Management's Discussion & Analysis

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May 9, 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 March 31, 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 May 9, 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.

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 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 Risks, pages 25-26 of 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)
- owning and 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.

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**).

First Quarter Highlights

Three months ended *($000s except as noted)*	31-Mar-13	31-Mar-12	Change
Revenue	41,617	33,321	24.9%
Gross margin (%)	47.2%	43.7%	8.0%
Net income	12,623	5,848	115.9%
Margin on net income	30.3%	17.6%	72.2%
Funds from operations *	9,321	6,035	54.4%
Per Share Data			
Basic earnings	0.42	0.19	120.1%
Diluted earnings	0.40	0.19	110.5%
Funds from operations *	0.31	0.20	55.0%

As at *($000s except as noted)*	31-Mar-12	31-Dec-12	Change
Shareholders' equity	705,270	690,832	2.1%
Total assets	1,441,911	1,447,356	(0.4%)
Per Share Data			
Book value *	23.36	22.89	2.1%

** See non-GAAP measurements for calculation.*

Highlights for the quarter include:

- Strong growth in net income and funds from operations (FFO), with growth over the same period in the prior year of 115.9% and 54.4% respectively.
- On March 6, 2013 we announced the appointment of Brian Baker as Chief Executive Officer, effective July 2, 2013.
- Subsequent to the quarter (May 1), we completed an initial public offering (the "Offering") of trust units of Melcor Real Estate Investment Trust (the "REIT"). On closing of the Offering, the REIT purchased interests in 27 income producing properties located in Western Canada from Melcor.
- Subsequent to the quarter (May 9), our Board of Directors declared a semi-annual dividend of $0.25 per share and a special dividend of $0.50 per share, payable to shareholders of record on June 14, 2013. The dividend is an eligible dividend for Canadian tax purposes.

Revenue & Margins:

- Revenue increased to $41.62 million in Q1-2013 compared to $33.32 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 Q1-2013. We sold 196 lots and 37.67 developed and other land acres compared to 119 lots and 22.76 acres in the same quarter last year.
- Gross margins increased to 47.2% from 43.7% in the same period last year. Gross margin is predominantly impacted by the mix of land inventory sold in the 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.
- Net fair value gains of $5.27 million were realized in the Q1-13. Changes in capitalization rates on certain office properties and higher leasing activity in the Investment Properties division contributed $3.09 million in fair value gains in Q1-2013, and development activities in the Property Development division contributed $2.18 million.
- 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. 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 $0.31 per share in Q1-2013, an increase of $0.11 per share, or 55.0% from the same quarter last year.
- Basic earnings per share for the three months ended March 31, 2013 was $0.42, an increase of $0.23 per share, or 120.1%, 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 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 our divisional results:

	Community Development		Property Development		Investment Properties		Recreational Properties		Corporate	
	Three months ended March 31		Three months ended March 31		Three months ended March 31		Three months ended March 31		Three months ended March 31	
($000s except as noted)	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Revenue	**26,727**	21,129	**654**	239	**14,260**	12,493	**177**	40	**-**	-
Portion of total revenue	**64%**	62%	**2%**	1%	**34%**	37%	**0%**	0%	**-**	-
Cost of sales	**(15,524)**	(13,160)	**-**	-	**(6,045)**	(5,502)	**(388)**	(284)	**-**	-
Gross margin	**11,203**	7,969	**654**	239	**8,215**	6,991	**(211)**	(244)	**-**	-
Gross margin %	**42%**	38%	**100%**	100%	**58%**	56%	**(119%)**	(610%)	**0%**	0%
Portion of total margin	**57%**	53%	**3%**	2%	**41%**	47%	**(1%)**	(2%)	**0%**	0%
General and administrative expense	**(2,337)**	(1,428)	**(411)**	(397)	**(413)**	(496)	**(272)**	(228)	**(1,493)**	(2,285)
Depreciation expense	**-**	-	**-**	-	**-**	-	**(97)**	(90)	**(97)**	(42)
Net fair value adjustment	**-**	-	**2,178**	(105)	**3,093**	1,427	**-**	-	**-**	-
Interest income	**602**	426	**1**	12	**12**	-	**-**	-	**2**	33
Divisional income before tax	**9,468**	6,967	**2,422**	(251)	**10,907**	7,922	**(580)**	(562)	**(1,588)**	(2,294)

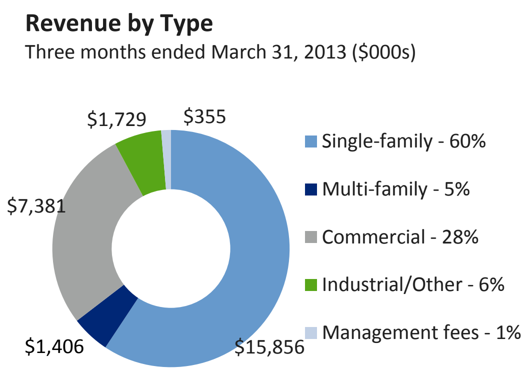
Divisional results are shown before inter-segment eliminations

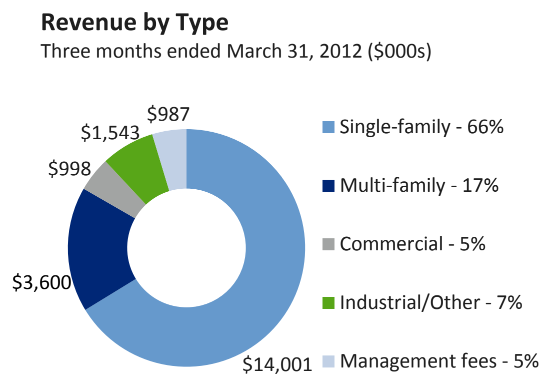
Community Development

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.

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	31-Mar-13	31-Mar-12
Sales data: (including joint ventures at 100%)		
Single family sales (number of lots)	**196**	119
Gross average revenue per single family lot ($)	**102,800**	145,000
Multi-family sales (acres)	**2.84**	8.37
Gross average revenue per multi-family acre ($)	**825,000**	860,200
Commercial sales (acres)	**9.99**	3.48
Gross average revenue per commercial land acre ($)	**795,100**	608,300
Industrial sales (acres)	**6.82**	10.91
Gross average revenue per industrial land acre ($)	**249,300**	247,500
Other land sales - Raw, Other (acres)	**17.99**	-
Gross average revenue per other land acre ($)	**48,900**	-
Financial results: (including joint ventures at Melcor's interest)		
Revenue ($000s)	**26,727**	21,129
Earnings ($000s)	**9,468**	6,967

The Community Development division produced strong results in Q1-2013, with sales of 196 single-family lots, 2.84 acres sold for multi-family projects, and 16.81 acres sold for commercial and industrial use. Our primary market is Alberta, Canada, where overall market conditions remain strong.

Regional Sales Analysis

Regional Sales Analysis	31-Mar-13			31-Mar-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	**60**	**2.84**	**1.61**	59	-	2.94
Red Deer	**1**	**-**	**6.82**	9	-	11.45
Calgary Region	**44**	**-**	**9.99**	40	8.37	-
Lethbridge	**8**	**-**	**16.38**	11	-	-
Kelowna	**-**	**-**	**-**	-	-	-
United States	**83**	**-**	**-**	-	-	-
	196	**2.84**	**34.80**	119	8.37	14.39

The Edmonton region continues to generate consistent sales activity, with 60 lots sold in Q1-2013 compared to 59 in the same period last year. The Calgary region experienced a strong first quarter with 44 single-family lot sales. In Q1-2013, we also sold 83 developed lots in Arizona for revenue of $3.71 million (US$3.67 million).

Inventory

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

Developed Inventory	31-Mar-13			31-Mar-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	**1,115**	**93.05**	**237.63**	997	95.36	177.39
Purchases	**-**	**-**	**-**	-	-	-
New developments	**21**	**9.59**	**12.96**	127	1.56	(3.63)
Internal sales	**-**	**-**	**-**	-	-	(1.84)
Sales	**(196)**	**(2.84)**	**(16.81)**	(119)	(8.37)	(12.55)
	940	**99.80**	**233.78**	1,005	88.55	159.37

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 $2,133 in the Lethbridge region. Additionally, we entered into a land swap by purchasing 29 acres of land in exchange for 16 acres of land cash.

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 to occur in the third and fourth quarters as construction and leasing are completed.

In Q1-13, the division recognized fair value gains on their development sites of $2.2 million, compared with $0.10 million in Q1-12. 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 power centre*	378,000	ongoing
Kingsview Market	Airdire	*Regional shopping centre*	234,000	ongoing
Stoneycreek Shopping Centre	Fort McMurray	*Neighbourhood shopping centre*	209,000	ongoing
Chestermere Station	Chestermere	*Regional power centre*	160,000	ongoing
Clearview Market	Red Deer	*Regional shopping centre*	73,000	ongoing
McKenzie Industrial	Red Deer	*Industrial Park*	300,000	ongoing
Leduc Common	Leduc	*Regional shopping centre*	38,000	ongoing
Telford Industrial	Leduc	*Industrial Park*	600,000	2013
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	2014
Greenwich	West Calgary	*Regional shopping centre*	395,000	2015
The Shoppes at Canyons	Lethbridge	*Neighbourhood shopping centre*	105,000	2015
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.

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)	**31-Mar-13**	31-Mar-12
Revenue	**14,260**	12,493
Net operating income (NOI) *	**8,215**	6,991
Same properties NOI *(see calculation below)*	**8,514**	7,758
Fair value gains	**3,093**	1,427
Occupancy	**91%**	89%
Fair value of portfolio	**569,263**	482,824
Funds from operations *	**8,637**	7,314
Funds from operations per share *	**0.29**	0.24

** 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)	**31-Mar-13**	31-Mar-12	Change
Same properties NOI	**8,514**	7,758	10%
Acquisitions	**524**	52	
NOI before adjustments	**9,038**	7,810	16%
Amortization of operating lease incentives	**(823)**	(819)	
Divisional NOI	**8,215**	6,991	18%

** See non-GAAP measurements for calculation.*

Divisional NOI is defined as rentals revenue less property operating costs. 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 Q1-2013. During Q1-2013, the division transferred 6 completed commercial properties from the Property Development division, adding 61,300 square feet of gross leasable area in the Red Deer region. This positively impacted operating results for Q1-2013, with revenues increasing 14% to $14.26 million compared to $12.49 million in the same quarter last year.

Fair value gains on the Investment Properties portfolio of $3.09 million were earned 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 2% to 91% compared to 89% at the same time last year.

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. Our golf courses were closed during the first quarter, but generate incremental revenues from events held at the facilities.

	Ownership interest	**Season opened 2013**	Season opened 2012
Managed by Melcor:			
Lewis Estates (Edmonton)	60%	**May 1**	April 12
The Links (Spruce Grove)	100%	**May 1**	April 20
Black Mountain (Kelowna)	100%	**March 22**	March 30
Managed by a Third Party:			
Jagare Ridge (Edmonton)	50%	**May 8**	April 25

The Edmonton region courses have experienced some delays in course openings due to inclement spring weather. The Kelowna region has experienced more favorable spring conditions, and opened with 816 rounds of golf in March.

Liquidity & Capital Resources

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

As at *($000s except as noted)*	31-Mar-13	31-Dec-12
Cash & cash equivalents	**18,031**	11,628
Accounts receivable	**13,260**	21,966
Agreements receivable	**155,250**	173,950
Bank operating loan	**95,957**	93,232
Accounts payable and accrued liabilities	**38,593**	57,728
Total assets	**1,441,911**	1,447,356
Total liabilities	**732,513**	752,599
Debt to equity ratio	**1.03**	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;
- 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.

Subsequent to the quarter, on May 1, 2013, we completed the Offering of the REIT which generated proceeds (net of underwriters' fee) of $78.02 million. On May 7, 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 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 March 31, 2013, our total general debt outstanding was $491.22 million. This compares to $490.53 million at December 31, 2012. A summary of our debt is as follows:

As at *($000s)*	31-Mar-13	31-Dec-12
Bank operating loan	**95,957**	93,232
Debt on land inventory	**82,913**	96,971
Debt on investment properties	**273,164**	261,191
Convertible debenture	**39,187**	39,138
	491,221	490,532

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)*	**31-Mar-13**	31-Mar-12
Cash flows from operating activities	**19,282**	245
Cash flows used in investing activities	**(10,521)**	(10,214)
Cash flows from (used in) financing activities	**(2,425)**	17,433

Cash flows from operations was 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 primarily relates to the purchase of land and additions and improvements to investment properties. In Q1-2013, we spent $7.85 million on ongoing improvements to older assets and the development of new properties.

Cash used in financing activities was driven by the $38.86 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 $29.59 million in cash proceeds.

Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at March 31, 2013 there were 30,185,924 common shares issued and outstanding and 1,419,640 options, each convertible to one common share upon exercise or exchange. 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 March 31, 2013 in comparison to the December 31, 2012 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 related financial statements, notes to the financial statements and management's discussion and analysis.

	Three Months Ended							
($000s)	**31-Mar-13**	31-Dec-12	30-Sep-12	30-Jun-12	31-Mar-12	31-Dec-11	30-Sep-11	30-Jun-11
Revenue	**41,617**	141,962	64,674	34,973	33,321	129,429	41,446	24,615
Net income	**12,623**	55,468	24,832	18,871	5,848	51,820	21,140	4,494
Per Share								
Basic earnings	**0.42**	1.84	0.83	0.63	0.19	1.72	0.70	0.15
Diluted earnings	**0.40**	1.72	0.78	0.60	0.19	1.62	0.67	0.15
Book value	**23.36**	22.89	21.28	20.59	20.09	19.94	18.54	17.77

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 10 to the condensed interim consolidated financial statements for information pertaining to transactions with related parties.

Formation of Melcor REIT

On May 1, 2013, we completed an initial public offering (the "Offering") of trust units of Melcor 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 May 7, 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 closing of the over-allotment is expected to be completed on May 10, 2013.

On closing of the Offering, the Company 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"), that have a total carrying value of $391.95 million at March 31, 2013. In connection with the sale of the Initial Properties the REIT has assumed mortgages and obligations totaling $92.39 million at April 30, 2013 that are secured by the Initial Properties. The Company 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, we received Class C LP units of the Partnership on which we will receive a priority distribution to fund principal and interest payments.

As we will retain control over the REIT, we will consolidate the REIT and will record revenues, expenses, assets and liabilities of the REIT. Accordingly, subsequent to closing of the Offering we will reflect 48.9% of the net assets and net earnings of the REIT as a non-controlling interest.

Refer to the final long form prospectus dated and filed by Melcor Real Estate Investment Trust on April 19, 2013 for more information on this transaction.

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 March 31, 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.

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) = (revenue) – (direct operating expenses)

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) + (deferred income taxes)

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

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2013

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

For the three months ended ($000s) Unaudited	March 31, 2013	March 31, 2012
Revenue	41,617	33,321
Cost of sales	(21,957)	(18,772)
	19,660	14,549
General and administrative expense	(4,725)	(4,721)
Depreciation expense	(194)	(132)
	14,741	9,696
Fair value adjustment on investment properties (note 5)	5,271	1,615
	20,012	11,311
Interest income	617	471
Interest expense	(4,196)	(4,271)
Net finance costs	(3,579)	(3,800)
Income before income taxes	16,433	7,511
Income tax expense (note 8)	(3,810)	(1,663)
Net income for the period	12,623	5,848
Net income attributable to:		
Melcor's shareholders	12,626	5,857
Non-controlling interest (NCI)	(3)	(9)
Net income for the period	12,623	5,848
Earnings per share attributable to Melcor's shareholders:		
Basic earnings per share	0.42	0.19
Diluted earnings per share	0.40	0.19

Condensed Interim Consolidated Statement of Comprehensive Income

For the three months ended ($000s) Unaudited	March 31, 2013	March 31, 2012
Net income for the period	12,623	5,848
Other comprehensive income		
Items that may be reclassified subsequently to net income		
Currency translation differences	1,786	(1,153)
Comprehensive income	14,409	4,695
Comprehensive income (loss) attributable to:		
Melcor's shareholders	14,217	4,732
Non-controlling interest (NCI)	192	(37)
Comprehensive income	14,409	4,695

See accompanying notes to these condensed interim consolidated financial statements

Condensed Interim Consolidated Statement of Financial Position

Unaudited ($000s)	March 31, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	18,031	11,628
Accounts receivable	13,260	21,966
Income taxes recoverable	1,062	1,069
Agreements receivable	155,250	173,950
Land inventory (note 4)	603,129	603,576
Investment properties (note 5)	614,274	599,228
Property and equipment	15,480	15,269
Other assets	21,425	20,670
	1,441,911	1,447,356
LIABILITIES		
Accounts payable and accrued liabilities	38,593	57,728
Provision for land development costs	138,176	138,551
General debt (note 6)	491,221	490,532
Deferred income tax liabilities	64,523	65,788
	732,513	752,599
SHAREHOLDERS' EQUITY		
Equity attributable to Melcor's shareholders		
Share capital (note 7)	15,644	15,580
Contributed surplus	4,617	4,460
Convertible debenture	639	639
Accumulated other comprehensive income (AOCI)	(539)	(2,130)
Retained earnings	684,909	672,283
	705,270	690,832
Non-controlling interest (NCI)	4,128	3,925
	709,398	694,757
	1,441,911	1,447,356

See accompanying notes to these condensed interim consolidated financial statements

Condensed Interim Consolidated Statement of Changes in Equity

Unaudited ($000s)	Share capital	Contributed surplus	Convertible debenture	AOCI	Retained earnings	NCI	Total equity
	Equity attributable to Melcor's shareholders						
Balance at January 1, 2013	**15,580**	**4,460**	**639**	**(2,130)**	**672,283**	**3,925**	**694,757**
Net income for the period	-	-	-	-	12,626	(3)	12,623
Contributions from non-controlling interest	-	-	-	-	-	11	11
Cumulative translation adjustment	-	-	-	1,591	-	195	1,786
Transactions with equity holders							
Employee share options							
Value of services recognized	-	172	-	-	-	-	172
Share issuance	64	(15)	-	-	-	-	49
Balance at March 31, 2013	**15,644**	**4,617**	**639**	**(539)**	**684,909**	**4,128**	**709,398**

Unaudited ($000s)	Share capital	Contributed surplus	Convertible debenture	AOCI	Retained earnings	NCI	Total equity
	Equity attributable to Melcor's shareholders						
Balance at January 1, 2012	14,446	2,810	639	47	580,821	3,981	602,744
Net income for the period	-	-	-	-	5,857	(9)	5,848
Contributions from non-controlling interest	-	-	-	-	-	41	41
Cumulative translation adjustment	-	-	-	(1,125)	-	(28)	(1,153)
Transactions with equity holders							
Employee share options							
Value of services recognized	-	468	-	-	-	-	468
Share issuance	268	(26)	-	-	-	-	242
Balance at March 31, 2012	14,714	3,252	639	(1,078)	586,678	3,985	608,190

See accompanying notes to these condensed interim consolidated financial statements

Condensed Interim Consolidated Statement of Cash Flows

For the three months ended ($000s) Unaudited	March 31, 2013	March 31, 2012
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the period	12,623	5,848
Non cash items:		
Amortization of operating lease incentives	823	819
Depreciation of property and equipment	194	132
Stock based compensation expense	172	468
Non cash interest	187	182
Fair value adjustment on investment properties (note 5)	(5,271)	(1,615)
Deferred income taxes	593	201
	9,321	6,035
Agreements receivable	18,700	6,852
Development activities	3,319	2,814
Operating assets and liabilities	(12,058)	(15,456)
	19,282	245
INVESTING ACTIVITIES		
Purchase of land inventory (note 4)	(806)	(1,987)
Payment of tenant lease incentives	(1,463)	(1,054)
Additions to investment properties	(7,847)	(6,497)
Purchase of property and equipment	(405)	(676)
	(10,521)	(10,214)
FINANCING ACTIVITIES		
Bank operating loan	2,784	23,228
Proceeds from debt on land inventory	4,000	-
Repayment of debt on land inventory	(20,226)	(6,498)
Proceeds from debt on investment properties and golf course assets	29,592	2,083
Repayment of debt on investment properties and golf course assets	(18,635)	(1,663)
Contributions from non-controlling interest	11	41
Share capital issued	49	242
	(2,425)	17,433
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY	67	(57)
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	6,403	7,407
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	11,628	10,703
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	18,031	18,110
Total income taxes paid	4,530	3,502
Total interest paid	5,477	4,880

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 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. (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".

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 May 9, 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.

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.

3. ACCOUNTING POLICIES (continued)

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. LAND INVENTORY

($000s)	**March 31, 2013**	December 31, 2012
Raw land held	**268,610**	266,487
Land under development	**114,422**	106,090
Developed land	**220,097**	230,999
	603,129	603,576

During the three month period ended March 31, 2013 we purchased 43 acres of land at a cost of $2,133 and received vendor financing of $1,833. 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.

5. INVESTMENT PROPERTIES

	Three months ended March 31, 2013	Year ended December 31, 2012
Balance - beginning of period	**599,228**	493,520
Additions		
Direct acquisition	**-**	10,616
Transfer from land inventory	**-**	2,460
Property improvements	**1,583**	7,348
Property development	**5,923**	30,856
Capitalized borrowing costs	**341**	789
Disposals	**-**	(268)
Net fair value adjustment on investment properties	**5,271**	59,103
Change in provision	**-**	(3,317)
Foreign currency translation	**1,928**	(1,879)
Balance - end of period	**614,274**	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 March 31, 2013. Fair values of investment properties were revised based on the updated data and model variables.

5. INVESTMENT PROPERTIES (continued)

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

	March 31, 2013			December 31, 2012		
	Min	**Max**	**Weighted Average**	Min	Max	Weighted Average
Capitalization rate	5.50%	7.75%	6.49%	5.50%	7.75%	6.43%
Terminal capitalization rate	5.75%	8.00%	6.68%	5.75%	8.00%	6.69%

6. GENERAL DEBT

($000s)	**March 31, 2013**	December 31, 2012
Bank operating loan	**95,957**	93,232
Debt on land inventory	**82,913**	96,971
Debt on investment properties and golf course assets	**273,164**	261,191
Convertible debenture	**39,187**	39,138
	491,221	490,532

7. SHARE CAPITAL

Issued and outstanding common shares at March 31, 2013 are 30,185,924 (December 31, 2012 – 30,181,624). During the three months ended March 31, 2013, there were 4,300 options exercised (Q1-2012 – 34,000). There were no stock options issued to employees of the company in the first quarter of 2013 (Q1-2012 – nil).

8. 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 25.5% (2012 – 25.8%) for income except items for which a capital gains rate of 12.5% (2012 – 12.5%) is applicable.

9. FAIR VALUE ESTIMATION

The Company's financial instruments consists of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and general debt which are measured at amortized cost. The fair value of cash equivalents, 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 $491,221 (December 31, 2012 - $490,532) and a fair value of $505,479 (December 31, 2012 - $511,211).

10. RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2013, there were debenture coupon payments of $339 (Q1-2012 - $342) paid to companies controlled by two members of our executive management team who are also directors of our Company.

At March 31, 2013, included within accounts receivable is $690 due from Melcor Real Estate Investment Trust for costs incurred related to an initial public offering (note 12).

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)

11. SEGMENTED INFORMATION

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

External Revenues

For the three months ended (in Canadian dollars)	**March 31, 2013**	March 31, 2012
United States	**6,353**	2,369
Canada	**35,264**	30,952
	41,617	33,321

Total Assets

As at (in Canadian dollars)	**March 31, 2013**	December 31, 2012
United States	**148,505**	122,735
Canada	**1,293,406**	1,324,621
	1,441,911	1,447,356

Our divisions reported the following results:

For the three months ended March 31, 2013	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	26,727	654	14,260	177	-	(201)	41,617
Cost of sales	(15,524)	-	(6,045)	(388)	-	-	(21,957)
	11,203	654	8,215	(211)	-	(201)	19,660
General and administrative expense	(2,337)	(411)	(413)	(272)	(1,493)	201	(4,725)
Depreciation expense	-	-	-	(97)	(97)	-	(194)
	8,866	243	7,802	(580)	(1,590)	-	14,741
Fair value adjustment on investment properties	-	2,178	3,093	-	-	-	5,271
Interest income	602	1	12	-	2	-	617
	9,468	2,422	10,907	(580)	(1,588)	-	20,629
Interest expense							(4,196)
Income before tax							16,433
Income tax expense							(3,810)
Net income							12,623

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

For the three months ended March 31, 2012	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	21,129	239	12,493	40	-	(580)	33,321
Cost of sales	(13,160)	-	(5,502)	(284)	-	174	(18,772)
	7,969	239	6,991	(244)	-	(406)	14,549
General and administrative expense	(1,428)	(397)	(496)	(228)	(2,285)	113	(4,721)
Depreciation expense	-	-	-	(90)	(42)	-	(132)
	6,541	(158)	6,495	(562)	(2,327)	(293)	9,696
Fair value adjustment on investment properties	-	(105)	1,427	-	-	293	1,615
Interest income	426	12	-	-	33	-	471
	6,967	(251)	7,922	(562)	(2,294)	-	11,782
Interest expense							(4,271)
Income before tax							7,511
Income tax expense							(1,663)
Net income							5,848

12. EVENTS AFTER THE REPORTING PERIOD

a) 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. Following closing of the Offering, the Company, through an affiliate, held an approximate 55.5% effective interest in the REIT through ownership of all 10,360,798 Class B LP Units of a subsidiary of the REIT (the "Partnership"). The Class B LP Units are economically equivalent to, and exchangeable for, trust units.

On closing of the Offering, the Company sold to 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"), that have a total carrying value of $391,951 at March 31, 2013. In connection with the sale of the Initial Properties the REIT has assumed mortgages and obligations totaling $92,388 at April 30, 2013 that are secured by the Initial Properties. The Company retained debt on certain properties (the "Retained Debt") with a fair value of $96,506 at April 30, 2013. In consideration of the Retained Debt, we received Class C LP units of the Partnership on which we will receive a priority distribution to fund principal and interest payments.

On May 7, 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 ($7,802 net of underwriters' fee). The closing of the over-allotment is expected to be completed on May 10, 2013. Following closing of the over-allotment option, we will, 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. As we will retain control over the REIT, we will consolidate the REIT and will record revenues, expenses, assets and liabilities of the REIT. We will reflect 48.9% of the net assets and net earnings of the REIT as a non-controlling interest.

In addition, we will manage, administer and operate the REIT and the Initial Properties pursuant to the Asset Management Agreement and Property Management Agreement entered into between the Company and the REIT.

b) Dividends

On May 9, 2013 we declared a semi-annual dividend of $0.25 per share and special dividend of $0.50 per share, payable on June 28, 2013 to shareholders of record on June 14, 2013.