Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2012

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statements of Income

($000s) Unaudited	For the three months ended June 30, 2012	June 30, 2011	For the six months ended June 30, 2012	June 30, 2011
Revenue	34,973	24,615	68,294	49,474
Cost of sales	(18,387)	(11,977)	(37,159)	(25,535)
	16,586	12,638	31,135	23,939
General and adminstrative expense	(5,495)	(4,403)	(10,216)	(8,156)
Depreciation expense	(389)	(362)	(521)	(492)
	10,702	7,873	20,398	15,291
Fair value adjustment on investment properties (note 4)	15,412	1,168	17,027	2,228
	26,114	9,041	37,425	17,519
Interest income	559	543	1,030	1,108
Interest expense (note 8)	(4,061)	(3,698)	(8,332)	(7,663)
Net finance costs	(3,502)	(3,155)	(7,302)	(6,555)
Income before income taxes	22,612	5,886	30,123	10,964
Income tax expense (note 7)	(3,741)	(1,392)	(5,404)	(2,530)
Net income for the period	18,871	4,494	24,719	8,434
Net income (loss) attributable to:				
Owners of Melcor	18,873	4,494	24,730	8,434
Non-controlling interest	(2)	-	(11)	-
Net income for the period	18,871	4,494	24,719	8,434
Earnings per share attributable to owners of Melcor:				
Basic earnings per share	0.63	0.15	0.82	0.28
Diluted earnings per share	0.60	0.15	0.79	0.28

Condensed Interim Consolidated Statements of Comprehensive Income

($000s) Unaudited	For the three months ended June 30, 2012	June 30, 2011	For the six months ended June 30, 2012	June 30, 2011
Net income for the period	**18,871**	4,494	**24,719**	8,434
Other comprehensive income (loss)				
Currency translation differences	**3,334**	(42)	**2,181**	(247)
Comprehensive income for the period	**22,205**	4,452	**26,900**	8,187
Comprehensive income (loss) attributable to:				
Owners of Melcor	**22,230**	4,452	**26,906**	8,187
Non-controlling interest	**(25)**	-	**(6)**	-
Comprehensive income for the period	**22,205**	4,452	**26,900**	8,187

Condensed Interim Consolidated Statements of Financial Position

Unaudited ($000s)	June 30, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	10,318	10,703
Accounts receivable	12,248	14,205
Income taxes recoverable	9,442	1,208
Agreements receivable	122,217	139,840
Land inventory (note 3)	543,986	529,803
Investment properties (note 4)	527,701	493,520
Property and equipment	14,131	12,942
Other assets	19,712	16,664
	1,259,755	1,218,885
LIABILITIES		
Accounts payable and accrued liabilities	34,371	41,749
Provision for land development costs	93,217	92,946
General debt (note 5)	451,903	429,689
Deferred income tax liabilities	55,595	51,757
	635,086	616,141
SHAREHOLDERS' EQUITY		
Equity attributable to owners of Melcor		
Share capital (note 6)	15,168	14,446
Contributed surplus	3,702	2,810
Convertible debenture	639	639
Accumulated other comprehensive income (AOCI)	2,223	47
Retained earnings	598,921	580,821
	620,653	598,763
Non-controlling interest (NCI)	4,016	3,981
	624,669	602,744
	1,259,755	1,218,885

Condensed Interim Consolidated Statements of Changes in Equity

Unaudited ($000s)	Equity attributable to owners of Melcor 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 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 paid	-	-	-	-	(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**

Unaudited ($000s)	Equity attributable to owners of Melcor Share Capital	Contributed Surplus	Convertible Debenture	AOCI	Retained Earnings	NCI	Total Equity
Balance at January 1, 2011	13,354	1,015	-	(467)	514,791	-	528,693
Net income for the period	-	-	-	-	8,434	-	8,434
Cumulative translation adjustment	-	-	-	(247)	-	-	(247)
Transactions with equity holders							-
Dividends paid	-	-	-	-	(6,045)	-	(6,045)
Issuance of convertible debenture	-	-	639	-	-	-	639
Employee share options							-
Value of services recognized	-	992	-	-	-	-	992
Share issuance	606	(22)	-	-	-	-	584
Balance at June 30, 2011	13,960	1,985	639	(714)	517,180	-	533,050

Condensed Interim Consolidated Statements of Cash Flows

($000s) Unaudited	For the three months ended June 30, 2012	June 30, 2011	For the six months ended June 30, 2012	June 30, 2011
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income for the period	18,871	4,494	24,719	8,434
Non cash items:				
Amortization of operating lease incentives	770	777	1,588	1,623
Depreciation of property and equipment	389	362	521	492
Stock based compensation expense	459	543	927	992
Non cash interest	319	189	502	389
Fair value adjustment on investment properties (note 4)	(15,412)	(1,168)	(17,027)	(2,228)
Deferred income taxes	1,938	156	2,139	278
	7,334	5,353	13,369	9,980
Agreements receivable	10,771	13,443	17,623	21,324
Development activities	(10,641)	(12,733)	(7,826)	(9,839)
Operating assets and liabilities	3,391	(6,692)	(12,065)	(20,063)
	10,855	(629)	11,101	1,402
INVESTING ACTIVITIES				
Purchase of land inventory	(1,044)	-	(3,031)	(1,699)
Payment of tenant lease incentives	(2,164)	(2,069)	(3,218)	(4,133)
Additions to investment properties	(7,904)	(16,780)	(14,401)	(31,551)
Purchase of property and equipment	(1,042)	(145)	(1,718)	(274)
	(12,154)	(18,994)	(22,368)	(37,657)
FINANCING ACTIVITIES				
Bank operating loan	(9,162)	35,647	14,066	18,071
Proceeds from debt on land inventory	1,886	-	1,886	-
Repayment of debt on land inventory	(2,320)	(6,591)	(8,777)	(14,990)
Proceeds from debt on investment properties and golf course assets	10,650	-	12,733	6,500
Repayment of debt on investment properties and golf course assets	(1,425)	(1,709)	(3,088)	(5,685)
Proceeds from convertible debenture	-	-	-	39,642
Dividends paid	(6,630)	(6,045)	(6,630)	(6,045)
Share capital issued	445	410	687	584
	(6,556)	21,712	10,877	38,077
FOREIGN EXCHANGE LOSS ON CASH HELD IN A FOREIGN CURRENCY	63	(6)	5	(19)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	(7,792)	2,083	(385)	1,803
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	18,110	6,111	10,703	6,391
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	10,318	8,194	10,318	8,194
Total income taxes paid	3,972	5,169	7,474	13,628
Total interest paid	4,683	4,550	9,563	9,129

1. CORPORATE INFORMATION

We are a real estate development company with community development, property development, investment properties and recreational properties 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. 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".

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 IFRS as issued by the IASB applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting.* The accounting policies followed in these condensed interim consolidated financial statements are the same as those applied and disclosed in the company's financial statements for the year ended December 31, 2011.

These condensed interim consolidated financial statements should be read in conjunction with our annual financial statements for the year ended December 31, 2011, 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 1, 2012.

3. LAND INVENTORY

($000s)	**June 30, 2012**	December 31, 2011
Raw land held	**261,813**	263,029
Land under development	**126,722**	96,694
Developed land	**155,451**	170,080
	543,986	529,803

During the six month period ended June 30, 2012 we entered into a joint arrangement in which we have a 50% undivided interest with unrelated parties owning the remaining 50% of the assets, liabilities, revenue and expenses under this agreement. This resulted in the recognition of 83 acres of land at a cost of $6,623, and $4,636 in vendor financing (Q2-2012 - $nil). In addition, we also purchased 28 acres of land at a cost of $1,044 (Q2-2012 - $1,044) and received no vendor financing.

During the same period in the prior year, we purchased 17 acres of land at a cost of $558 and 60 finished lots in the US for $1,141 (Q2-2011 - $nil). No financing was obtained for these purchases.

4. INVESTMENT PROPERTIES

	Six months ended June 30, 2012	Year ended December 31, 2011
Balance - beginning of period	**493,520**	401,429
Additions		
Direct acquisition	**5,436**	21,645
Transfer from land inventory	**1,779**	2,988
Acquisition through business combination	**-**	40,838
Property improvements	**2,013**	7,009
Property development	**7,782**	12,149
Capitalized borrowing costs	**249**	225
Disposals	**(268)**	(36,695)
Net fair value adjustment on investment properties	**17,027**	41,696
Foreign currency translation	**163**	2,236
Balance - end of period	**527,701**	493,520

Investment properties were valued by qualified independent external valuation professionals as at December 31, 2011. 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, 2012. Fair values of investment properties were updated based on the updated data and model variables.

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

	June 30, 2012			December 31, 2011		
	Min	**Max**	**Weighted Average**	Min	Max	Weighted Average
Capitalization rate	5.75%	8.00%	6.69%	5.75%	8.00%	6.88%
Terminal capitalization rate	6.00%	8.00%	6.93%	6.00%	8.50%	7.14%

5. GENERAL DEBT

($000s)	**June 30, 2012**	December 31, 2011
Bank operating loan	**105,160**	91,094
Debt on land inventory	**64,645**	66,378
Debt on investment properties and golf course assets	**243,055**	233,268
Convertible debenture	**39,043**	38,949
	451,903	429,689

6. SHARE CAPITAL

Issued and outstanding common shares at June 30, 2012 are 30,141,000 (December 31, 2011 – 30,033,000).

During the six months ended June 30, 2012, there were 10~~7~~8,000 options exercised, with 74,000 exercised in the second quarter. There were 115,000 options exercised during the same period in the prior year, with 79,000 exercised in the second quarter.

During the six months ended June 30, 2012 there were no stock options issued to employees of the company. There were 105,000 stock options issued during the same period in the prior year, with 75,000 issued in the second quarter.

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

7. 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 year is 25.8% (2010 – 26.2%) for income except items for which a capital gains rate of 12.5% (2010 – 13.3%) is applicable.

8. RELATED PARTY TRANSACTIONS

During the three months ended June, 2012, there were debenture coupon payments of $342 (Q2-2011 - $343) paid to companies controlled by two members of our executive management team who are also directors of our company, with total year-to-date payments of $684 (2011 - $535).

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

9. SEGMENTED INFORMATION

The following table summarizes our US operations and assets:

	For the three months ended		For the six months ended	
(in Canadian dollars)	**June 30, 2012**	June 30, 2011	**June 30, 2012**	June 30, 2011
External revenue	**2,521**	1,141	**4,890**	1,830
Net income (loss)	**(206)**	165	**(471)**	192

As at (in Canadian dollars)	**June 30, 2012**	December 31, 2011
Assets	**115,842**	111,428
Equity	**13,170**	11,315

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

Our divisions reported the following results:

For the three months ended June 30, 2012	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	21,576	234	12,853	3,231	-	(2,921)	34,973
Cost of sales	(13,008)	-	(5,737)	(1,247)	-	1,605	(18,387)
	8,568	234	7,116	1,984	-	(1,316)	16,586
General and administrative	(1,580)	(400)	(528)	(827)	(2,462)	302	(5,495)
Depreciation expense	-	-	-	(344)	(45)	-	(389)
	6,988	(166)	6,588	813	(2,507)	(1,014)	10,702
Fair value adjustment on investment properties	-	1,058	13,340	-	-	1,014	15,412
Interest income	494	-	12	-	53	-	559
	7,482	892	19,940	813	(2,454)	-	26,673
Interest expense							(4,061)
Income before tax							22,612
Income tax							(3,741)
Net income							18,871

For the three months ended June 30, 2011	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	10,318	-	11,782	2,784	-	(269)	24,615
Cost of sales	(5,980)	-	(4,827)	(1,214)	-	44	(11,977)
	4,338	-	6,955	1,570	-	(225)	12,638
General and administrative	(1,322)	(442)	(111)	(670)	(2,083)	225	(4,403)
Depreciation expense	-	-	-	(326)	(36)	-	(362)
	3,016	(442)	6,844	574	(2,119)	-	7,873
Fair value adjustment on investment properties	-	1,749	(581)	-	-	-	1,168
Interest income	523	-	13	-	7	-	543
	3,539	1,307	6,276	574	(2,112)	-	9,584
Interest expense							(3,698)
Income before tax							5,886
Income tax							(1,392)
Net income							4,494

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

For the six months ended June 30, 2012	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	42,705	473	25,346	3,271	-	(3,501)	68,294
Cost of sales	(26,168)	-	(11,239)	(1,531)	-	1,779	(37,159)
	16,537	473	14,107	1,740	-	(1,722)	31,135
General and administrative	(3,008)	(797)	(1,024)	(1,055)	(4,747)	415	(10,216)
Depreciation expense	-	-	-	(434)	(87)	-	(521)
	13,529	(324)	13,083	251	(4,834)	(1,307)	20,398
Fair value adjustment on investment properties	-	953	14,767	-	-	1,307	17,027
Interest income	920	-	24	-	86	-	1,030
	14,449	629	27,874	251	(4,748)	-	38,455
Interest expense							(8,332)
Income before tax							30,123
Income tax							(5,404)
Net income							24,719

For the six months ended June 30, 2011	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	24,447	13	22,637	2,832	-	(455)	49,474
Cost of sales	(14,245)	-	(9,858)	(1,476)	-	44	(25,535)
	10,202	13	12,779	1,356	-	(411)	23,939
General and administrative	(2,518)	(734)	(584)	(981)	(3,750)	411	(8,156)
Depreciation expense	-	-	-	(424)	(68)	-	(492)
	7,684	(721)	12,195	(49)	(3,818)	-	15,291
Fair value adjustment on investment properties	-	2,163	65	-	-	-	2,228
Interest income	961	-	25	-	122	-	1,108
	8,645	1,442	12,285	(49)	(3,696)	-	18,627
Interest expense							(7,663)
Income before tax							10,964
Income tax							(2,530)
Net income							8,434

Management's Discussion & Analysis

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August 1, 2012

The following discussion of Melcor's 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, 2012 and the Management's Discussion & Analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2011.

The financial statements underlying this MD&A, including 2011 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS).

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on August 1, 2012.

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-GAAP 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 Measures" at the end of the MD&A.

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 MD&A 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 2012 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 Risk Factors throughout 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.

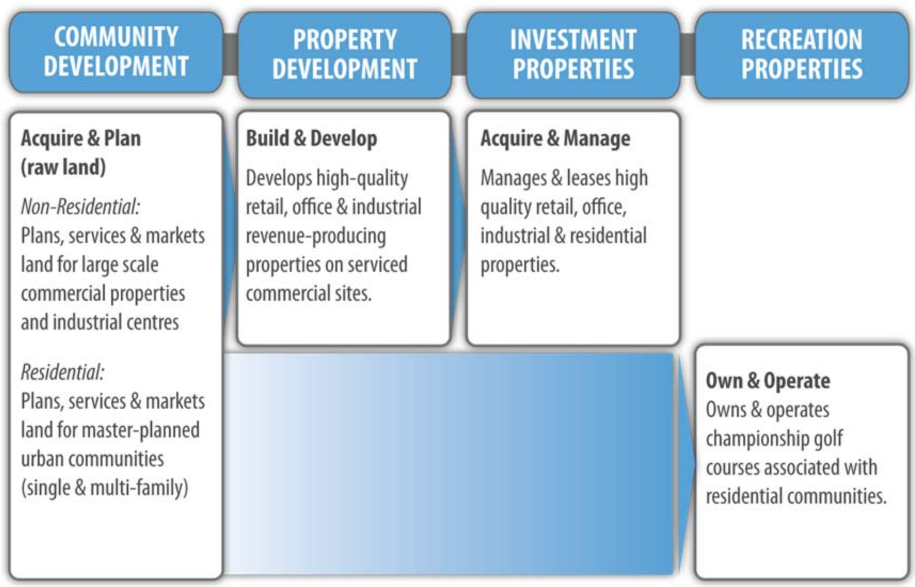
Overview of our Business

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

As a real estate development and management company, we operate four integrated divisions. Through these operating divisions, we 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)
- managing leasable office, retail and residential sites (Investment Properties)

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 complement 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 throughout Alberta and British Columbia. 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-12	30-Jun-11	Change	30-Jun-12	30-Jun-11	Change
Revenue	**34,973**	24,615	42%	**68,294**	49,474	38%
Gross margin (%)	**47.4%**	51.3%	-7.6%	**45.6%**	48.4%	-5.8%
Net income	**18,871**	4,494	320%	**24,719**	8,434	193%
Margin on net income	**54.0%**	18.3%	195%	**36.2%**	17.0%	113%
Funds from operations *	**7,334**	5,353	37%	**13,369**	9,980	34%
Per Share Data						
Basic earnings	**0.63**	0.15	320%	**0.82**	0.28	193%
Diluted earnings	**0.60**	0.15	300%	**0.79**	0.28	182%
Funds from operations *	**0.24**	0.18	33%	**0.44**	0.33	33%

$000s except as noted)	As at		
	30-Jun-12	31-Dec-11	Change
Shareholders' equity	**620,653**	598,763	4%
Total assets	**1,259,755**	1,218,885	3%
Per Share Data			
Book value *	**20.59**	19.94	3%

** See non-GAAP measurements for calculation.*

Highlights for the second quarter include:

- Strong revenues and earnings for the quarter year-to-date with growth over the prior period of 42% and 320% respectively.
- The Investment Property division recorded net fair value gains in Q2-2012 of $13.34, million due primarily to a decrease in capitalization rates in the Alberta market.
- The Community Development division realized revenue of $21.58 million which is 109% increase from Q2-2011.

Revenue & Margins:

- Revenue increased to $34.97 million in Q2-2012 compared to $24.62 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 Q2-2012. In Q2-2012, we sold 149 lots and 8.43 acres in multi-family developments, commercial sites and industrial sites compared to 80 lots and 9.16 acres in the same quarter last year.
- Gross margins decreased to 47.4% from 51.3% in the same period last year; however the current quarter margin represents an increase from Q1-2012 of 3.7%. Gross margin is largely impacted by the mix of land inventory sold in a period.
- 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.
- General and administrative costs increased by $1.09 million in Q2-2012 compared to the same period last year due primarily to an increase in staff across all operating divisions as we continue to build capacity for growth. General and administration costs as a % of revenues actually decreased by 2.2% from 17.9% in Q2-2011 to 15.7% in Q2-2012.
- Net fair value gains of $15.41 million were realized across multiple divisions in the current quarter. Changes in capitalization rates on certain office properties and higher leasing activity in the Investment Properties division contributed $13.34 million in fair value gains in Q2-2012.
- Funds from operations (FFO) per share adjusts for all non-cash earnings items included in income such as fair value adjustments on investment properties and stock based compensation expense. This measure is 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 $0.24 per share in Q2-2012, an increase of $0.06 per share, or 33% from the same quarter last year. This is primarily due to the increase in earnings reported in the Community Development division, as reported above.
- Basic earnings per share for the three months ended June 30, 2012 was $0.63, an increase of $0.48 per share, or 320%, from the same quarter last year.

Divisional Results

Our business is comprised of four 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, as well as an externally purchased portfolio of assets; and
- Recreational Properties, which includes the operations of championship golf courses associated with Melcor residential communities.

Our Corporate division carries out support functions in the areas of accounting, treasury, information technology, administration, legal and human resources.

The following tables summarize our divisional results:

	Community Development		Property Development		Investment Properties		Recreational Properties		Corporate	
	Three months ended		Three months ended		Three months ended		Three months ended		Three months ended	
($000s except as noted)	30-Jun-12	30-Jun-11	30-Jun-12	30-Jun-11	30-Jun-12	30-Jun-11	30-Jun-12	30-Jun-11	30-Jun-12	30-Jun-11
Revenue	21,576	10,318	234	-	12,853	11,782	3,231	2,784	-	-
Portion of total revenue	57%	41%	1%	-	34%	47%	9%	11%	-	-
Cost of sales	(13,008)	(5,980)	-	-	(5,737)	(4,827)	(1,247)	(1,214)	-	-
Gross margin	8,568	4,338	234	-	7,116	6,955	1,984	1,570	-	-
Gross margin %	40%	42%	100%	-	55%	59%	61%	56%	-	-
Portion of total margin	48%	34%	1%	-	40%	54%	11%	12%	-	-
Depreciation expense	-	-	-	-	-	-	(344)	(326)	(45)	(36)
General and administrative expense	(1,580)	(1,322)	(400)	(442)	(528)	(111)	(827)	(670)	(2,462)	(2,083)
Gain on disposal	-	-	-	-	-	-			-	-
Net fair value adjustment	-	-	1,058	1,749	13,340	(581)	-	-	-	-
Interest income	494	523	-	-	12	13	-	-	53	7
Divisional income before tax	7,482	3,539	892	1,307	19,940	6,276	813	574	(2,454)	(2,112)

Divisional results are shown before inter-segment eliminations

	Community Development		Property Development		Investment Properties		Recreational Properties		Corporate	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
($000s except as noted)	30-Jun-12	30-Jun-11	30-Jun-12	30-Jun-11	30-Jun-12	30-Jun-11	30-Jun-12	30-Jun-11	30-Jun-12	30-Jun-11
Revenue	42,705	24,447	473	13	25,346	22,637	3,271	2,832	-	-
Portion of total revenue	59%	49%	1%	0%	35%	45%	5%	6%	-	-
Cost of sales	(26,168)	(14,245)	-	-	(11,239)	(9,858)	(1,531)	(1,476)	-	-
Gross margin	16,537	10,202	473	13	14,107	12,779	1,740	1,356	-	-
Gross margin %	39%	42%	100%	100%	56%	56%	53%	48%	-	-
Portion of total margin	50%	42%	1%	0%	43%	52%	5%	6%	-	-
Depreciation expense	-	-	-	-	-	-	(434)	(424)	(87)	(68)
General and administrative expense	(3,008)	(2,518)	(797)	(734)	(1,024)	(584)	(1,055)	(981)	(4,747)	(3,750)
Gain on disposal	-	-	-	-	-	-			-	-
Net fair value adjustment	-	-	953	2,163	14,767	65	-	-	-	-
Interest income	920	961	-	-	24	25	-	-	86	122
Divisional income before tax	14,449	8,645	629	1,442	27,874	12,285	251	(49)	(4,748)	(3,696)

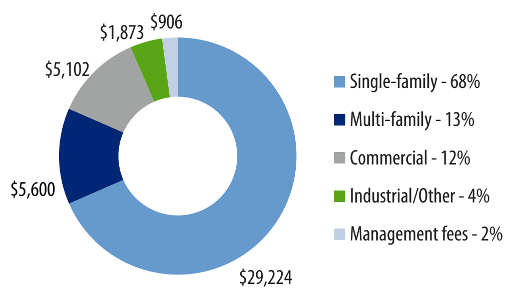
Divisional results are shown before inter-segment eliminations

Community Development

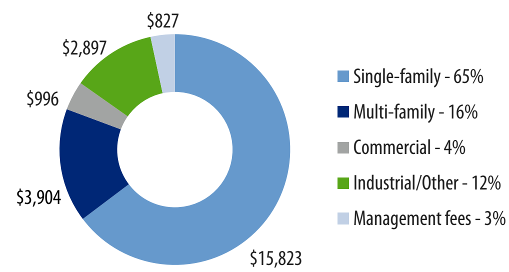
Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning, 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.

Sales Activity

Revenue by Type
Six months ended June 30, 2012 ($000s)



Revenue by Type
Six months ended June 30, 2011 ($000s)



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-12	30-Jun-11	30-Jun-12	30-Jun-11
Sales data:				
Single family sales (number of lots)	**149**	80	**268**	147
Gross average revenue per single family lot ($)	**141,500**	142,700	**143,100**	143,400
Multi-family sales (acres)	**2.47**	2.99	**10.84**	5.88
Gross average revenue per multi-family acre ($)	**809,700**	74,500	**848,700**	663,900
Commercial sales (acres)	**5.01**	2.07	**8.49**	2.87
Gross average revenue per commercial land acre ($)	**735,400**	113,700	**710,800**	905,900
Other land sales - Industrial, Other (acres)	**0.95**	4.10	**11.86**	9.12
Gross average revenue per other land acre ($)	**347,400**	200,000	**255,500**	494,600
Financial results:				
Revenue ($000s)	**21,576**	10,318	**42,705**	24,447
Earnings ($000s)	**7,482**	3,539	**14,449**	8,645

The division produced positive results in Q2-2012, with 149 single-family lot sales, 2.47 acres sold for multi-family projects, and 5.96 acres sold for commercial or industrial use. Our primary market is Alberta, Canada, where overall market conditions remain strong.

Regional Sales Analysis

Regional Sales Analysis	Three months ended 30-Jun-12			Three months ended 30-Jun-11		
(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	67	2.47	2.62	53	-	-
Red Deer	2	-	-	3	2.99	2.07
Calgary Region	33	-	3.34	16	-	4.10
Lethbridge	46	-	-	5	-	-
Kelowna	1	-	-	3	-	-
	149	2.47	5.96	80	2.99	6.17

Regional Sales Analysis	Six months ended 30-Jun-12			Six months ended 30-Jun-11		
(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	126	2.47	5.56	107	5.88	-
Red Deer	11	-	11.45	11	-	2.07
Calgary Region	73	8.37	3.34	19	-	9.92
Lethbridge	57	-	-	5	-	-
Kelowna	1	-	-	5	-	-
	268	10.84	20.35	147	5.88	11.99

The Edmonton region continues to show consistent sales activity, with 67 lots sold in Q2-2012 compared to 53 in the same period last year. The Calgary region experienced a strong second quarter with 33 single-family lot sales compared to 16 in the same period last year. Lethbridge also had a strong quarter with 46 single-family lot sales, compared with 5 in the same period in the prior year.

Inventory

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

Developed Inventory	30-Jun-12			30-Jun-11		
(including joint ventures at 100%)	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	997	95.36	177.39	732	71.56	114.30
Purchases	-	-	-	60	-	-
New developments	127	6.38	42.39	61	14.30	14.78
Internal sales	-	-	(10.24)	-	-	-
Sales	(268)	(10.84)	(10.11)	(147)	(5.88)	(11.99)
	856	90.90	199.43	706	79.98	117.09

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 January 2012, the company formed a joint arrangement to purchase a 50% interest in 166 acres of land at a cost of $6.62 million and received vendor financing of $4.63 million. The land is located in St. Albert, Alberta. The division also completed land acquisitions in Q2-2012 adding 28 acres strategically located to our existing land holdings.

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 following table is a summary of current development projects:

Development Status				
	Construction activity during the quarter	Estimated completion	Upcoming development activity	Estimated start
Northern Alberta:				
Leduc Common (Leduc, AB)	Construction substantially complete: 38,000 sq ft Commercial Retail Unit (CRU)	Q3-2012	CRU building (30,000 - 40,000 sq ft) 6,500 sq ft pad site	TBD
Central Alberta:				
Clearview Market (Red Deer, AB)	Construction underway: Three CRU's, one pad site, one free standing pharmacy	Q4-2012	Planning and leasing underway for two additional CRU buildings (approx total size 25,000 sq ft) and one pad site	Q2-2013
	Construction substantially completed: 6,130 sq ft bank building	Q2-2012		
Southern Alberta:				
Kingsview Market (Airdrie, AB)	Servicing and sitework underway on the second phase	Q4-2012	Planning and leasing underway for three buildings (approx total size 27,200 sq ft)	Q3-2012
Chestermere Station (Chestermere, AB)	Sitework underway on new phase	Q4-2012	Planning and leasing underway for two CRU buildings (14,600 sq ft)	Q3-2012

Construction has commenced on several new buildings in a new phase of our Clearview Market development in Red Deer, Alberta. This resulted in fair value gains for the division of $1.1M in Q2-2012.

The Property Development division's income is impacted by the construction season. We generally expect to see the majority of the fair value adjustments during the third and fourth quarters as construction and leasing are completed.

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.

Our Investment Properties portfolio includes over three million square feet of leasable space across seven different asset classes. 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 net operating income:

($000s except as noted)	Three months ended		Six months ended	
	30-Jun-12	30-Jun-11	30-Jun-12	30-Jun-11
Revenue	**12,853**	11,782	**25,346**	22,637
Net operating income (NOI) *	**7,116**	6,955	**14,107**	12,779
Same properties NOI *(see calculation below)*	**6,740**	6,656	**13,671**	12,808
Fair value gains/(losses)	**13,340**	(581)	**14,767**	65
Occupancy	**89%**	89%	**89%**	89%
Fair value of portfolio	**505,579**	442,234	**505,579**	442,234
Funds from operations *	**7,370**	7,634	**14,684**	13,831
Funds from operations per share *	**0.24**	0.24	**0.49**	0.46

** See non-GAAP measurements for calculation.*

In 2011, the division grew through acquisitions and with properties transferred from the Property Development division, adding 61,000 leasable square feet and 617 residential units to the portfolio. This positively impacted operating results for Q2-2012, with revenues increasing 9.0% to $12.85 million compared to $11.78 million in the same quarter last year. Occupancy levels have remained stable at 89% compared with at the same time last year.

During Q2-2012, the division purchased an industrial multi-tenant warehouse building in the city of Lethbridge, Alberta. The division also took over the management of three bank buildings constructed by the Property Development division. These three buildings have added 16,800 sq. ft. to the investment properties portfolio.

Fair value gains on the Investment Properties portfolio of $13.34 million were earned in the current quarter. This was primarily the result of increased valuations due to decreased capitalization rates on properties located in the Alberta market.

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-12	30-Jun-11	30-Jun-12	30-Jun-11
Same properties NOI	**6,740**	6,656	**13,671**	12,808
Acquisitions	**1,146**	1,076	**2,024**	1,594
Dispositions	**-**	-	**-**	-
NOI before adjustments	**7,886**	7,732	**15,695**	14,402
Amortization of operating lease incentives	**(770)**	(777)	**(1,588)**	(1,623)
Divisional NOI	**7,116**	6,955	**14,107**	12,779

Divisional NOI from is defined as rentals from investment properties less property operating costs. Our same properties NOI increased due to higher rental rates realized on lease renewals, while overall NOI increased as a result of growth in rentable square footage and residential units.

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.

		Six months ended June 30, 2012		Six months ended June 30, 2011	
	Ownership Interest	Season opened 2012	Rounds of Golf	Season opened 2011	Rounds of Golf
Managed by Melcor:					
Lewis Estates (Edmonton)	60%	**April 12**	**11,120**	April 28	8,762
The Links (Spruce Grove)	100%	**April 20**	**10,083**	April 29	7,911
Black Mountain (Kelowna)	100%	**March 30**	**10,709**	April 1	10,663
Managed by a Third Party:					
Jagare Ridge (Edmonton)	50%	**April 25**	**9,217**	May 6	7,829

The new clubhouse at the Links at Spruce Grove is complete, and has opened to the public. Late course openings and unfavorable weather in the 2011 golf season drove down the rounds of golf; however 2012 has seen more favorable weather and golf conditions which has led to an increase in the number rounds at all courses and a 16% increase in revenue Q2-1012 from the same quarter in the prior year.

Liquidity & Capital Resources

The following table represents selected information as at June 30, 2012, compared to December 31, 2011.

As at *($000s except as noted)*	30-Jun-12	31-Dec-11
Cash & cash equivalents	**10,318**	10,703
Accounts receivable	**12,248**	14,205
Agreements receivable	**122,217**	139,840
Bank operating loan	**105,160**	91,094
Accounts payable and accrued liabilities	**34,371**	41,749
Total assets	**1,259,755**	1,218,885
Total liabilities	**635,086**	616,141
Debt to equity ratio	**1.02**	1.02

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;
- 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. 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.

We do not currently plan to raise additional capital through the issuance of common shares, preferred shares or convertible debentures; 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, 2012, our total general debt outstanding was $451.90 million. This compares to $429.69 million at December 31, 2011. A summary of our debt is as follows:

As at *($000s)*	30-Jun-12	31-Dec-11
Bank operating loan	**105,160**	91,094
Debt on land inventory	**64,645**	66,378
Debt on investment properties	**243,055**	233,268
Convertible debenture	**39,043**	38,949
	451,903	429,689

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:

($000s)	Three months ended		Six months ended	
	30-Jun-12	30-Jun-11	30-Jun-12	30-Jun-11
Cash flows from operating activities	**10,855**	(629)	**11,101**	1,402
Cash flows used in investing activities	**(12,154)**	(18,994)	**(22,368)**	(37,657)
Cash flows from financing activities	**(6,556)**	21,712	**10,877**	38,077

Cash flows from operations is positive 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 in Q2-2012 was primarily for purchases of land and investment properties. Additions to the investment properties portfolio accounted for $7.90 million of the investment activities and included a new warehouse purchase and improvements to our current buildings. We also utilized cash for our properties under development and for tenant work on several investment properties.

Cash used in financing activities in Q2-2012 was $6.56 million. Additional debt financing was offset by repayments of current debt outstanding, as well as additional draws on our operating line of credit. Cash was also used for paying dividends to our shareholders.

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, 2012 there were 30,140,764 common shares issued and outstanding, 1,496,300 options, each convertible to one common share upon exercise or exchange and convertible debentures which can be exchanged for a maximum of 2,160,994 common 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, 2012 in comparison to the December 31, 2011 annual MD&A.

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 applicable period financial statements, notes to the financial statements and management's discussion and analysis.

	Three Months Ended							
($000s)	30-Jun-12	31-Mar-12	31-Dec-11	30-Sep-11	30-Jun-11	31-Mar-11	31-Dec-10	30-Sep-10
Revenue	34,973	33,321	129,429	41,446	24,615	24,859	84,588	40,921
Net income	18,871	5,848	51,820	21,140	4,494	3,940	32,028	11,646
Per Share								
Basic earnings	0.63	0.19	1.72	0.70	0.15	0.13	1.06	0.39
Diluted earnings	0.60	0.19	1.62	0.67	0.15	0.13	1.05	0.38
Book value	20.59	20.09	19.94	18.54	17.77	17.84	17.56	16.80

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.

Other Financial Information

Related Party Transactions

Please refer to Note 8 to the condensed interim consolidated financial statements for information pertaining to transactions with related parties.

Internal Control over Financial Reporting and 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, 2012 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. No such changes were identified.

Non-GAAP 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-GAAP measures may not be comparable to similar measures presented by other companies.

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

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

Operating earnings per share: this is a measure of net income generated by the operations of the company adjusted for all non-cash items included in net income

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. It is a measure of net income generated by the operations of the company (or division) adjusted for all non-cash items included in net income

Return on investment (ROI): This measure is a means of considering profits in relation to the capital invested.

Calculations

We use the following calculations in measuring our performance.

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

Cash from operations per share = cash flows from (used in) operating activities / number of common shares outstanding

Gross margin = (Revenue – cost of sales) / revenue (expressed as a percentage). This measure indicates the relative efficiency with which we earn revenue.

Margin on income = net income / revenue (expressed as a percentage).

Debt to equity ratio = total debt / total equity

Funds from operations (FFO) = net income + amortization of operating lease incentives + depreciation of property and equipment + stock based compensation expense + non cash interest + fair value adjustments + deferred income tax

FFO per share = FFO/ number of common shares outstanding

Return on investment (ROI) = (proceeds – closing costs – land & construction costs) / land & construction costs