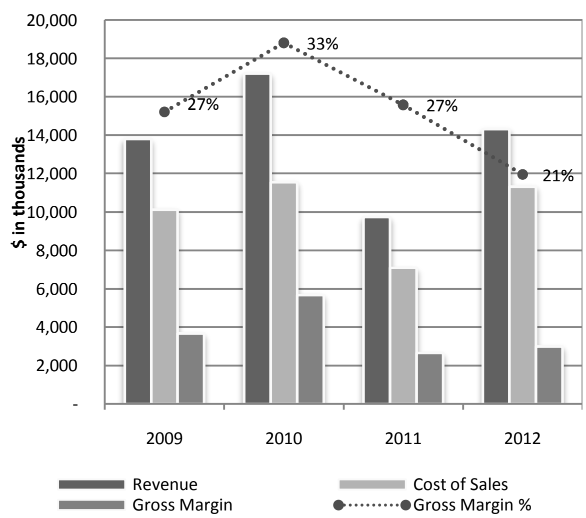
The development land revenue for the three and six months ended June 30, 2012 relates to 2 multi-family land parcels sold by a joint venture, achieving consistent margins of 34% and 38% before write-down year over year.

**Residential Home Building**

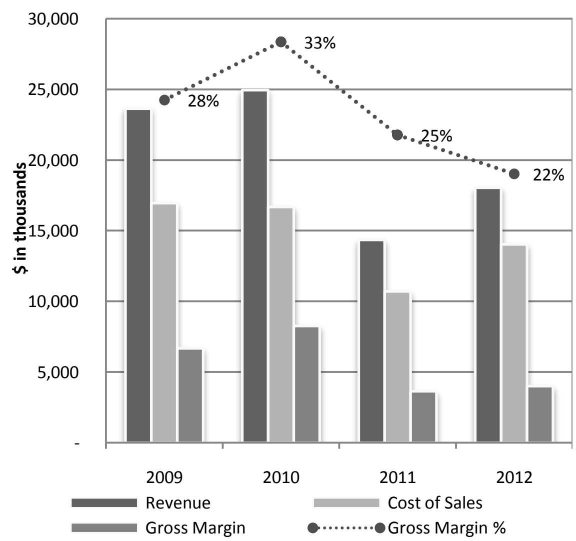
Single-family

Revenue, Cost of Sales and Gross Margin

Three months ended June 30,




Six months ended June 30,




| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| ($'s) | 2012 | 2011 | Change | % | 2012 | 2011 | Change | % |
| Single-family revenue | 14,323 | 9,745 | 4,578 | 47% | 18,045 | 14,356 | 3,689 | 26% |
| Cost of sales | (11,325) | (7,086) | 4,239 | 60% | (14,039) | (10,708) | 3,331 | 31% |
| Gross margin | 2,998 | 2,659 | 339 | 13% | 4,006 | 3,648 | 358 | 10% |
| Gross margin % | 21% | 27% | | | 22% | 25% | | |
| Number of homes sold | 31 | 21 | 10 | 48% | 38 | 30 | 8 | 27% |
| Average revenue per home | 462 | 464 | (2) | (0%) | 475 | 479 | (4) | (1%) |
| Average cost of sales per home | 365 | 337 | 28 | 8% | 369 | 357 | 12 | 3% |

The gross margin was lower as the sales mix for the homes sold during the three and six months ended June 30, 2012 includes homes in the Calgary community of Evansridge having higher lot cost as it was externally purchased. In comparison, the homes sold in 2011 in the communities of Saddlestone, Sage Meadows and Bayside are internally developed carrying higher blended margins of lot and home sales. As at August 9, 2012, the home building division has 77 sales under contract, 74 of which are expected to close during 2012.

The number of home sales closed by community during the three and six months ended June 30, 2012 and 2011 in Calgary and Airdrie are as follows:

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | # of single-family | | Average revenue | | # of single-family | | Average Revenue | |
| Community | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Calgary | | | | | | | | |
| Sherwood | - | - | - | - | - | 2 | - | 522 |
| Saddlestone | 4 | 10 | 425 | 436 | 5 | 10 | 418 | 436 |
| Sage Meadows | 3 | 6 | 628 | 636 | 5 | 7 | 582 | 608 |
| Evansridge | 15 | - | 364 | - | 15 | - | 364 | - |
| Taralake | - | - | - | - | - | 1 | - | 461 |
| Airdrie | | | | | | | | |
| Bayside | 9 | 5 | 587 | 313 | 13 | 10 | 584 | 424 |
| Total | 31 | 21 | 462 | 464 | 38 | 30 | 475 | 479 |

Multi-family

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| ($'s) | 2012 | 2011 | Change | % | 2012 | 2011 | Change | % |
| Multi-family revenue | - | 180 | (180) | (100%) | 136 | 577 | (441) | (76%) |
| Cost of sales | - | (169) | (169) | (100%) | (122) | (515) | (393) | (76%) |
| Gross margin | - | 11 | (11) | (100%) | 14 | 62 | (48) | (77%) |
| Gross margin % | - | 6% | | | 10% | 11% | | |
| Number of homes sold | - | 1 | (1) | (100%) | 1 | 3 | (2) | (67%) |
| Average revenue per home | - | 180 | (180) | (100%) | 136 | 192 | (56) | (29%) |
| Average cost of sales per home | - | 169 | (169) | (100%) | 122 | 172 | (50) | (29%) |

The last unit in The Breeze multi-family project was sold during the three months ended March 31, 2012.

The Corporation currently has several additional serviced multi-family sites. Management is assessing various opportunities to maximize the value from these sites.

## General and Administrative Expense

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| ($'s) | 2012 | 2011 | Change | % | 2012 | 2011 | Change | % |
| Corporate administration | 1,355 | 1,148 | 207 | 18% | 2,070 | 1,731 | 339 | 20% |
| Compensation and benefits | 1,422 | 1,249 | 173 | 14% | 2,383 | 2,552 | (169) | (7%) |
| Professional services | 737 | 806 | (69) | (9%) | 1,388 | 1,236 | 152 | 12% |
| Advertising and marketing | 517 | 457 | 60 | 13% | 1,011 | 737 | 274 | 37% |
| | 4,031 | 3,660 | 371 | 10% | 6,852 | 6,256 | 596 | 10% |

The overall general and administrative expense for the three and six months ended June 30, 2012 compared to the same periods in 2011 increased mainly due to costs associated with litigation settlements in the normal course of operations, consulting costs related to the strategic alternatives review, management fees related to a joint venture and marketing costs. The increase was partially offset by a reduction in compensation costs due to a decrease in the average number of employees from 54 during the six months ended June 30, 2011 to an average of 50 during the six months ended June 30, 2012.

### Finance Expense

| ($'s) | Three months ended June 30, 2012 | 2011 | Change | % | Six months ended June 30, 2012 | 2011 | Change | % |
|---|---|---|---|---|---|---|---|---|
| Interest incurred | 1,333 | 1,803 | (470) | (26%) | 2,693 | 3,484 | (791) | (23%) |
| Financing fees accretion | 289 | 389 | (100) | (26%) | 601 | 740 | (139) | (19%) |
| Interest and financing fees capitalized | (1,172) | (617) | 555 | 90% | (2,280) | (1,376) | 904 | 66% |
| | 450 | 1,575 | (1,125) | (71%) | 1,014 | 2,848 | (1,834) | (64%) |

Interest incurred relates to loans secured by land and single-family home building operations.

The decrease in interest expense for the three and six months ended June 30, 2012 compared to 2011 was due to:

- Lower average loan balances resulting from lot closings, and;
- Capitalization of borrowing costs on Sage Hill Commercial property as it is now in its active construction phase.

## FINANCIAL POSITION

### ASSETS

| ($'s) | June 30, 2012 | % | December 31, 2011 | % |
|---|---|---|---|---|
| Real estate held for development and sale | 290,528 | 79% | 299,916 | 79% |
| Amounts receivable | 55,961 | 15% | 43,451 | 11% |
| Other operating assets | 15,292 | 4% | 20,942 | 6% |
| Deferred income taxes | - | - | 2,859 | 1% |
| Cash and cash equivalents | 7,522 | 2% | 10,850 | 3% |
| | 369,303 | 100% | 378,018 | 100% |

#### Real Estate Held for Development and Sale

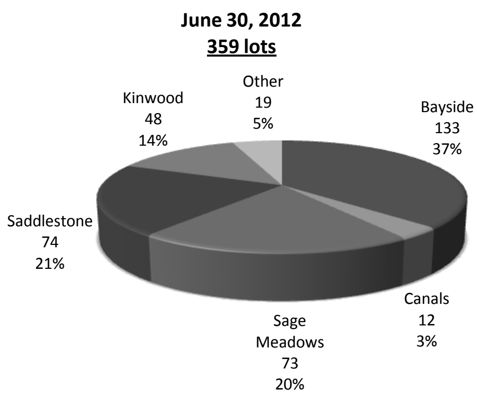
| ($'s) | June 30, 2012 | December 31, 2011 | Change | % |
|---|---|---|---|---|
| Real estate held for development and sale | 301,694 | 310,670 | (8,976) | (3%) |
| Provision for write-down | (11,166) | (10,754) | 412 | 4% |
| | 290,528 | 299,916 | (9,388) | (3%) |

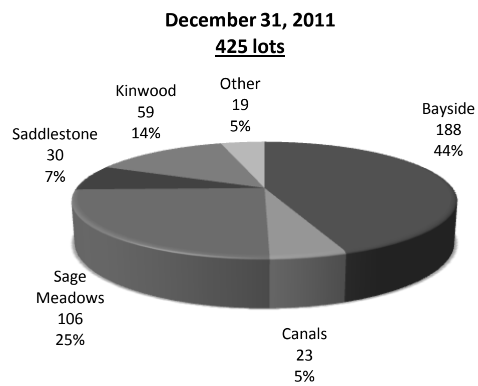
During the three and six months ended June 30, 2012, carrying value of real estate held for development and sale decreased primarily as a result of sales of residential lots, development land parcels and housing inventory and the provision for write-down of development land parcels amounting to $412. The decrease is offset by on-going land development and home construction expenditures relating to the Calgary communities of Sage Meadows, Saddlestone and Sage Hill Crossing, and the Airdrie communities of Canals and Bayside.

Real estate held for development and sale changed during the six months ended June 30, 2012 as follows:

| ($'s) | Land Under Development | Land Held for Future Development | Housing Projects | Intersegment elimination | Total |
|---|---|---|---|---|---|
| December 31, 2011 | 149,188 | 140,599 | 10,129 | - | 299,916 |
| Acquisitions & Transfers | 1,702 | (1,702) | 5,951 | (5,951) | - |
| Development | 7,192 | (469) | 9,868 | 5,951 | 22,542 |
| Sold | (16,507) | - | (15,011) | - | (31,518) |
| Impairment adjustments | (381) | (31) | - | - | (412) |
| June 30, 2012 | 141,194 | 138,397 | 10,937 | - | 290,528 |

**Total number of single-family lots in inventory by community**




**Amounts Receivable**

| ($'s) | June 30, 2012 | December 31, 2011 | Change | % |
|---|---|---|---|---|
| Amounts receivable | 55,961 | 43,451 | 12,510 | 29% |

Amounts receivable increased at June 30, 2012 compared to December 31, 2011 mainly due to the increase in lot sales achieved during the three and six months ended June 30, 2012.

During the three months ended June 30, 2012, the Corporation recognized bad debt expense of $314 (2011 – Nil) in the statement of comprehensive income relating to 11 lots sold to a builder as the builder filed for creditor protection under CCAA. The Corporation also booked an allowance for doubtful accounts of $1,643 and an increase of $1,002 in land under development due to recovery of the lots, pursuant to the default clause of the lot purchase agreement.

The Corporation recognizes bad debt expense or recovery relating to amounts receivable on sold lots net of the return of the real estate held for development and sale, whereby lots for which allowance for doubtful accounts is established are taken back into the Corporation's lot inventory.

LIABILITIES AND EQUITY

| ($'s) | June 30, 2012 | % | December 31, 2011 | % |
|---|---|---|---|---|
| Financings | 77,980 | 21% | 88,231 | 23% |
| Customer deposits | 7,895 | 2% | 7,582 | 2% |
| Accounts payable and accrued liabilities | 8,084 | 2% | 16,415 | 4% |
| Income taxes payable | 8,888 | 2% | 12,970 | 3% |
| Deferred income taxes | 984 | 0% | - | 0% |
| Land development service costs | 18,728 | 5% | 16,201 | 4% |
| Non-controlling interest | 55,345 | 15% | 56,771 | 15% |
| Shareholders' equity | 191,399 | 53% | 179,848 | 49% |
| | 369,303 | 100% | 378,018 | 100% |

Financings from lending institutions, gross of deferred financing fees of $1,232, at June 30, 2012 totaled $79,212 of which $14,101 or 18% relates to balances due in 1 year or less, repayment of which is either (i) linked directly to the collection of lot receivables and sales proceeds; or (ii) due at maturity. During the three and six months ended June 30, 2012, Genesis received $9,500 and $15,955 of financing proceeds and made repayments of $13,546 and $26,633.

**Land Development Service Costs**

| ($'s) | June 30, 2012 | December 31, 2011 | Change | % |
|---|---|---|---|---|
| Land development service costs | 18,728 | 16,201 | 2,527 | 16% |

Accrued land development service costs increased at June 30, 2012 compared to December 31, 2011 mainly due to increased lot and home sales during three and six months ended June 30, 2012. The overall increase was partially off-set by performance of planned service work, thus incurring previously accrued completion costs.

**Shareholders’ Equity**

As at August 9, 2012, the Corporation had 44,674,915 common shares issued and outstanding. In addition, there were options to acquire 1,480,470 common shares of the Corporation issued under the Corporation’s stock option plan.

## LIQUIDITY AND CAPITAL RESOURCES

During the three and six months ended June 30, 2012, the Corporation generated net earnings of $4,839 and $11,031 for funding its operating activities. At June 30, 2012, the consolidated cash balance was $7,522 as compared to $10,850 as at December 31, 2011.

The short-term liabilities and commitments include:

| ($'s) | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Financings, excluding deferred financing fees | 14,101 | 16,807 |
| Accounts payable and accrued liabilities | 8,084 | 16,415 |
| Total short-term liabilities | 22,185 | 33,222 |
| Commitments | 9,689 | 10,035 |
| | 31,874 | 43,257 |

At June 30, 2012, Genesis has obligations due within the next 12 months of $31,874. Genesis expects to generate sales and renew existing credit facilities or secure additional financings sufficient to meet its obligations as they become due. Based on Genesis' operating history, its relationship with its lenders and committed sales contracts, management believes that the Corporation has the ability to continue to renew or repay its financial obligations as they come due.

The following is a summary of the Corporation's divisional financings balances as at June 30, 2012 and as at the end of the previous four quarters:

| Financings<br>($'s) | Second Quarter 2012 | First Quarter 2012 | Fourth Quarter 2011 | Third Quarter 2011 | Second Quarter 2011 |
|---|---|---|---|---|---|
| Land & land project loans | 79,212 | 82,546 | 88,047 | 75,275 | 86,192 |
| Home building operations | - | 112 | 1,254 | - | - |
| Other | - | 696 | 688 | 681 | 673 |
| | 79,212 | 83,354 | 89,989 | 75,956 | 86,865 |
| Deferred financing fees | (1,232) | (1,446) | (1,758) | (1,829) | (1,428) |
| | 77,980 | 81,908 | 88,231 | 74,127 | 85,437 |

The change in the Corporation's financings was as follows:

| ($'s) | Three months ended June 30, 2012 | Six months ended June 30, 2012 | Year ended December 31, 2011 |
|---|---|---|---|
| Balance, beginning of period | 81,908 | 88,231 | 81,320 |
| Advances | 9,500 | 15,955 | 91,023 |
| Repayments | (13,546) | (26,633) | (83,613) |
| Finance expense | 450 | 1,014 | 5,169 |
| Interest and financing fees paid and capitalized | (332) | (587) | (5,668) |
| Balance, end of period | 77,980 | 77,980 | 88,231 |

The financings decreased mainly due to the pay down of project loans by lot closings achieved during the three and six months ended June 30, 2012.

The following table shows the debt to equity ratio calculated as total liabilities divided by total equity.

| ($'s) | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Total Liabilities | 122,559 | 141,399 |
| Total Equity | 246,744 | 236,619 |
| Debt to Equity ratio | 0.50 | 0.60 |

The Corporation uses a combination of project-specific credit facilities, limited partnership capital and cash generated from operations to fund its capital requirements. Management believes that the Corporation has sufficient liquidity to pay for operating expenses, development costs, and principal and interest on financings. The Corporation regularly reviews its credit facilities and manages the requirements in accordance with project development plans and operating requirements.

**Contractual Obligations**

The Corporation's contractual obligations, other than accounts payable, income taxes payable, customer deposits and land development service costs, stated as of June 30, 2012, are as follows:

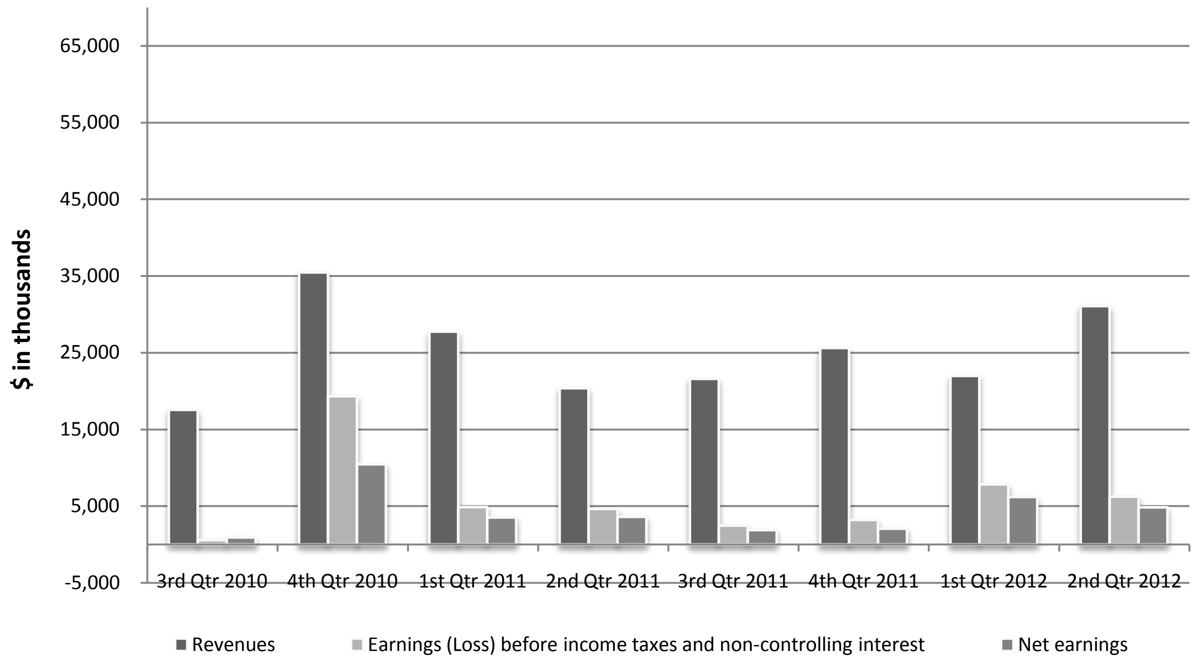
| ($'s) | Financings (excl. deferred financing fees) | Purchase of Land and other | Naming Rights | Lease Obligations | Total |
|---|---|---|---|---|---|
| Current | 14,101 | 8,433 | 700 | 556 | 23,790 |
| Years 2 and 3 | 65,111 | - | 1,400 | 1,343 | 67,854 |
| Years 4 and 5 | - | - | 1,400 | 1,340 | 2,740 |
| Thereafter | - | - | 2,200 | 171 | 2,371 |
| | 79,212 | 8,433 | 5,700 | 3,410 | 96,755 |

Genesis has entered into an agreement with a community society in North East Calgary, whereby Genesis will contribute $500 per year for ten years commencing January 1, 2012 for the naming rights to the "Genesis Centre for Community Wellness", a recreation complex in north east Calgary.

Genesis has an agreement with the City of Airdrie, whereby Genesis will contribute $200 per year for ten years, for the naming rights to "Genesis Place", a recreation complex in the city of Airdrie. Four of ten required payments have been made and recorded as part of general and administrative expense.

The Corporation entered into a contract to lease new premises for new office space. The lease commences July 1, 2012 and ends June 30, 2017. The five year lease commitment for rent and operating costs amounts to $1,939 and $1,293, respectively. The lease also includes a tenant improvement allowance of $291.

## SUMMARY OF QUARTERLY RESULTS




| ($'s) | Second Quarter 2012 | First Quarter 2012 | Fourth Quarter 2011 | Third Quarter 2011 | Second Quarter 2011 | First Quarter 2011 | Fourth Quarter 2010 | Third Quarter 2010 |
|---|---|---|---|---|---|---|---|---|
| **Revenues** | 31,074 | 21,978 | 25,615 | 21,590 | 20,368 | 27,743 | 35,464 | 17,548 |
| **Earnings before income taxes and non-controlling interest** | 6,240 | 7,840 | 1,666 | 2,462 | 4,637 | 4,877 | 19,326 | 579 |
| **Net earnings being comprehensive income attributable to equity holders of the parent** | 4,839 | 6,192 | 2,057 | 1,877 | 3,604 | 3,523 | 10,454 | 917 |
| **Net earnings per share:** | | | | | | | | |
| **- Basic** | 0.11 | 0.14 | 0.05 | 0.04 | 0.08 | 0.08 | 0.24 | 0.02 |
| **- Diluted** | 0.11 | 0.14 | 0.05 | 0.04 | 0.08 | 0.08 | 0.23 | 0.02 |

*Revenues exclude other revenue

# JOINT VENTURE

On April 30, 2010, Genesis entered into a joint venture ('JV') agreement with another real estate development corporation for the purpose of conducting residential development of certain real estate holdings. Genesis contributed 75 acres (net of JV interests) and has a 50% interest in the JV. The development is comprised of 4 phases. The first phase has been serviced and is comprised of 192 lots and two multi-family sites. During the three and six months ended June 30, 2012, the JV sold the two multi-family sites for $7,200 and 22 single-family lots. The JV sold 135 lots in 2011, including 30 lots sold to the home building division of the Corporation.

On July 15, 2011, the JV obtained a credit facility in the amount of $17,000. The Corporation and the JV partner have provided a guarantee for this facility. At June 30, 2012, the balance of the facility was $10,738, 50% of which the Corporation recognized in its financial statements as at June 30, 2012.

The Corporation deferred $13,167 of margin on contribution of land to the JV. As at June 30, 2012, the Corporation has realized $3,746 of that amount as a result of sales to third parties. $322 and $1,337 (2011 – Nil) has been recognized during the three and six months ended June 30, 2012, respectively. The remaining amount of $9,421 will be realized on the future sale and development of lots and lands by the JV.

# OFF BALANCE SHEET ARRANGEMENTS

**Letters of Credit**

The Corporation has an ongoing requirement to provide letters of credit to municipalities as part of the subdivision plan registration process. As at June 30, 2012, these letters of credit totaling approximately $8,149, would provide a source of funds to the municipalities that would allow them to complete the construction and maintenance of improvements to the subdivision should the Corporation not be able to. 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.

**Lease Agreements**

The Corporation has certain lease agreements that are entered into in the normal course of operations. All leases are treated as operating leases whereby lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases in the balance sheet as of June 30, 2012.

# RELATED PARTY TRANSACTIONS

Payments to a former officer under an advisory service agreement for the three and six months ended June 30, 2012 were Nil and $29 (2011 - Nil). The agreement ended March 31, 2012.

A director of Genesis, appointed on July 16, 2012, is an officer of a lender. At June 30, 2012, the Corporation had loans totaling $49,604 (December 31, 2011 – 53,196). During the three and six months ended June 30, 2012 the Corporation paid interest and fees to the lender of $916 and $1,863 (2011 – $1,524 and $2,709), respectively. During the three and six months ended June 30, 2012, the Corporation obtained no new financing or re-financing on existing loans (2011 – $16,000 and $16,000) with the lender. All transactions are under normal commercial terms and conditions.

A 2011 related party house purchase contract terminated in 2012.

# CRITICAL ACCOUNTING ESTIMATES

Please refer to the relevant section of the MD&A for the three months and year ended December 31, 2011.

# RISKS AND UNCERTAINTIES

Please refer to the relevant section of the MD&A for the three months and year ended December 31, 2011.

## DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their direct supervision, Genesis' disclosure controls and procedures (as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, adopted by the Canadian Securities Administrators) to provide reasonable assurance that:

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

(ii) material information required to be disclosed in the annual and interim filings is recorded, processed, summarized, and reported on a timely basis.

In conformance with National Instrument 52-109 ("52-109"), the Corporation has filed certificates signed by the CEO and CFO that deal with the matter of disclosure controls and procedures and have concluded that as of June 30, 2012 the design and operating effectiveness of these disclosure controls and procedures are effective in providing reasonable assurance that material information required to be disclosed by the Corporation in reports filed with Canadian securities regulators is accurate and complete and filed within the periods required

Based on that evaluation, senior management determined that the disclosure controls and procedures have been designed to provide reasonable assurance that information required to be disclosed in the Corporation's annual filings and interim filings (as such terms are defined under 52-109) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

### INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and CFO have also designed, or caused to be designed under their direct supervision, Genesis' internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Further, using the criteria established in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, they have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of Genesis' internal controls over financial reporting as of June 30, 2012 and concluded that the design and operating effectiveness of these internal controls over financial reporting are effective.

There were no changes in the Corporation's internal controls over financial reporting during the three months ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect the Corporation's internal controls over financial reporting.

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.

Management will continue to monitor the effectiveness of its internal controls over financial reporting and disclosure framework and may make modifications from time to time as considered necessary or desirable.

The CEO and CFO oversee all material transactions and related accounting records. In addition, the Audit Committee reviews the financial statements and key risks of the Corporation on a quarterly basis and queries management about significant transactions, and there is daily oversight by the senior management of the Corporation.

The CEO and CFO have limited the scope of the design of disclosure controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures of Kinwood Communities Inc., a joint venture in which the Corporation has 50% interest. The design was excluded from evaluation as the Corporation does not have the ability to design and evaluate controls policies and procedures carried out by that entity. Our assessment is limited to the internal controls over the inclusion of our share of the joint venture and its results in our consolidated financial statements. To help mitigate the impact and to ensure quality financial reporting, the Corporation had specified procedures performed by an independent accounting firm on certain balance sheet and income statement items.

## OTHER

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