MELCOR DEVELOPMENTS LTD.

PRESS RELEASE

for immediate distribution

Melcor reports strong second quarter results

Edmonton, Alberta | August 13, 2013

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development company, today reported strong results for the quarter ended June 30, 2013. Revenue increased by 45% to $50.74 million in the second quarter compared to Q2-12 and by 35% to $92.35 million year-to-date. Melcor earned net income of $10.21 million or $0.34 per share (basic) in Q2-13, a decrease of 46% over Q2-12. Year-to-date net income was $22.83 million, a decrease of 8% over the first six months of 2012. The decline in net income is the result of one-time costs relating to the formation of Melcor REIT.

Adjusted earnings, which excludes REIT transaction costs and unitholders' portion of earnings of the REIT, was $20.57 million in the second quarter, an increase of 9% over Q2-12, and $33.19 million year-to-date, an increase of 34%. Management believes that adjusted earnings provides a clearer measure of operational and relative performance.

Funds from operations (FFO) was $0.21 per share in Q2-13 compared to $0.24 per share in Q2-12. Year-to-date FFO was $0.51 per share compared to $0.44 per share in the first six months of 2012. FFO per share adjusts for certain non-cash earnings items included in income such as fair value adjustments on investment properties, fair value adjustments on REIT units and stock based compensation expense.

Brian Baker, Melcor's President and Chief Executive Officer commented on the quarter: "We are pleased to report strong growth in revenue, adjusted earnings and gross margin stability. All operating divisions are performing well and we've had a productive construction season to date. With strong leadership in all divisions and a strategic supply of short- and long-term development assets, we remain well positioned for continued growth and success."

Second Quarter Highlights

- Melcor achieved solid results in the first half of 2013:
  - Consolidated revenues of $50.74 million, up 45%; year-to-date revenues of $92.35 million, up 35%
  - Adjusted basic earnings per share of $0.68 in the quarter and $1.10 year-to-date compared to $0.63 and $0.82 respectively in 2012. Basic earnings per share were $0.34 in the quarter and $0.75 year to date. Net income and earning per share were impacted by the formation of Melcor REIT. Adjusted earnings per share provide a clearer measure of operational and relative performance than basic earnings per share as a result.
  - FFO of $0.21 per share in the quarter, down 13%; year-to-date FFO of $0.51, up 16%
- On May 1st we formed Melcor REIT through an initial public offering which raised gross proceeds of $83.00 million and on May 10th, 2013 the underwriters exercised, in full, their over-allotment option for gross proceeds of $8.30 million.
- We declared and paid $7.66 million in semi-annual dividends and $15.33 million in special dividends.
- Revenues were higher across all divisions in Q2-13 as a result of increased activity and continued execution of Melcor's growth strategy.

- The Community Development division sold 197 single-family lots (Q2-12: 149), sold 7.37 acres for multi-family projects (Q2-12: 2.47) and 5.11 acres for commercial and industrial use (Q2-12: 5.96). This resulted in revenue growth of 49% to $32.19 million.
    - The Property Development division completed construction on 4 buildings in Q2-13 and recognized $1.43 million in fair value gains. This compares to fair value gains of $1.06 million in Q2-12.
    - Leasing activity in the Investment Properties division was strong with portfolio-wide occupancy rates rising to 96% compared to 86% in Q2-12. This increase is a result of new leasing activity on two commercial properties as well as the assets transferred from our Property Development division in the last fiscal year at 100% occupancy. Funds from operations grew 53% to $2.77 million in Q2-13.
    - Leasing activity in the properties owned by Melcor REIT was also strong, with rental revenue increasing 9% over Q2-12 as a result of increases in base rents and higher average occupancy in the quarter.
- Subsequent to the quarter, Brian Baker assumed the role of Chief Executive Officer of Melcor Developments Ltd.

Outlook

The majority of Melcor's business operations and assets remain focused on Alberta. Alberta economic fundamentals remain strong, with low unemployment rates, net in-migration, higher than the national average weekly earnings, strong capital investment, stabilizing inflation and relative stability in the price of oil. These fundamentals create a favorable environment for both residential and commercial property development.

The company continues its selective US expansion by increasing its stable of residential rental properties, serviced lot inventory and raw development land. These assets now comprise approximately 10% of the company's total assets in a strengthening real estate market. With Melcor's inventory of raw and developed land, financial resources and strong management group, the company is well positioned to take advantage of market opportunities.

MD&A and Financial Statements

Melcor's consolidated financial statements and management's discussion and analysis for the three- and six-months ended June 30, 2013 can be found on the company's website at www.Melcor.ca or on SEDAR (www.sedar.com).

About Melcor Developments Ltd.

Melcor is a diversified real estate development and management company with a rich heritage of integrity and innovation in real estate since 1923.

Through four integrated operating divisions, Melcor manages the full life cycle of real estate development: from acquiring raw land, to community planning, to construction and development, to managing leasable office, retail and residential sites. The company develops and manages mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses.

Melcor's headquarters are located in Edmonton, Alberta, with regional offices throughout Alberta and British Columbia. Company developments span western Canada and the US. Melcor has been a public company since 1968 and trades on the Toronto Stock Exchange (TSX:MRD).

Forward Looking Statements

In order to provide our investors with an understanding of our current results and future prospects, our public communications often include written or verbal forward-looking statements.

Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions, courses of action and include future-oriented financial information.

This news release and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2013 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We caution readers of this document not to place undue reliance on forward-looking statements. Assumptions about the performance of the Canadian and US economies and how this performance will affect Melcor's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Business Environment and Risk in our annual MD&A.

Readers should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or oral, made by the company or on its behalf.

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LIVE. WORK. PLAY. SHOP.

Management's Discussion & Analysis

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August 13, 2013

The following discussion of Melcor Developments Ltd.'s ("Melcor" or the "Company") financial condition and results of operations should be read in conjunction with the condensed interim consolidated financial statements and related notes for the quarter ended June 30, 2013 and the Management's Discussion & Analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2012.

The financial statements underlying this management's discussion and analysis (MD&A), including 2012 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted.

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on August 13, 2013.

All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

Other Information

Additional information about Melcor, including our annual information form, information circular and annual and quarterly reports, is available on SEDAR at www.sedar.com.

Non-standard Measures

We refer to terms that are not specifically defined in the CICA Handbook and do not have any standardized meaning prescribed by IFRS. These non-standard measures may not be comparable to similar measures presented by other companies. We believe that these non-standard measures are useful in assisting investors in understanding components of our financial results.

For a definition of these measures, refer to the section "Non-GAAP Measurements" at the end of the MD&A.

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Readers should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or oral, made by the company or on its behalf.

Overview of our Business

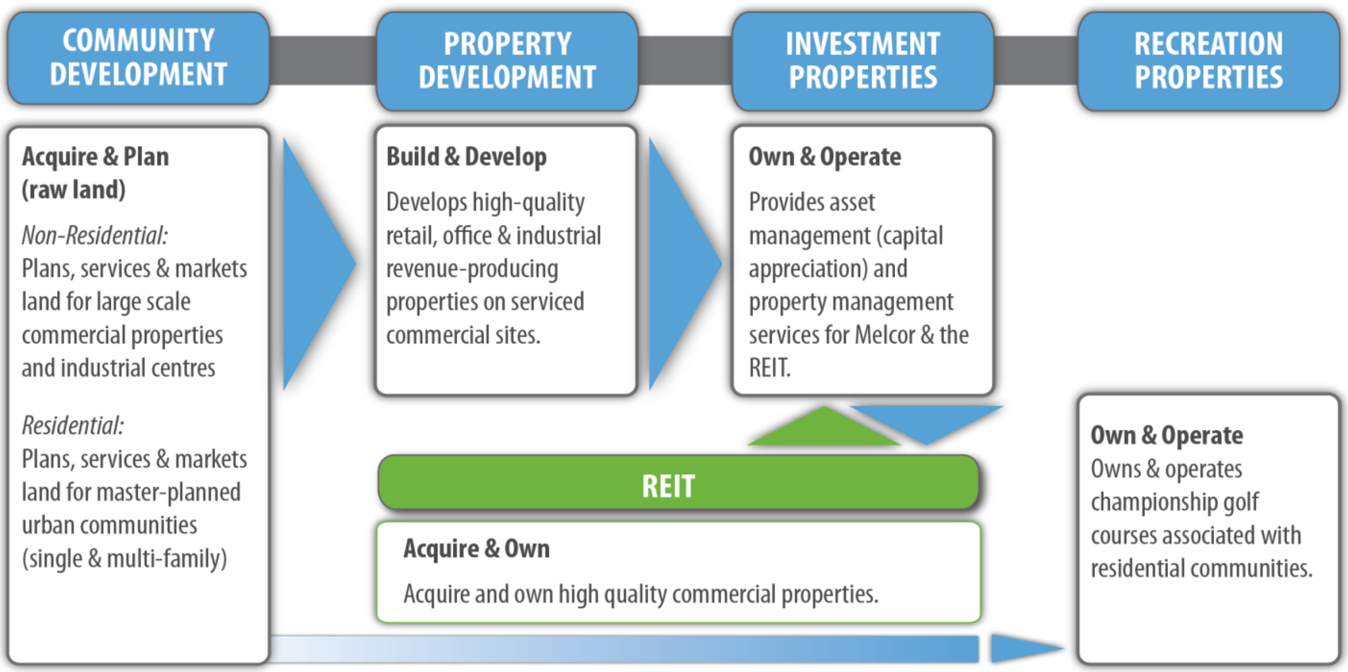
We are a diversified real estate development and management company with a rich heritage of integrity and innovation in real estate since 1923.

On May 1, 2013, we formed Melcor REIT (the "REIT") through an initial public offering (the "Offering"). We sold interests in a portfolio of 27 income-producing properties to the REIT for total consideration of $266.03 million. We retain a controlling 51.1% effective interest in the REIT and continue to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. We reflect the public's 48.9% interest in the REIT as a financial liability in our financial statements.

We operate five integrated divisions that together manage the full life cycle of real estate development:

- acquiring raw land (Community Development)
- residential community and commercial planning (Community Development)
- development and construction project management (Property Development)
- operate a portfolio of commercial and residential properties, focused on property improvements and capital appreciation of owned properties and property management of REIT owned properties (Investment Properties)
- acquire and own high quality leasable office, retail and residential sites (REIT: 51% owned)

We develop and manage mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses. The following diagram illustrates how each of our operating divisions complements one another to create and enhance value from our real estate assets.



In addition to extending the value of our asset base, these diversified operating divisions enable us to manage our business through real estate cycles (both general market strength and the seasonality associated with construction and development) and diversify our revenue base.

While building a sustainable business, we also focus on building sustainable communities by sharing our time and resources to make them stronger.

Our vision is to be one of Canada's leading real estate development and management companies. We seek to achieve this by demonstrating our values – honesty, integrity, loyalty, respect, quality and pride in our products – in all that we do and in our interactions with our customers, suppliers, shareholders and employees.

Our headquarters are in Edmonton, Alberta, with regional offices in Alberta, British Columbia, and Phoenix, Arizona. Our developments span Western Canada and the US.

We have been publicly traded since 1968 (TSX:**MRD**).

Second Quarter Highlights

($000s except as noted)	Three months ended			Six months ended		
	30-Jun-13	30-Jun-12	Change	**30-Jun-13**	30-Jun-12	Change
Revenue	**50,737**	34,973	45.1%	**92,354**	68,294	35.2%
Gross margin (%)	**47.4%**	47.4%	0.0%	**47.3%**	45.6%	3.7%
Net income	**10,209**	18,871	(45.9%)	**22,832**	24,719	(7.6%)
Margin on net income	**20.1%**	54.0%	(62.8%)	**24.7%**	36.2%	(31.8%)
Adjusted earnings*	**20,567**	18,873	9.0%	**33,193**	24,730	34.2%
Funds from operations *	**6,341**	7,334	(13.5%)	**15,662**	13,369	17.2%
Per Share Data						
Basic earnings	**0.34**	0.63	(46.0%)	**0.75**	0.82	(8.5%)
Diluted earnings	**0.33**	0.60	(45.0%)	**0.73**	0.79	(7.6%)
Adjusted basic earnings*	**0.68**	0.63	7.9%	**1.10**	0.82	33.8%
Adjusted diluted earnings*	**0.64**	0.60	7.0%	**1.04**	0.79	31.8%
Funds from operations *	**0.21**	0.24	(12.5%)	**0.51**	0.44	15.9%

As at *($000s except as noted)*	**30-Jun-13**	31-Dec-12	Change
Shareholders' equity	**701,061**	690,832	1.5%
Total assets	**1,486,943**	1,447,356	2.7%
Per Share Data			
Book value *	**22.87**	22.89	(0.1%)

** See non-GAAP measurements for calculation.*

Highlights for the quarter include:

- On May 1st we formed Melcor REIT (the "REIT") through an initial public offering (the "Offering") which raised gross proceeds of $83.00 million and on May 10th the underwriters exercised, in full, their over-allotment option for gross proceeds of $8.30 million.
- Melcor REIT made distributions of $0.05625 per trust unit in May and June ($1,027), providing unitholders with an effective holding period return of 2.13%.
- On June 28th we paid $7.66 million in semi-annual dividends and $15.33 million in special dividends.
- Effective July 2nd Brian Baker assumed the role of Chief Executive Officer of Melcor.

Revenue & Margins:

- Revenue increased to $50.74 million in Q2-2013 compared to $34.97 million in the same quarter last year. Our Community Development division was the major contributor to this increase due to higher lot and acre sales in Q2-2013. We sold 197 lots and 12.81 developed and other land acres compared to 149 lots and 8.43 acres in the same quarter last year.
- Gross margins remained consistent at 47.4%. Gross margin is predominantly impacted by the mix of land inventory sold in the period.
- Net fair value gains on investment properties of $7.24 million were realized in Q2-2013. Changes in capitalization rates on certain office properties and higher leasing activity in the Investment Properties and REIT division contributed $5.81 million in fair value gains, and development activities in the Property Development division contributed $1.43 million.
- FFO per share adjusts for certain non-cash earnings items included in income such as fair value adjustments on investment properties and stock based compensation expense. We consider this measure useful because these items can often fluctuate due to reasons beyond our control. As such, this provides a normalized financial metric to assess Melcor's operations. FFO per share was $0.21 per share in Q2-2013, a decrease of $0.03 per share, or 12.5% from the same quarter last year driven by the costs associated from the formation of the REIT.
- Adjusting for transaction costs incurred on formation of the REIT ($9.30 million), adjusted Q2-2013 FFO was $0.51 per share which represents a normalized increase $0.27 per share or 110.0%
- Adjusted earnings attributable to Melcor's shareholders ("adjusted earnings"), which excludes REIT transaction costs and unitholders' portion of earnings of the REIT, was $20.57 million in the second quarter, an increase of 9% over Q2-12. Adjusted basic earnings per share were $0.68, an increase of 8% over Q2-12. Management believes that adjusted earnings and adjusted earnings per share provide a clearer measure of operational and relative performance.
- Our quarterly results are impacted by the cyclical nature of our business. Income can fluctuate significantly from period to period due to the timing of plan registrations, the cyclical nature of real estate and construction markets, the mix of lot sales and product types, and the mix of joint operation sales activity.

Formation of Melcor REIT

On May 1, 2013, we completed an initial public offering (the "Offering") of trust units of the REIT. The Offering raised gross proceeds of $83.00 million through the issuance of 8,300,000 trust units at a price of $10.00 per trust unit. The total proceeds received by the REIT, net of underwriters' fee, was $78.02 million.

On closing of the Offering, Melcor sold to a subsidiary of the REIT (the "Partnership"), interests in a portfolio of 27 income-producing properties located in Western Canada, comprised primarily of retail, office and industrial properties (the "Initial Properties"), that have a total carrying value of $397.90 million at May 1, 2013. In connection with the sale of the Initial Properties the REIT has assumed mortgages and obligations totaling $92.36 million at April 30, 2013 that are secured by the Initial Properties. Deferred financing fees of $0.10 million are capitalized against the mortgages assumed by the REIT. Melcor retained debt on certain properties (the "Retained Debt") with a fair value of $96.51 million at April 30, 2013. In consideration of the Retained Debt, Melcor received Class C LP Units of the Partnership on which we will receive a priority distribution to fund principal and interest payments.

The following summarizes the purchase price allocation to the assets and liabilities assumed by the REIT based on their carrying values at the date of the transaction and the total consideration received by Melcor:

($000s)	
Net assets sold:	
Real estate properties	$ 397,896
Working capital, net	(2,680)
Mortgages on properties, net	(92,263)
	302,953
Consideration received:	
Class C LP Units	$ 96,506
Class B LP Units	103,608
Cash	65,919
	266,033
Net contribution by Melcor	$ 36,920

On May 10, 2013, the underwriters exercised, in full, their over-allotment option to purchase an additional 830,000 trust units from Melcor at a price of $10.00 per unit for gross proceeds of $8.30 million ($7.80 million net of underwriters' fee). The over-allotment was fulfilled through conversion of Class B LP Units into trust units. Following closing of the over-allotment option, we, through an affiliate, hold an effective 51.1% interest in the REIT through ownership of all remaining Class B LP Units of the Partnership.

As we retain control over the REIT, we consolidate the REIT and record 100% of its revenues, expenses, assets and liabilities. We reflect the public's 48.9% interest in the REIT as a financial liability.

The effect of the transaction on the REIT, Melcor, and consolidated is illustrated in the following summary pro-forma consolidation.

($000s)	REIT	Melcor	Consolidated
Initial Public Offering and Over-allotment			
Initial Public Offering, net of transaction costs	74,173	-	74,173
Exercise of over-allotment, net of transaction costs	-	7,823	7,823
Sale of Initial Properties			
Sale of Investment Properties	(397,896)	397,896	-
Sale of working capital, net	2,680	(2,680)	-
Mortgages on properties assumed by the REIT, net	92,263	(92,263)	-
Consideration received for Sale of Initial Properties			
Issuance of Class B LP Units	103,608	(103,608)	-
Issuance of Class C LP Units	96,506	(96,506)	-
Net contribution by Melcor	36,920	(36,920)	-
Net change in cash	**8,254**	**73,742**	**81,996**

The $82.00 million consolidated change reflects the net cash received from the IPO and over-allotment and the cost of the REIT units on May 1, 2013. The following table reconciles the allocation of cash received between Melcor and the REIT:

Gross IPO and over-allotment proceeds	91,300
Transaction costs	(9,304)
Net Proceeds	81,996
Consideration paid to Melcor	
Over-allotment	7,823
Sale of Initial Properties	65,919
	73,742
Consideration retained by the REIT	8,254

Net assets sold

Melcor and our subsidiaries transferred: (i) legal and beneficial ownership of the Initial Properties which are 100% owned; (ii) our beneficial ownership interest in the Initial Properties which are owned with joint venture partners; and (iii) those shares owned by Melcor of the nominee companies which hold legal ownership of the Initial Properties which are owned with joint venture partners; and mortgages (excluding Retained Debt) on certain properties.

Cash balances, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, and other payables, which collectively comprise working capital, net were transferred to the REIT on closing.

Melcor indemnified the REIT and the Partnership for any breach arising under the Acquisition Agreement and the Indemnity Agreement to a maximum liability of the net proceeds of the Offering. Melcor also indemnified the REIT and the Partnership related to environmental matters on certain properties for a specified period.

Melcor is indemnified by the Partnership with respect to obligations to pay the assumed mortgages; however, will continue to be liable as a guarantor.

The sale of the Initial Properties and structure of the Class C LP Units provides Melcor the ability to defer certain Canadian income tax consequences.

Consideration received

Class B LP Units – On May 1, 2013 the REIT issued 10,360,798 Class B LP Units to Melcor as partial consideration for the initial properties. These units have an equivalent number of special voting units and represent an approximate 55.5% effective interest in the REIT. Special voting units have no economic entitlement in the REIT or in the distribution of assets of the REIT but entitle the holder to one vote per unit at any meeting of the Unitholders. In addition, the Declaration of Trust grants Melcor the right to nominate certain Trustees of the REIT based on our direct and indirect ownership interest in the REIT.

On May 10, 2013 we exchanged 830,000 Class B LP Units for trust units to fulfill the over-allotment option; reducing our effective interest in the REIT to 51.1%.

We receive distributions on our Class B LP Units at an amount equivalent to those declared and paid on trust units. Distributions on Class B LP Units are of equal priority to trust units.

Class C LP Units – We received 9,454,411 Class C LP Units with a carrying value of $94.54 million and a fair value of $96.51 million in consideration of the Retained Debt. We remain responsible for the interest and principal payments on the Retained Debt. The Partnership makes distributions on the Class C LP Units in an amount expected to be sufficient to make these payments. Distributions on the Class C LP Units are priority to distributions to holders of trust units and Class B LP Units. The Retained Debt is secured by a charge on certain Initial Properties and a guarantee by the Partnership.

Cash – The purchase price received was reduced by approximately $8.10 million in order to fund an interest rate subsidy, capital expenditure subsidy, tenant inducement and lease cost subsidy, and environmental expenditure subsidy. In addition, the purchase price otherwise payable by the REIT for the Initial Properties was adjusted on closing based on the actual working capital position at closing.

Net contribution by Melcor –The difference between the net assets sold and the consideration received is recognized as an additional contribution by Melcor, for which no form of compensation was received. This amount is presented as contributed surplus in the statements of Melcor REIT; however, does not represent an ownership interest or entitlement to the net assets or earnings of the REIT.

Arrangements between Melcor and the REIT

Melcor will continue to manage, administer and operate the REIT and the Initial Properties under an asset management agreement and property management agreement. The following summarizes services to be provided to the REIT and the compensation to be paid to Melcor.

Asset management agreement – we receive a quarterly management fee which is comprised of the following: (a) a base annual management fee calculated and payable on a quarterly basis, equal to 0.25% of the REIT's gross book value; (b) a capital expenditures fee equal to 5% of all hard construction costs incurred on capital projects in excess of $0.10 million; (c) an acquisition fee equal to 0.50% - 1.00% of the purchase price; (d) a financing fee equal to 0.25% of the debt and equity of all financing transactions completed for the REIT to a maximum of actual expenses incurred by Melcor.

Property management agreement – we receive a monthly fee which is comprised of the following: (a) a base fee of 3% of gross property revenue; (b) a leasing fee equal to 5% of aggregate base rent for new leases for the first 5 years and 2.5% thereafter, and 2.5% of aggregate base rent for lease renewals and expansions for the first 5 years.

Capital project funding – as part of the transaction, we agreed to pay approximately $1.40 million in costs associated with certain maintenance and capital projects at nine of the Initial Properties.

IPO transaction costs – Costs incurred by Melcor in relation to the REIT's IPO were reimbursed by the REIT to the extent that these costs were eligible for capitalization against the unit issuance.

Upon consolidation we eliminate Class B LP Units, Class C LP Units, distributions on Class B LP Units, distributions on Class C units, and fees earned under the asset management agreement and property management agreement.

Adjusted Earnings Attributable to Melcor's Shareholders

The following analysis adjusts the consolidated net income attributable to Melcor's shareholders for the three and six-months ended June 30, 2013 to reflect our proportionate interest in the earnings of the REIT. As detailed below, we have adjusted consolidated net income attributable to Melcor's shareholders for amounts recorded as a result of the NCI being recorded as a financial liability, management fees earned from the REIT, and removed 48.9% of the REIT's post-formation net earnings, representing the public's 48.9% interest. The adjustments are summarized as follows:

- adjustments related to REIT units, comprised of transaction costs of $9.30 million, distributions to unitholders of $1.03 million and fair value adjustment of $0.93 million;
- management fees earned by Melcor from NCI in the REIT under the asset management and property management agreement which are eliminated upon consolidation; and
- unitholders' 48.9% interest in the REIT's post-formation earnings.

We consider adjusted earnings attributable to Melcor's shareholders ("adjusted earnings") to be more representative of the operational activities, financial results and earnings attributable to Melcor's shareholders.

	For the three months ended		For the six months ended	
	June 30, 2013	June 30, 2012	**June 30, 2013**	June 30, 2012
Net income attributable to Melcor's shareholders	**10,211**	**18,873**	**22,837**	**24,730**
Adjustments related to REIT Units	**11,244**	-	**11,244**	-
Management fees earned from the REIT	**241**	-	**241**	-
Unitholders' portion of earnings of the REIT	**(1,129)**	-	**(1,129)**	-
Adjusted earnings	**20,567**	**18,873**	**33,193**	**24,730**
Adjusted basic EPS*	**0.68**	0.63	**1.10**	0.82
Adjusted diluted EPS*	**0.64**	0.60	**1.04**	0.79

**See non-GAAP measurements for calculation.*

Divisional Results

Our business is comprised of five integrated and complementary operating divisions:

- Community Development, which acquires raw land for future commercial and residential community development;
- Property Development, which develops high-quality retail, office and industrial revenue-producing properties on serviced commercial sites developed by Community Development;
- Investment Properties, which manages and leases the commercial developments produced by the Property Development division, externally purchased portfolio of assets, as well as assets held in Melcor REIT;
- REIT, which holds 27 income-producing properties acquired from Investment Properties (51% ownership in Melcor REIT); and
- Recreational Properties, which includes the operation of championship golf courses associated with Melcor residential communities.

Our Corporate division carries out support functions including accounting, treasury, information technology, administration, legal and human resources.

The following tables summarize results of our operating divisions:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Three months ended June 30		Three months ended June 30		Three months ended June 30		Three months ended June 30		Three months ended June 30	
($000s except as noted)	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Revenue	**32,187**	21,576	**743**	234	**5,551**	3,851	**9,773**	9,002	**3,331**	3,231
Portion of total revenue	**62%**	57%	**1%**	1%	**11%**	37%	**19%**	24%	**6%**	9%
Cost of sales	**(18,861)**	(13,008)	**-**	-	**(2,452)**	(2,072)	**(3,840)**	(3,665)	**(1,540)**	(1,247)
Gross margin	**13,326**	8,568	**743**	234	**3,099**	1,779	**5,933**	5,337	**1,791**	1,984
Gross margin %	**41%**	40%	**100%**	100%	**56%**	46%	**61%**	59%	**54%**	61%
Portion of total margin	**54%**	48%	**3%**	1%	**12%**	10%	**24%**	30%	**7%**	11%
General and administrative expense	**(2,670)**	(1,580)	**(418)**	(400)	**(550)**	(124)	**(416)**	(404)	**(701)**	(827)
Depreciation expense	**-**	-	**-**	-	**-**	-	**-**	-	**(348)**	(344)
Fair value adjustment on investment properties	**-**	-	**1,429**	1,058	**4,016**	628	**1,792**	12,862	**-**	-
Gain (loss) on sale of assets	**-**	-	**-**	-	**-**	-	**-**	-	**9**	-
Interest income	**430**	494	**1**	-	**8**	7	**17**	5	**-**	-
Divisional income before tax	**11,086**	7,482	**1,755**	892	**6,573**	2,290	**7,326**	17,800	**751**	813

Divisional results are shown before inter-segment eliminations and exclude corporate division

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Six months ended June 30		Six months ended June 30		Six months ended June 30		Six months ended June 30		Six months ended June 30	
($000s except as noted)	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Revenue	**58,914**	42,705	**1,397**	473	**10,123**	7,622	**19,461**	17,724	**3,508**	3,271
Portion of total revenue	**114%**	59%	**3%**	1%	**20%**	37%	**38%**	47%	**7%**	9%
Cost of sales	**(34,385)**	(26,168)	**-**	-	**(4,655)**	(4,132)	**(7,682)**	(7,107)	**(1,928)**	(1,531)
Gross margin	**24,529**	16,537	**1,397**	473	**5,468**	3,490	**11,779**	10,617	**1,580**	1,740
Gross margin %	**42%**	39%	**100%**	100%	**54%**	46%	**61%**	60%	**45%**	53%
Portion of total margin	**99%**	50%	**6%**	1%	**22%**	11%	**47%**	32%	**6%**	5%
General and administrative expense	**(5,007)**	(3,008)	**(829)**	(797)	**(569)**	(197)	**(811)**	(827)	**(973)**	(1,055)
Depreciation expense	**-**	-	**-**	-	**-**	-		-	**(445)**	(434)
Fair value adjustment on investment properties	**-**	-	**3,607**	953	**4,515**	1,415	**4,386**	13,502	**-**	-
Gain (loss) on sale of assets	**-**		**-**		**-**		**-**		**9**	-
Interest income	**1,032**	920	**2**	-	**14**	13	**23**	11	**-**	-
Divisional income before tax	**20,554**	14,449	**4,177**	629	**9,428**	4,721	**15,377**	23,303	**171**	251

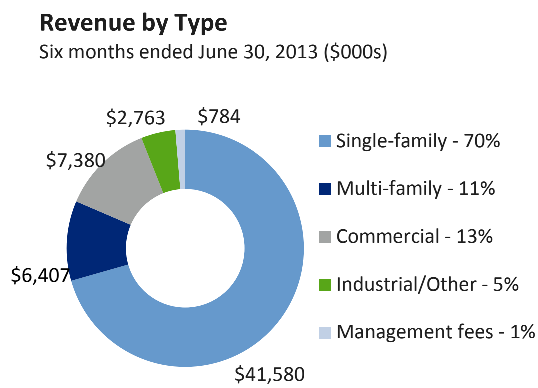
Divisional results are shown before inter-segment eliminations and exclude corporate division

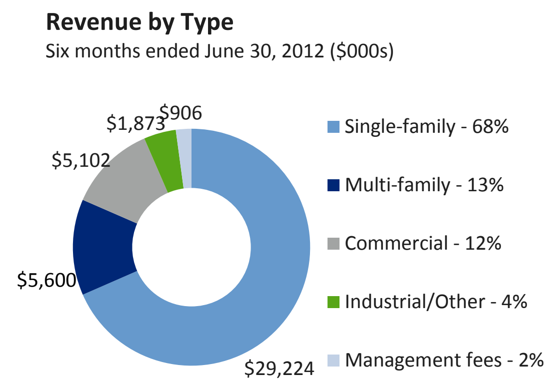
Community Development

Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning, obtaining approvals from municipalities, developing the land, construction, marketing and ultimately selling the lots to home builders (for residential communities) or developers (for commercial/industrial centres). The division also sells sites to our Property Development division, who in turn develops the land into commercial developments.

Management fees are earned on joint venture projects for the work that Melcor performs to develop the project. Management fees fluctuate based on the level of joint venture activity each period.

Sales Activity





Income can fluctuate significantly from period to period due to the timing of plan registrations, the cyclical nature of real estate markets, the mix of land sold, and the mix of joint arrangement sales activity.

Consolidated	Three months ended		Six months ended	
	30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12
Sales data: (including joint ventures at 100%)				
Single family sales (number of lots)	197	149	393	268
Gross average revenue per single family lot ($)	153,000	141,500	128,000	143,100
Multi-family sales (acres)	7.37	2.47	10.21	10.84
Gross average revenue per multi-family acre ($)	951,700	809,700	916,500	848,700
Commercial sales (acres)	-	5.01	9.99	8.49
Gross average revenue per commercial land acre ($)	-	735,400	795,100	710,800
Industrial sales (acres)	5.11	0.95	11.93	11.86
Gross average revenue per industrial land acre ($)	333,300	347,400	285,000	255,500
Other land sales - Raw, Other (acres)	0.33	-	18.32	-
Gross average revenue per other land acre ($)	22,700	-	48,400	-
Financial results: (including joint ventures at Melcor's interest)				
Revenue ($000s)	32,187	21,576	58,914	42,705
Earnings ($000s)	11,086	7,482	20,554	14,449

The Community Development division produced strong results in Q2-2013, with sales of 197 single-family lots, 7.37 acres sold for multi-family projects, and 5.11 acres sold for industrial use. Our primary market is Alberta, where overall market conditions remain strong.

Regional Sales Analysis

Regional Sales Analysis	Three months ended 30-Jun-13			Three months ended 30-Jun-12		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	**116**	**3.76**	**0.95**	67	2.47	2.62
Red Deer	**19**	**-**	**4.16**	2	-	-
Calgary Region	**33**	**3.61**	**-**	33	-	3.34
Lethbridge	**25**	**-**	**-**	46	-	-
Kelowna	**4**	**-**	**-**	1	-	-
United States	**-**	**-**	**-**	-	-	-
	197	**7.37**	**5.11**	149	2.47	5.96

Regional Sales Analysis	Six months ended 30-Jun-13			Six months ended 30-Jun-12		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	**176**	**6.60**	**0.95**	126	2.47	5.56
Red Deer	**20**	**-**	**10.98**	11	-	11.45
Calgary Region	**77**	**3.61**	**9.99**	73	8.37	3.34
Lethbridge	**33**	**-**	**-**	57	-	-
Kelowna	**4**	**-**	**-**	1	-	-
United States	**83**	**-**	**-**	-	-	-
	393	**10.21**	**21.92**	268	10.84	20.35

The Edmonton and Red Deer regions both had strong sales activity in Q2-2013, with 116 lots sold in Edmonton (Q2-2013: 67) and 19 sold in Red Deer (Q2-2012: 2). Lot sales in Edmonton were driven by our south Edmonton projects, specifically Walker and Leduc; while in Red Deer, our Vanier Woods and Southbrook projects contributed to the increase. Market conditions also picked up in Kelowna with 4 single family lot sales in Q2-2013 (Q2-2012: 1). Lot sales in Lethbridge were down in Q2-2013, with 25 lots sold (Q2-2012: 46), due to three neighborhoods being started in 2013 generating excess inventory for the region's builders.

Inventory

A summary of the movement in our developed lot inventory is as follows:

Developed Inventory	Six months ended 30-Jun-13			Year ended 30-Jun-12		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	**1,180**	**93.05**	**237.63**	997	95.36	177.39
Purchases	**-**	**-**	**-**	-	-	-
New developments	**110**	**9.59**	**9.20**	127	1.56	(3.63)
Internal sales	**-**	**-**	**-**	-	-	(1.84)
Sales	**(393)**	**(10.21)**	**(21.92)**	(119)	(8.37)	(4.12)
	897	**92.43**	**224.91**	1,005	88.55	167.80

Raw land inventory

To support future growth, we acquire land in strategic growth corridors and maintain an inventory of land for future development in our primary markets. In March 2013, we purchased 42.66 acres of residential land for $2.13 million in the Lethbridge region. In May 2013, we purchased 131.46 acres of industrial land for $9.0 million in the Edmonton region. Additionally, we purchased 2.59 acres of land in the Calgary region for mixed commercial and residential development in the future.

Property Development

Our Property Development division develops, manages construction, markets and leases high-quality retail, office and industrial revenue-producing properties on prime commercial sites purchased primarily from our Community Development division. The division currently operates solely in Alberta.

The Property Development division realizes fair value gains resulting from development and leasing activities. Built and leased properties are transferred at fair market value to the Investment Properties division for long-term property management. The Property Development division's income is impacted by the construction season. We generally expect to see the majority of the fair value increases in the third and fourth quarters as construction and leasing are completed.

In Q2-2013, the division recognized fair value gains on development sites of $1.43 million, compared with $1.06 million in Q2-2012. These gains were the result of development activities in the Calgary and Edmonton regions on both commercial and industrial development sites.

The following table is a summary of current and future development projects:

Development Status

Project	Location	Type	Square Feet*	Expected Start
The Village at Blackmud Creek	South Edmonton	*Regional business park*	725,000	ongoing
West Henday Promenade	West Edmonton	*Regional mixed use centre*	378,000	ongoing
Kingsview Market	Airdire	*Regional shopping centre*	234,000	ongoing
Stoneycreek Shopping Centre	Fort McMurray	*Regional mixed use centre*	209,000	ongoing
Chestermere Station	Chestermere	*Neighbourhood shopping centre*	115,000	ongoing
Clearview Market	Red Deer	*Neighbourhood shopping centre*	115,000	ongoing
McKenzie Industrial	Red Deer	*Industrial Park*	100,000	ongoing
Leduc Common	Leduc	*Regional shopping centre*	38,000	ongoing
Telford Industrial	Leduc	*Industrial Park*	1,200,000	ongoing
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	2,250,000	2014
The Shops at Jagare Ridge	South Edmonton	*Neighbourhood shopping centre*	105,000	2015
The Shoppes at Canyons	Lethbridge	*Neighbourhood shopping centre*	105,000	2015
Greenwich	West Calgary	*Regional mixed use centre*	395,000	2016
Keystone Common	North Calgary	*Regional power centre*	775,000	2016
West Pointe Marketplace	Lethbridge	*Regional power centre*	750,000	2016
West Calgary Marketplace	West Calgary	*Regional power centre*	800,000	2017

** Size represents the estimated total square footage remaining to be developed in the project. This includes sites that may be individually sold to retailers or end-users.*

Investment Properties

Our Investment Properties division manages and leases our portfolio of high-quality residential, office, retail and industrial properties, which are located across western Canada and the southern US. They also manage and lease the 27 assets held in Melcor REIT.

Our Investment Properties portfolio manages over three million square feet of leasable space across seven different asset classes, including 1,569,215 square feet owned by the REIT. Our portfolio has high occupancy rates with long-term tenancies from high-quality retail and commercial clients.

Operating results

The following table summarizes the division's key performance measures:

($000s except as noted)	Three months ended		Six months ended	
	30-Jun-13	30-Jun-12	**30-Jun-13**	30-Jun-12
Rental revenue	**5,058**	3,851	**9,630**	7,622
Management fees from Melcor REIT	**493**	-	**493**	-
Net operating income (NOI) *	**3,153**	1,925	**5,601**	3,774
Same properties NOI *(see calculation below)*	**2,078**	1,726	**4,028**	3,319
Fair value gains	**4,016**	628	**4,515**	1,415
Occupancy	**96%**	86%	**96%**	86%
Fair value of portfolio	**194,168**	137,391	**194,168**	137,391
Funds from operations *	**2,770**	1,808	**5,371**	3,590
Funds from operations per share *	**0.09**	0.06	**0.18**	0.12

** See non-GAAP measurements for calculation.*

The following is a reconciliation of our same properties net operating income (NOI) to our divisional NOI:

($000s except as noted)	Three months ended		Six months ended	
	30-Jun-13	**30-Jun-12**	**30-Jun-13**	30-Jun-12
Same properties NOI	**2,078**	1,726	**4,028**	3,319
Acquisitions	**528**	53	**947**	171
NOI before adjustments	**2,606**	1,779	**4,975**	3,490
Management fees from Melcor REIT	**493**	-	**493**	-
Amortization of operating lease incentives	**213**	146	**458**	284
Straight-line rent adjustment	**(159)**	-	**(325)**	-
NOI	**3,153**	1,925	**5,601**	3,774

** See non-GAAP measurements for calculation.*

Divisional NOI is defined as rental revenue less property operating costs plus amortization of operating lease incentives plus/minus straight-line rent adjustment. Our same properties NOI increased due to higher rental rates realized on lease renewals and improved occupancy rates in the period, while overall NOI increased as a result of growth in rentable square footage and residential units.

The Investment Properties division grew through properties transferred from the Property Development division in 2012 and in 2013. During Q2-2013, 2 completed commercial properties were transferred from the Property Development division, adding 14,500 square feet of gross leasable area in Chestermere, Alberta. This positively impacted operating results for Q2-2013.

Overall revenue in the Investment Properties division also increased in Q2-2013 as a result of fees charged to the REIT under the asset management and property management agreements (refer to Formation of REIT for additional details). During the three and six months ended June 30, 2013 Investment Properties recorded fees of $493 under these agreements.

Fair value gains on the Investment Properties portfolio of $4.02 million were recognized in the current quarter. This was primarily the result of higher valuations resulting from capitalization rate changes on certain office properties, based on capital improvements completed, and increased leasing activity.

Occupancy levels have improved 10% to 96% compared to 86% at the same time last year due to increased leasing on two of our commercial properties as well as fully occupied assets transferred from our property development division in the last fiscal year.

REIT

The REIT owns 27 income-producing office, retail and industrial properties, comprising 1,569,215 square feet of gross leasable area ("GLA") and a land lease community. The REIT's portfolio has a diversified tenant profile, with a mix of national, regional and local tenants, operating in a variety of industries.

We hold a controlling 51.1% effective interest in the REIT through ownership of all Class B LP Units. As we have concluded that Melcor retains control of the REIT we consolidate 100% of the REIT's revenues, expenses, assets and liabilities. The following tables include financial information for the pre-acquisition period, including the comparative periods, based upon financial information previously reported by the Investment Properties division, at 100% interest.

Operating results

The following table summarizes the REIT's key performance measures:

($000s except as noted)	Three months ended		Six months ended	
	30-Jun-13	30-Jun-12	**30-Jun-13**	30-Jun-12
Rental revenue	**9,773**	9,002	**19,461**	17,724
Net operating income (NOI) *	**6,379**	5,961	**12,721**	11,921
Same properties NOI *(see calculation below)*	**5,812**	5,322	**11,547**	10,602
Fair value gains	**1,792**	12,862	**4,386**	13,502
Occupancy	**90%**	90%	**90%**	90%
Fair value of portfolio	**399,915**	374,505	**399,915**	374,505
Funds from operations *	**6,083**	5,562	**12,118**	11,105
Funds from operations per share *	**0.20**	0.18	**0.40**	0.37

** See non-GAAP measurements for calculation.*

The following is a reconciliation of our same properties net operating income (NOI) to our divisional NOI:

($000s except as noted)	Three months ended		Six months ended	
	30-Jun-13	30-Jun-12	**30-Jun-13**	30-Jun-12
Same properties NOI	**5,812**	5,322	**11,547**	10,602
Acquisitions	**121**	15	**232**	15
NOI before adjustments	**5,933**	5,337	**11,779**	10,617
Amortization of operating lease incentives	**549**	624	**1,127**	1,304
Straight-line rent adjustment	**(103)**	-	**(185)**	-
Divisional NOI	**6,379**	5,961	**12,721**	11,921

** See non-GAAP measurements for calculation.*

Rental revenue for the second quarter increased by $0.77 million or 9% over the same period in the prior year. Year-to-date rental revenue increased $1.74 million or 10% over the comparative period. The primary factor for the increase was higher base rents, which was up $0.31 million or 5% over Q2 2012 and up $0.64 million or 5% year-to-date driven by higher average occupancy for the period and higher average base rent per sq. ft. Recoveries from tenants for direct operating costs were 6% higher than Q2-2012 and 7% higher year-to-date, which contributed to the increased rental revenues. Increased recoveries for direct operating costs are consistent with higher operating expenses during the period.

During the second quarter NOI increased by $0.42 million or 7% over the same period in the prior year. Year-to-date NOI increased by $0.80 million or 7% over the comparative period. Same asset NOI increased by $0.49 million and $0.95 million for the three and six months ended June 30, 2013. The increase reflects rental revenue growth outpacing increases in direct operating expenses.

The REIT recognized fair value gains of $1.79 million and $4.39 million in the three and six months ended June 30, 2013. Fair value gains in the current year were primarily the result of a decrease in capitalization rates on certain retail and office properties and improved leasing conditions.

Funds from operations ("FFO") increased by $0.52 million or 9% over Q2-2012. Year-to-date, FFO increased $1.01 million or 9%. The increase is due to higher NOI during the period.

Recreational Properties

Our Recreational Properties division owns and manages championship golf courses built to add value to Melcor residential communities. The quarterly financial performance of our golf courses is greatly influenced by the weather conditions during the golf season.

	Ownership interest	Six months ended June 30, 2013		Six months ended June 30, 2012	
		Season opened 2013	Rounds of Golf	Season opened 2012	Rounds of Golf
Managed by Melcor:					
Lewis Estates (Edmonton)	60%	**May 1**	**10,311**	April 12	11,120
The Links (Spruce Grove)	100%	**May 1**	**10,138**	April 20	10,083
Black Mountain (Kelowna)	100%	**March 22**	**12,238**	March 30	10,709
Managed by a Third Party:					
Jagare Ridge (Edmonton)	50%	**May 8**	**8,382**	April 25	9,217

The Edmonton region courses opened late due to inclement spring weather. The Kelowna region has experienced more favorable spring conditions, and has seen an increase in rounds from 2012 of 14%.

General and administrative expense

General and administrative expense ("G&A") for the second quarter increased $2.15 million over Q2-12. Year-to-date G&A was $2.15 million higher over the comparative period. The increase was due to costs incurred by Melcor related to the REIT IPO and sale of Initial Properties, which were not eligible for recovery from the REIT. The remainder of the increase was due to higher head count as a result of organizational growth.

Liquidity & Capital Resources

The following table represents selected information as at June 30, 2013, compared to December 31, 2012.

As at *($000s except as noted)*	30-Jun-13	31-Dec-12
Cash & cash equivalents	**23,504**	11,628
Restricted cash	**7,742**	-
Accounts receivable	**16,836**	21,966
Agreements receivable	**130,459**	173,950
Bank operating loan	**49,026**	93,232
Accounts payable and accrued liabilities	**45,963**	57,728
Total assets	**1,486,943**	1,447,356
Total liabilities	**781,374**	752,599
Debt to equity ratio	**1.11**	1.08

We employ a range of strategies to maintain operations and facilitate growth. Our principal liquidity needs are to:

- Fund recurring expenses;
- Meet debt service requirements;
- Make dividend payments;
- Make distributions to unitholders of the REIT;
- Fund land development and property development; and
- Fund investing activities such as the discretionary and strategic purchases of land inventory and/or investment property purchases.

We are able to meet our capital needs through a number of sources, including cash generated from operations, long and short-term borrowings from our syndicated credit facility, mortgage financings, convertible debentures, and the issuance of common shares and trust units. Our primary use of capital includes paying operating expenses, sustaining capital requirements on land and property development projects, completing real estate acquisitions, debt principal and interest payments, and paying dividends when declared by our board of directors.

We believe that internally generated cash flows, supplemented by borrowings through our credit facility and mortgage financings, where required, will be sufficient to cover our normal operating and capital expenditures. We regularly review our credit facility limits and manage our capital requirements accordingly.

On May 1, 2013, we completed the Offering of the REIT which generated proceeds (net of underwriters' fee) of $78.02 million. On May 10, 2013, the underwriters exercised their over-allotment option to purchase additional shares from Melcor which generated proceeds (net of underwriters' fee) of $7.80 million. Proceeds will be used to fund development activities and cover general corporate costs.

We do not currently plan to raise additional capital through the issuance of common shares, preferred shares, convertible debentures or trust units; however, under certain circumstances, we would consider these means to facilitate growth through acquisition or to reduce the utilized level on our credit facility.

Financing

As at June 30, 2013, our total general debt outstanding was $447.65 million. This compares to $490.53 million at December 31, 2012. A summary of our debt is as follows:

As at *($000s)*	**30-Jun-13**	31-Dec-12
Bank operating loan	**49,026**	93,232
Debt on land inventory	**80,481**	96,971
Debt on investment properties	**278,910**	261,191
Convertible debenture	**39,236**	39,138
	447,653	490,532

During Q2-2013 we declared and paid $22.99 million in dividends, comprised of a semi-annual dividend of $0.25 per share and a special dividend of $0.50.

Sources and uses of cash

The following table summarizes our cash flows from (used in) operating, investing and financing activities, as reflected in our consolidated statement of cash flows:

Three months ended *($000s)*	Three months ended		Six months ended	
	30-Jun-13	30-Jun-12	**30-Jun-13**	30-Jun-12
Cash flows from operating activities	**18,006**	10,855	**37,288**	11,101
Cash flows used in investing activities	**(31,363)**	(12,154)	**(41,884)**	(22,368)
Cash flows from (used in) financing activities	**18,878**	(6,556)	**16,453**	10,877

Cash flows from operations grew in the current quarter primarily as a result of sales activity and agreements receivable collections. The change is also a result of fluctuations to accounts payable, accounts receivable and other operating assets and liabilities through normal business activities.

Cash used in investing activities primarily relates to the purchase of land and additions and improvements to investment properties. In Q2-2013, we spent $20.61 million on ongoing improvements to older assets, the development of new properties and the purchase of new units in the US.

Cash used in financing activities was driven by the $34.83 million in debt repayments on our debt on land inventory and debt on investment properties and golf course assets. The repayment of debt on investment properties was offset by financing and refinancing on five commercial properties which generated $31.82 million in cash proceeds. We also paid out a semi-annual dividend of $0.25 per share and special dividend of $0.50 per share on June 28, 2013 resulting in a cash outflow of $22.99 million.

Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at June 30, 2013 there were 30,658,274 common shares issued and outstanding; 813,290 options, each convertible to one common share upon exercise or exchange; and a debenture outstanding convertible to 2,160,994 shares. There is only one class of common shares issued.

Off Balance Sheet Arrangements, Contractual Obligations, Business Environment & Risks, Critical Accounting Estimates, Changes in Accounting Policies

There are no material changes to the above titled sections at June 30, 2013 in comparison to the December 31, 2012 annual MD&A. Refer to note 3 and note 4 of the condensed interim consolidated financial statements for changes and adoption of new accounting policies and additions to significant judgments and critical accounting estimates.

Quarterly Results

The following table presents a summary of our unaudited operating results for the past eight quarters. This information should be read in conjunction with the related financial statements, notes to the financial statements and management's discussion and analysis.

	Three Months Ended							
($000s)	**30-Jun-13**	31-Mar-13	31-Dec-12	30-Sep-12	30-Jun-12	31-Mar-12	31-Dec-11	30-Sep-11
Revenue	**50,737**	41,617	141,962	64,674	34,973	33,321	129,429	41,446
Net income	**10,209**	12,623	55,468	24,832	18,871	5,848	51,820	21,140
Per Share								
Basic earnings	**0.34**	0.41	1.84	0.83	0.63	0.19	1.72	0.70
Diluted earnings	**0.33**	0.40	1.72	0.78	0.60	0.19	1.62	0.67
Book value	**22.87**	23.36	22.89	21.28	20.59	20.09	19.94	18.54

We have historically experienced variability in our results of operations due to the seasonal nature of the development business and the timing of plan registrations with the municipalities. We typically experience the highest sales in our Community Development division in the fourth quarter, as this is when the majority of plans register. The fair value gains in our Property Development division are also seasonally affected, as the majority of construction in Alberta occurs during the spring and summer months.

Related Party Transactions

Please refer to note 12 to the condensed interim consolidated financial statements for information pertaining to transactions with related parties.

Internal Control over Financial Reporting & Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. No such changes were identified.

Non-GAAP Measurements

Throughout this MD&A, we refer to terms that are not specifically defined in the CICA Handbook and do not have any standardized meaning prescribed by IFRS. These non-standard measures may not be comparable to similar measures presented by other companies.

We believe that these non-standard measures are useful in assisting investors in understanding components of our financial results.

The non-standard terms that we refer to in this MD&A are defined below.

Net operating income (NOI): this is a measure of revenue less direct operating expenses.

Same asset NOI: this measure compares the NOI on assets that have been owned for the entire current and comparative period.

Funds from operations (FFO): this measure is commonly used to measure the performance of real estate operations.

Adjusted earnings attributable to Melcor's shareholders ("adjusted earnings"): this measure is calculated as earnings adjusted for the following: adjustments related to REIT units; management fees earned from the REIT; and unitholders' portion of earnings of the REIT.

Adjusted EPS and Adjusted diluted EPS: this measure is calculated as adjusted earnings attributable to Melcor's shareholders per basic and diluted weighted average shares outstanding.

Calculations

We use the following calculations in measuring our performance.

Book value per share = (shareholders' equity) / (number of common shares outstanding)

Gross margin (%) = (NOI) / (revenue) This measure indicates the relative efficiency with which we earn revenue

Margin on income (%) = (net income) / (revenue) This measure indicates the relative efficiency with which we earn income

Debt to equity ratio = (total debt) / (total equity)

Net operating income (NOI) = (net income) +/– (fair value adjustments on investment properties) + (general and administrative expenses) – (interest income) + (amortization of operating lease incentives) +/- (straight-line rent adjustment). A reconciliation of NOI to the most comparable IFRS measure, net income, is as follows:

Investment Properties

($000s)	Three-months ended June 30		Six-months ended June 30	
	30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12
Divisional income for the period	**6,573**	**2,290**	**9,428**	**4,721**
Fair value adjustment on investment properties	**(4,016)**	(628)	**(4,515)**	(1,415)
General and administrative expenses	**550**	124	**569**	197
Interest income	**(8)**	(7)	**(14)**	(13)
Amortization of operating lease incentives	**213**	146	**458**	284
Straight-line rent adjustment	**(159)**	-	**(325)**	-
Divisional NOI	**3,153**	**1,925**	**5,601**	**3,774**

REIT

($000s)	Three-months ended June 30		Six-months ended June 30	
	30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12
Divisional income for the period	**7,326**	**17,800**	**15,377**	**23,303**
Fair value adjustment on investment properties	**(1,792)**	(12,862)	**(4,386)**	(13,502)
General and administrative expenses	**416**	404	**811**	827
Interest income	**(17)**	(5)	**(23)**	(11)
Amortization of operating lease incentives	**549**	624	**1,127**	1,304
Straight-line rent adjustment	**(103)**	-	**(185)**	-
Divisional NOI	**6,379**	**5,961**	**12,721**	**11,921**

Funds from operations (FFO) = (net income) + (amortization of operating lease incentives) +/– (fair value adjustment on investment properties) + (depreciation of property and equipment) + (stock based compensation expense) + (non-cash interest) +/- (gain (loss) on sale of asset) + (deferred income taxes) +/– (fair value adjustment on REIT Units). A reconciliation of NOI to the most comparable IFRS measure, net income, is as follows:

Consolidated

($000s)	Three-months ended June 30		Six-months ended June 30	
	30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12
Net income for the period	**10,209**	**18,871**	**22,832**	**24,719**
Amortization of operating lease incentives	**762**	770	**1,585**	1,588
Fair value adjustment on investment properties	**(7,237)**	(15,412)	**(12,508)**	(17,027)
Depreciation on property and equipment	**445**	389	**639**	521
Stock based compensation expense	**169**	459	**341**	927
Non-cash interest	**181**	319	**368**	502
Gain (loss) on sale of asset	**(9)**	-	**(9)**	
Deferred income taxes	**908**	1,938	**1,501**	2,139
Fair value adjustment on REIT units	**913**	-	**913**	-
FFO	**6,341**	**7,334**	**15,662**	**13,369**

Investment Properties

($000s)	Three-months ended June 30		Six-months ended June 30	
	30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12
Divisional income for the period	**6,573**	**2,290**	**9,428**	**4,721**
Fair value adjustment on investment properties	**(4,016)**	(628)	**(4,515)**	(1,415)
Amortization of operating lease incentives	**213**	146	**458**	284
Divisional FFO	**2,770**	**1,808**	**5,371**	**3,590**

REIT

($000s)	Three-months ended June 30		Six-months ended June 30	
	30-Jun-13	30-Jun-12	30-Jun-13	30-Jun-12
Divisional income for the period	**7,326**	**17,800**	**15,377**	**23,303**
Fair value adjustment on investment properties	**(1,792)**	(12,862)	**(4,386)**	(13,502)
Amortization of operating lease incentives	**549**	624	**1,127**	1,304
Divisional FFO	**6,083**	**5,562**	**12,118**	**11,105**

FFO per share = (FFO) / (basic weighted average common shares outstanding)

Adjusted earnings attributable to Melcor's shareholders ("adjusted earnings"): (net income attributable to Melcor's shareholders) +/- (adjustments related to REIT units) + (management fees earned from the REIT) +/- (unitholders' portion of earnings of the REIT)

Adjusted basic EPS and Adjusted diluted EPS: (adjusted earnings attributable to Melcor's shareholders) / (basic/diluted weighted average number of common shares outstanding)

Condensed Interim Consolidated Financial Statements

For the three and six-months ended June 30, 2013

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

	For the three months ended		For the six months ended	
Unaudited ($000s)	**June 30, 2013**	June 30, 2012	**June 30, 2013**	June 30, 2012
Revenue	**50,737**	34,973	**92,354**	68,294
Cost of sales	**(26,693)**	(18,387)	**(48,650)**	(37,159)
	24,044	16,586	**43,704**	31,135
General and administrative expense	**(7,640)**	(5,495)	**(12,365)**	(10,216)
Depreciation expense	**(445)**	(389)	**(639)**	(521)
	15,959	10,702	**30,700**	20,398
Fair value adjustment on investment properties (note 7)	**7,237**	15,412	**12,508**	17,027
Adjustments related to REIT units (note 14)	**(11,244)**	-	**(11,244)**	-
Gain on sale of asset	**9**	-	**9**	-
	11,961	26,114	**31,973**	37,425
Interest income	**460**	559	**1,077**	1,030
Interest expense	**(3,726)**	(4,061)	**(7,922)**	(8,332)
Net finance costs	**(3,266)**	(3,502)	**(6,845)**	(7,302)
Income before income taxes	**8,695**	22,612	**25,128**	30,123
Income tax recovery (expense) (note 10)	**1,514**	(3,741)	**(2,296)**	(5,404)
Net income for the period	**10,209**	18,871	**22,832**	24,719
Net income (loss) attributable to:				
Melcor's shareholders	**10,211**	18,873	**22,837**	24,730
Non-controlling interest (NCI)	**(2)**	(2)	**(5)**	(11)
Net income for the period	**10,209**	18,871	**22,832**	24,719
Earnings per share attributable to Melcor's shareholders:				
Basic earnings per share	**0.34**	0.63	**0.75**	0.82
Diluted earnings per share	**0.33**	0.60	**0.73**	0.79

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income

	For the three months ended		For the six months ended	
Unaudited ($000s)	**June 30, 2013**	June 30, 2012	**June 30, 2013**	June 30, 2012
Net income for the period	**10,209**	18,871	**22,832**	24,719
Other comprehensive income				
Items that may be reclassified subsequently to net income				
Currency translation differences	**3,225**	3,334	**5,011**	2,181
Comprehensive income	**13,434**	22,205	**27,843**	26,900
Comprehensive income (loss) attributable to:				
Melcor's shareholders	**13,367**	22,230	**27,584**	26,906
Non-controlling interest (NCI)	**67**	(25)	**259**	(6)
Comprehensive income	**13,434**	22,205	**27,843**	26,900

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited ($000s)	June 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	23,504	11,628
Restricted cash (note 3(a))	7,742	-
Accounts receivable	16,836	21,966
Income taxes recoverable	-	1,069
Agreements receivable	130,459	173,950
Land inventory (note 6)	622,001	603,576
Investment properties (note 7)	645,432	599,228
Property and equipment	15,684	15,269
Other assets	25,285	20,670
	1,486,943	1,447,356
LIABILITIES		
Accounts payable and accrued liabilities	45,963	57,728
Income taxes payable	4,853	-
Provision for land development costs	138,112	138,551
General debt (note 8)	447,653	490,532
Deferred income tax liabilities	52,580	65,788
REIT units (note 11 and 14)	92,213	-
	781,374	752,599
SHAREHOLDERS' EQUITY		
Equity attributable to Melcor's shareholders		
Share capital (note 9)	22,413	15,580
Contributed surplus	3,266	4,460
Convertible debenture	639	639
Accumulated other comprehensive income (AOCI)	2,617	(2,130)
Retained earnings	672,126	672,283
	701,061	690,832
Non-controlling interest (NCI)	4,508	3,925
	705,569	694,757
	1,486,943	1,447,356

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

Unaudited ($000s)	Equity attributable to Melcor's shareholders: Share capital	Contributed surplus	Convertible debenture	AOCI	Retained earnings	NCI	Total equity
Balance at January 1, 2013	**15,580**	**4,460**	**639**	**(2,130)**	**672,283**	**3,925**	**694,757**
Net income (loss) for the period	-	-	-	-	22,837	(5)	22,832
Contributions from non-controlling interest	-	-	-	-	-	324	324
Cumulative translation adjustment	-	-	-	4,747	-	264	5,011
Transactions with equity holders							
Dividends	-	-	-	-	(22,994)	-	(22,994)
Employee share options							
Value of services recognized	-	341	-	-	-	-	341
Share issuance	6,833	(1,535)	-	-	-	-	5,298
Balance at June 30, 2013	**22,413**	**3,266**	**639**	**2,617**	**672,126**	**4,508**	**705,569**

Unaudited ($000s)	Equity attributable to Melcor's shareholders: Share capital	Contributed surplus	Convertible debenture	AOCI	Retained earnings	NCI	Total equity
Balance at January 1, 2012	14,446	2,810	639	47	580,821	3,981	602,744
Net income (loss) for the period	-	-	-	-	24,730	(11)	24,719
Contributions from non-controlling interest	-	-	-	-	-	41	41
Cumulative translation adjustment	-	-	-	2,176	-	5	2,181
Transactions with equity holders							-
Dividends	-	-	-	-	(6,630)	-	(6,630)
Employee share options							-
Value of services recognized	-	927	-	-	-	-	927
Share issuance	722	(35)	-	-	-	-	687
Balance at June 30, 2012	15,168	3,702	639	2,223	598,921	4,016	624,669

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

	For the three months ended		For the six months ended	
Unaudited ($000s)	**June 30, 2013**	June 30, 2012	**June 30, 2013**	June 30, 2012
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income for the period	**10,209**	18,871	**22,832**	24,719
Non cash items:				
Amortization of operating lease incentives	**762**	770	**1,585**	1,588
Depreciation of property and equipment	**445**	389	**639**	521
Stock based compensation expense	**169**	459	**341**	927
Non cash interest	**181**	319	**368**	502
Fair value adjustment on investment properties (note 7)	**(7,237)**	(15,412)	**(12,508)**	(17,027)
Fair value adjustment on REIT Units (note 14)	**913**	-	**913**	-
Gain on sale of asset	**(9)**	-	**(9)**	-
Deferred income taxes	**908**	1,938	**1,501**	2,139
	6,341	7,334	**15,662**	13,369
Agreements receivable	**24,791**	10,771	**43,491**	17,623
Development activities	**(7,938)**	(10,641)	**(4,619)**	(7,826)
Operating assets and liabilities	**(5,188)**	3,391	**(17,246)**	(12,065)
	18,006	10,855	**37,288**	11,101
INVESTING ACTIVITIES				
Purchase of land inventory (note 6)	**(3,999)**	(1,044)	**(4,805)**	(3,031)
Payment of tenant lease incentives	**(1,738)**	(2,164)	**(3,201)**	(3,218)
Additions to investment properties	**(20,610)**	(7,904)	**(28,457)**	(14,401)
Purchase of property and equipment	**(649)**	(1,042)	**(1,054)**	(1,718)
Change in restricted cash	**(4,367)**	-	**(4,367)**	-
	(31,363)	(12,154)	**(41,884)**	(22,368)
FINANCING ACTIVITIES				
Proceeds from issuance of trust units	**91,300**	-	**91,300**	-
Proceeds from general debt	**33,430**	12,536	**67,022**	14,619
Repayment of general debt	**(85,045)**	(12,907)	**(121,122)**	2,201
Change in restricted cash	**(3,375)**	-	**(3,375)**	
Contributions from non-controlling interest	**313**	-	**324**	-
Dividends paid	**(22,994)**	(6,630)	**(22,994)**	(6,630)
Share capital issued	**5,249**	445	**5,298**	687
	18,878	(6,556)	**16,453**	10,877
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY	**(48)**	63	**19**	5
INCREASE (DECREASES) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**5,473**	(7,792)	**11,876**	(385)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**18,031**	18,110	**11,628**	10,703
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**23,504**	10,318	**23,504**	10,318
Total income taxes paid	**4,470**	3,972	**9,000**	7,474
Total interest paid	**4,787**	4,683	**10,264**	9,563

See accompanying notes to these condensed interim consolidated financial statements.

1. CORPORATE INFORMATION

We are a real estate development company with community development, property development, investment property and recreational property divisions. We develop and manage mixed-use residential communities, business and industrial parks, office buildings, retail commercial centers, and golf courses.

The parent company is Melcor Developments Ltd. (the "Company" or "we") and is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States ("US"). Our shares are traded on the Toronto Stock Exchange under the symbol "MRD".

On May 1, 2013, we completed an initial public offering (the "Offering") of trust units of Melcor REIT (the "REIT" or the "Trust"). On closing of the Offering, we sold interests in a portfolio of 27 income-producing properties to the REIT. We retain a controlling 51.1% interest in the REIT and continue to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. We reflect the public's 48.9% interest in the REIT as a liability in our financial statements (see note 5).

Our quarterly results are impacted by the cyclical nature of our business. Income can fluctuate significantly from period to period due to the timing of plan registrations, the cyclical nature of real estate and construction markets, and the mix of lot sales and product types.

2. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim financial statements were approved for issue by the Board of Directors on August 13, 2013.

3. ACCOUNTING POLICIES

The accounting policies followed in these condensed interim consolidated financial statements are consistent with those of the previous financial year, except as described below.

New and amended accounting policies

We have adopted the following significant accounting policies as necessitated by transactions which occurred during the period.

a) Restricted cash

Restricted cash can only be used for specified purposes. The Company's restricted cash represents subsidies funded by Melcor as part of the Offering to reduce the effective interest rate on debt assumed by the REIT, and to fund capital expenditures, environmental expenditures, tenant incentives and lease costs in the REIT. As at June 30, 2013 we had a restricted cash balance of $7,742.

b) Financial instruments: non-controlling interest in Melcor REIT

We hold an effective 51.1% interest in the REIT through ownership of all Class B LP Units. A non-controlling interest, REIT units, has been recognized on the statement of financial position to reflect the 48.9% interest held by the public through ownership of all trust units. The trust units are redeemable at the option of the holder and, therefore, are considered a puttable instrument in accordance with International Accounting Standards ("IAS") 32, Financial Instruments – Presentation ("IAS 32"). Certain conditions under IAS 32 allow the REIT to present the trust units as equity; however, on consolidation we do not meet these conditions and therefore must present the non-controlling interest as a financial liability.

As a financial liability designated as fair value through profit or loss ("FVTPL") we recorded the REIT units at fair value on initial recognition. Subsequent to initial recognition we remeasure the liability each period at FVTPL based upon the trust unit's closing trading price. Fair value gains and losses are recorded through income in the period they are incurred.

3. ACCOUNTING POLICIES (continued)

Distributions on trust units are recognized in the period in which they are approved and are recorded as an expense in income. For presentation purposes we aggregate the distribution expense with the fair value adjustment on the trust units under the caption 'adjustments related to REIT units'.

c) Income taxes

The REIT qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada) ("Tax Act") and as a real estate investment trust eligible for the 'REIT Exception', as defined in the rules applicable to Specified Investment Flow-Through ("SIFT") trusts and partnerships in the Tax Act. We expect to allocate all of the REIT's taxable income and to continue to qualify for the REIT Exception. As the REIT is a flow-through entity, we record current and deferred taxes on our 51.1% interest in the REIT.

Changes in accounting policies

We have adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

a) IFRS 10, Consolidated Financial Statements, replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

We assessed our consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of our subsidiaries and investees.

b) IFRS 11, Joint Arrangements, supersedes IAS 31, Interests in Joint Ventures, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, Investments in Associates and Joint Ventures (amended in 2011). The amendments to IAS 28 did not affect the Company.

We have concluded that the adoption of IFRS 11 did not result in any changes in the accounting for our joint arrangements.

c) IFRS 13, Fair Value Measurement, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. We adopted IFRS 13 on January 1, 2013 on a prospective basis.

The adoption of IFRS 13 did not require any adjustments to the valuation techniques we used to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

d) IAS 1, Presentation of Financial Statements, has been amended effective January 1, 2013 and requires other comprehensive income items to be grouped by those that will be reclassified subsequently to profit or loss and those that will not be reclassified.

We have amended our presentation of comprehensive income reported in the comparative period to state that it may be reclassified subsequently to net income. This change did not result in any adjustments to comprehensive income.

4. SIGNIFICANT JUDGMENTS AND CRITICAL ACCOUNTING ESTIMATES

The significant judgments and critical accounting estimates included in the determination of reported amounts in these condensed interim consolidated financial statements are consistent with those of the previous financial year, with the following additions to significant judgements.

a) *Business combinations under common control*

Business combinations under common control ("BCUCC") are business combinations involving entities or businesses under common control, in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination. BCUCC are not within the scope of IFRS 3, Business Combinations.

As the REIT is a newly formed entity and Melcor will retain control over the REIT, the Offering and sale of the Initial Properties is accounted for as a reorganization and recapitalization using the continuity of interests method. Under this method, the REIT records the assets acquired and liabilities assumed at their carrying amounts on the closing date of the transaction. The difference between the consideration given and the aggregate value of the net assets acquired by the REIT is recorded as an adjustment to the REIT's unitholders' equity. As we retain control over the REIT, we consolidate the REIT and record revenues, expenses, assets and liabilities of the REIT. We reflect the 48.9% non-controlling interest in the REIT as a financial liability.

b) *Compliance with REIT legislation*

Under current tax legislation, a real estate investment trust is not liable for Canadian income taxes provided that its taxable income is fully allocated to unitholders during the year. In order for the Trust to continue to be taxed as a mutual fund trust, we need to maintain its REIT status. At inception, the Trust qualifies as a REIT under the specified investment flow-through ("SIFT") rules in the Canadian Income Tax Act. The Trust's current and continuing qualification as a REIT depends on the Trust's ability to meet the various requirements imposed under the SIFT rules, which relate to matters such as its organizational structure and the nature of its assets and revenues. We apply judgment in determining whether it continues to qualify as a REIT under the SIFT rules. Should the Trust cease to qualify, it would be subject to income tax on its earnings.

5. FORMATION OF MELCOR REIT

On May 1, 2013, we completed an initial public offering (the "Offering") of trust units of Melcor Real Estate Investment Trust (the "REIT"). The Offering raised gross proceeds of $83,000 through the issuance of 8,300,000 trust units at a price of $10.00 per trust unit. The total proceeds received by the REIT, net of underwriters' fee, was $78,020. On closing of the Offering, we sold to a subsidiary of the REIT (the "Partnership"), interest in a portfolio of 27 income-producing properties located in Western Canada, comprised primarily of retail, office and industrial properties (the "Initial Properties"). As part of the acquisition of the Initial Properties, the REIT also assumed mortgages on certain properties totaling $92,360 at April 30, 2013. Deferred financing fees of $97 are netted against the assumed mortgages. In addition, the working capital, which is comprised of cash balances, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, and other liabilities were transferred on closing. The purchase price was satisfied with cash consideration of $65,919 and issuance of 10,360,798 Class B LP Units. We retained the debt on certain properties (the "Retained Debt") with a fair value of $96,506 at April 30, 2013. In consideration of the Retained Debt, Melcor received Class C LP Units of the Partnership on which we receive priority distributions.

The carrying value of the assets and liabilities sold and the fair value of consideration received is detailed as follows:

($000s)		
Net assets sold:		
Real estate properties	$	397,896
Working capital, net		(2,680)
Mortgages on properties, net		(92,263)
		302,953
Consideration received:		
Class C LP Units	$	96,506
Class B LP Units		103,608
Cash paid out by the REIT		65,919
		266,033
Net contribution by Melcor	$	36,920

On May 10, 2013, the underwriters exercised, in full, their over-allotment option to purchase an additional 830,000 trust units from the Company, at a price of $10.00 per unit, for gross proceeds of $8,300 ($7,823 net of underwriters' fee).

Following closing of the over-allotment option, we, through an affiliate, hold an effective 51.1% interest in the REIT through ownership of all remaining 9,530,798 Class B LP Units of the Partnership.

We have assessed and concluded that Melcor retains control over the REIT in accordance with IFRS 10, Consolidated Financial Statements, through ownership interest of 51.1%. Business combinations which do not result in a change of control are classified as Business Combinations Under Common Control and not within the scope of IFRS 3, Business Combinations. As described in note 4(a), the transaction is accounted for as a reorganization and recapitalization, applying the continuity of interests method, with Melcor consolidating the REIT and recording 100% of its revenues, expenses, assets and liabilities. The remaining 48.9% publicly held interest in the REIT is presented as a liability in our consolidated financial statements. Refer to note 14 for summary financial information of the REIT at June 30, 2013.

Transaction costs directly related to the Offering and acquisition of the Initial Properties were $9,304. Under IAS 39 Financial instruments: recognition and measurement, transaction costs related to financial liabilities classified as fair value through profit or loss must be expensed in the current period. As we have concluded that the non-controlling interest in the REIT is a financial liability measured at fair value through profit or loss we expensed these costs through current period income as part of adjustments related to REIT units (refer to note 14).

6. LAND INVENTORY

($000s)	June 30, 2013	December 31, 2012
Raw land held	274,773	266,487
Land under development	139,034	106,090
Developed land	208,194	230,999
	622,001	603,576

During the six month period ended June 30, 2013 we purchased 177 acres of land at a cost of $12,132 and received vendor financing of $7,833. In addition, we entered into a land swap by purchasing 29 acres of land at a cost of $1,325 in exchange for 16 acres of land and $506 in cash. Exchange amounts approximate fair market value.

During the same period in the prior year, we entered into a joint arrangement of which we have a 50% interest and acquired 83 acres of land at a cost of $6,623 with $4,636 in vendor financing. We also purchased 28 acres of land at a cost of $1,044.

7. INVESTMENT PROPERTIES

($000s)	Six months ended June 30, 2013	Year ended December 31, 2012
Balance - beginning of period	599,228	493,520
Additions		
Direct acquisition	2,390	10,616
Transfer from land inventory	-	2,460
Property improvements	3,644	7,348
Property development	21,900	30,856
Capitalized borrowing costs	553	789
Disposals	-	(268)
Net fair value adjustment on investment properties	12,508	59,103
Change in provision	-	(3,317)
Foreign currency translation	5,209	(1,879)
Balance - end of period	645,432	599,228

Investment properties were valued by qualified independent external valuation professionals as at December 31, 2012. We obtained updated market data and considered whether changes to any important valuation model variables resulted in significant changes to any of the property fair values at June 30, 2013. Fair values of investment properties were revised based on the updated data and model variables.

The key valuation metric is set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	June 30, 2013			December 31, 2012		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	9.00%	6.42%	5.50%	7.75%	6.43%

8. GENERAL DEBT

($000s)	June 30, 2013	December 31, 2012
Bank operating loan	49,026	93,232
Debt on land inventory	80,481	96,971
Debt on investment properties and golf course assets	278,910	261,191
Convertible debenture	39,236	39,138
	447,653	490,532

9. SHARE CAPITAL

Issued and outstanding common shares at June 30, 2013 are 30,658,274 (December 31, 2012 – 30,181,624). During the three and six months ended June 30, 2013, there were 472,350 and 476,650 options exercised (Q2-2012 – 74,000 and 108,000). There were no stock options issued to employees of the Company in the six month ended June 30, 2013 (Q2-2012 – nil).

10. INCOME TAX EXPENSE

Income tax expense is recognized based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the period is 25.3% (2012 – 25.8%) for income except items for which a capital gains rate of 12.5% (2012 – 12.5%) is applicable.

Income tax for the six month period ended June 30, 2013 also includes the following tax adjustments resulting from the closing of the IPO:

- The REIT, under the Specified Investment Flow-Through ("SIFT") rules in the Canadian Income Tax Act, does not expect to pay income tax. As such, upon closing of the Offering and transfer of certain properties to the REIT, Melcor is no longer subject to tax on the public's interest of 48.9% in the REIT. This resulted in a deferred income tax recovery of $16,989 being recorded in the Melcor statements on closing of the IPO.
- On closing of the Offering, certain properties were transferred to the REIT on a rollover basis with an elected step-up in cost bases. This resulted in $5,317 in current taxes payable with an offsetting decrease in the related deferred income tax liability being recognized by Melcor.
- As described in note 5, Melcor received Class C LP Units as consideration for the Retained Debt. These Class C LP Units are redeemed as distributions paid on the units are applied against the Retained Debt principal. An initial deferred tax liability of $11,818 was recognized related to the Class C LP Units. Distributions paid during the quarter on the Class C LP Units resulted in current tax expense of $70 being recognized.

11. FAIR VALUE ESTIMATION

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, and general debt which are measured at amortized cost; and REIT units which are measured at fair value through profit or loss ("FVTPL"). The fair value of cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short term nature. General debt has a carrying value of $447,653 (December 31, 2012 - $490,532) and a fair value of $450,711 (December 31, 2012 - $511,211).

In accordance with our policy, as detailed in note 3(b), we account for the remaining 48.9% publicly held interest in the REIT as a financial liability measured at FVTPL. The REIT units are remeasured to fair value on a recurring basis and categorized as Level 1 in the fair value hierarchy. We defined Level 1 as fair value measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. The REIT units are fair valued based on the trading price of the trust units at the period end date. At June 30, 2013 the fair value of the REIT units was $92,213 based on 9,130,000 trust units outstanding and a closing trading price of $10.10.

12. RELATED PARTY TRANSACTIONS

During the three and six months ended June 30, 2013, there were debenture coupon payments of $342 and $681 (Q2-2012 - $342 and $684) paid to companies controlled by two members of our executive management team who are also directors of our Company.

These transactions occurred in the normal course of operations and were measured at their exchange amount, which approximates carrying value.

(Unaudited – in $000s except per share, share and acre amounts)

13. SEGMENTED INFORMATION

Geographic Analysis

A reconciliation of our revenues and assets by geographic location is as follows:

External Revenues	**For the three months ended**		**For the six months ended**	
(in Canadian dollars)	**June 30, 2013**	June 30, 2012	**June 30, 2013**	June 30, 2012
United States	**2,784**	2,521	**9,137**	4,890
Canada	**47,953**	32,452	**83,217**	63,404
	50,737	34,973	**92,354**	68,294

Total Assets		
As at (in Canadian dollars)	**June 30, 2013**	December 31, 2012
United States	**151,905**	122,735
Canada	**1,335,038**	1,324,621
	1,486,943	1,447,356

Divisional Analysis

The following segment analysis has been amended from prior periods to include the results of the newly formed REIT. Results for the REIT's three and six months ended June 30, 2013 and the comparative 2012 periods include the pre-acquisition results previously reported under the Investment Properties division.

(Unaudited – in $000s except per share, share and acre amounts)

13. SEGMENTED INFORMATION (continued)

Our divisions reported the following results:

For the three months ended June 30, 2013	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	32,187	743	5,551	9,773	3,331	-	(848)	50,737
Cost of sales	(18,861)	-	(2,452)	(3,840)	(1,540)	-	-	(26,693)
	13,326	743	3,099	5,933	1,791	-	(848)	24,044
General and administrative expense	(2,670)	(418)	(550)	(416)	(701)	(3,733)	848	(7,640)
Depreciation expense	-	-	-	-	(348)	(95)	(2)	(445)
	10,656	325	2,549	5,517	742	(3,828)	(2)	15,959
Fair value adjustment on investment properties	-	1,429	4,016	1,792	-	-	-	7,237
Adjustments related to REIT units	-	-	-	-	-	-	(11,244)	(11,244)
Gain (loss) on sale of assets	-	-	-	-	9	3,156	(3,156)	9
Interest income	430	1	8	17	-	4	-	460
	11,086	1,755	6,573	7,326	751	(668)	(14,402)	12,421
Interest expense								(3,726)
Income before tax								8,695
Income tax recovery								1,514
Net income								10,209

For the three months ended June 30, 2012	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	21,576	234	3,851	9,002	3,231	-	(2,921)	34,973
Cost of sales	(13,008)	-	(2,072)	(3,665)	(1,247)	-	1,605	(18,387)
	8,568	234	1,779	5,337	1,984	-	(1,316)	16,586
General and administrative expense	(1,580)	(400)	(124)	(404)	(827)	(2,462)	302	(5,495)
Depreciation expense	-	-	-	-	(344)	(45)	-	(389)
	6,988	(166)	1,655	4,933	813	(2,507)	(1,014)	10,702
Fair value adjustment on investment properties	-	1,058	628	12,862	-	-	864	15,412
Adjustments related to REIT units	-	-	-	-	-	-	-	-
Gain (loss) on sale of assets	-	-	-	-	-	-	-	-
Interest income	494	-	7	5	-	53	-	559
	7,482	892	2,290	17,800	813	(2,454)	(150)	26,673
Interest expense								(4,061)
Income before tax								22,612
Income tax expense								(3,741)
Net income								18,871

(Unaudited – in $000s except per share, share and acre amounts)

13. SEGMENTED INFORMATION (continued)

For the six months ended June 30, 2013	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	58,914	1,397	10,123	19,461	3,508	-	(1,049)	92,354
Cost of sales	(34,385)	-	(4,655)	(7,682)	(1,928)	-	-	(48,650)
	24,529	1,397	5,468	11,779	1,580	-	(1,049)	43,704
General and administrative expense	(5,007)	(829)	(569)	(811)	(973)	(5,226)	1,050	(12,365)
Depreciation expense	-	-	-	-	(445)	(192)	(2)	(639)
	19,522	568	4,899	10,968	162	(5,418)	(1)	30,700
Fair value adjustment on investment properties	-	3,607	4,515	4,386	-	-	-	12,508
Adjustments related to REIT units	-	-	-	-	-	-	(11,244)	(11,244)
Gain (loss) on sale of assets	-	-	-	-	9	3,156	(3,156)	9
Interest income	1,032	2	14	23	-	6	-	1,077
	20,554	4,177	9,428	15,377	171	(2,256)	(14,401)	33,050
Interest expense								(7,922)
Income before tax								25,128
Income tax expense								(2,296)
Net income								22,832

For the six months ended June 30, 2012	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	42,705	473	7,622	17,724	3,271	-	(3,501)	68,294
Cost of sales	(26,168)	-	(4,132)	(7,107)	(1,531)	-	1,779	(37,159)
	16,537	473	3,490	10,617	1,740	-	(1,722)	31,135
General and administrative expense	(3,008)	(797)	(197)	(827)	(1,055)	(4,747)	415	(10,216)
Depreciation expense	-	-	-	-	(434)	(87)	-	(521)
	13,529	(324)	3,293	9,790	251	(4,834)	(1,307)	20,398
Fair value adjustment on investment properties	-	953	1,415	13,502	-	-	1,157	17,027
Adjustments related to REIT units	-	-	-	-	-	-	-	-
Gain (loss) on sale of assets	-	-	-	-	-	-	-	-
Interest income	920	-	13	11	-	86	-	1,030
	14,449	629	4,721	23,303	251	(4,748)	(150)	38,455
Interest expense								(8,332)
Income before tax								30,123
Income tax expense								(5,404)
Net income								24,719

14. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, as detailed in notes 3(b) and 11, we account for the remaining 48.9% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at June 30, 2013 the REIT units had a fair value of $92,213. We recorded adjustments related to REIT units for the period ended June 30, 2013 of $11,244. As illustrated in the table below, the adjustment is comprised of a fair value adjustment of $913, an expense of $1,027 in distributions on trust units, and $9,304 in transaction costs.

	June 30, 2013	December 31, 2012
Fair value adjustment on REIT units	913	-
Transaction costs on REIT IPO	9,304	-
Distributions to REIT unitholders	1,027	-
Adjustments related to REIT units	11,244	-

The following tables summarize the financial information relating to the Company's subsidiary, the REIT, that has material non-controlling interest (NCI), before intra-group eliminations.

($000s)	**June 30, 2013**	December 31, 2012
Assets	414,769	396,845
Liabiltiies	198,068	228,514
Net assets	216,701	168,331
Cost of NCI	81,996	-
Fair value of NCI	92,213	-

	For the three months ended		**For the six months ended**	
($000s)	**June 30, 2013**	June 30, 2012	**June 30, 2013**	June 30, 2012
Revenue	9,773	9,002	19,461	17,724
Net income and comprehensive income	3,036	15,702	9,047	19,058
Cash flows from operating activities	2,105	3,509	9,141	5,738
Cash flows from investing activities	(6,534)	(3,924)	(7,377)	(6,616)
Cash flows from financing activities, before distributions to REIT unitholders	9,361	506	3,337	858
Cash flows from financing activities - cash distributions to REIT unitholders	(1,027)	-	(1,027)	-
Net increase (decrease) in cash and cash equivalents	3,905	**91**	4,074	**(20)**

15. EVENTS AFTER THE REPORTING PERIOD

On July 8, 2013 we entered into an agreement to purchase our joint venture partner's 50% interest in one of our commercial properties for a total purchase price of $27,000. The purchase price was partially settled through the assumption of $11,041 in debt. The transaction closed July 31, 2013, at which point Melcor became the sole owner and beneficiary of the underlying assets and liabilities of the property.

(Unaudited – in $000s except per share, share and acre amounts)

On July 16, 2013 the REIT declared a distribution of $0.05625 per unit for the months of July, August and September 2013. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
July 2013	July 31, 2013	August 15, 2013	$0.05625 per unit
August 2013	August 30, 2013	September 16, 2013	$0.05625 per unit
September 2013	September 30, 2013	October 15, 2013	$0.05625 per unit