Management's Discussion & Analysis

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May 9, 2014

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, 2014 and the Management's Discussion & Analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2013.

The financial statements underlying this management's discussion and analysis (MD&A), including 2013 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, 2014.

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-standard 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 2014 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 35-36 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.

Our Business

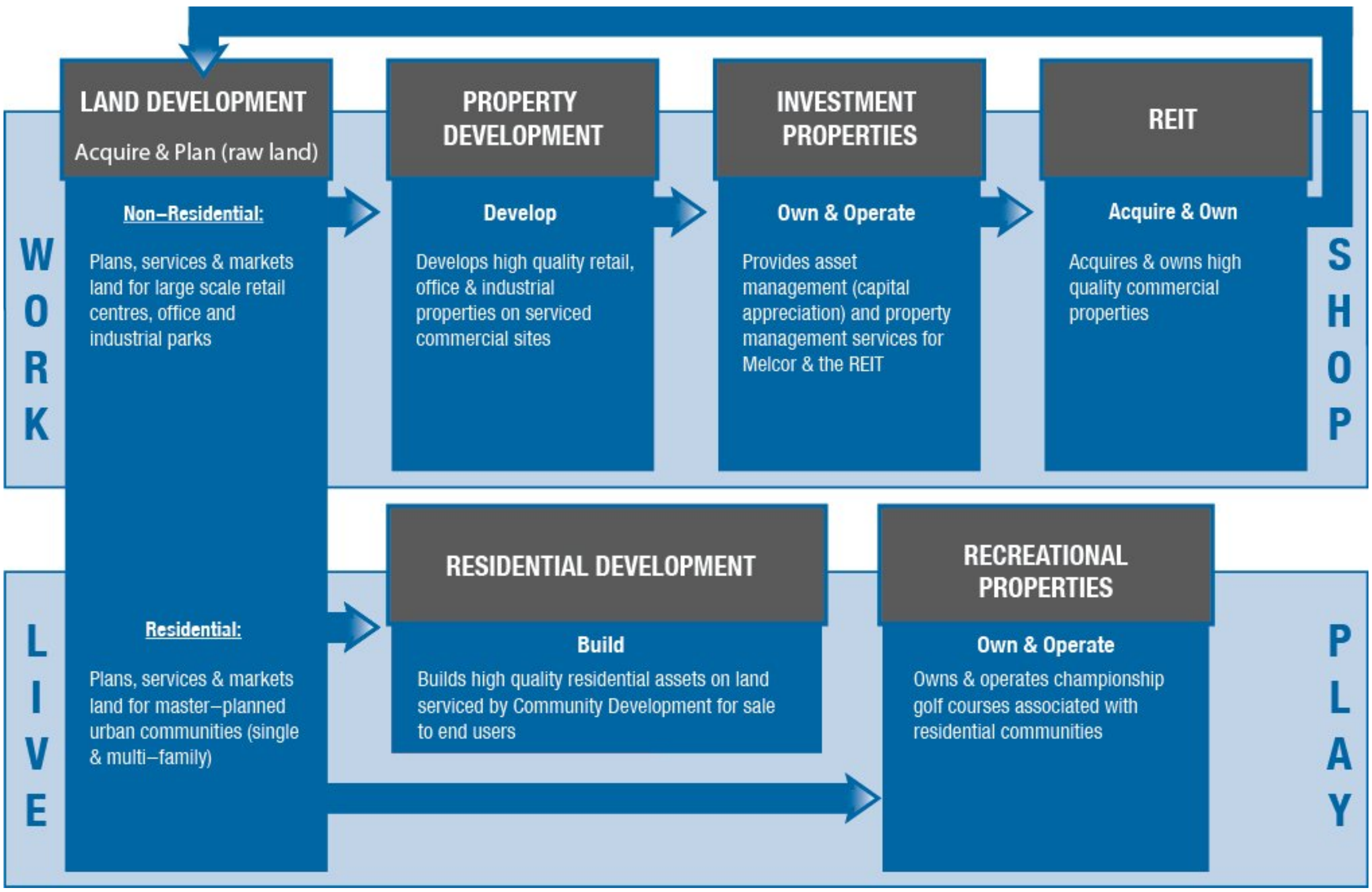
Melcor is a diversified real estate development and asset management company with a rich heritage of integrity and innovation in real estate. We develop, manage, and own mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses. We are committed to enriching quality of life where people live, work, shop and play.

Through our integrated operating divisions, we manage the full life cycle of real estate development:

- acquiring raw land (Community Development)
- planning residential and commercial communities (Community Development)
- project managing development and construction of commercial properties (Property Development)
- operating a portfolio of commercial and residential properties, focused on property improvements and capital appreciation of owned properties and property management for Melcor REIT (Investment Properties)
- acquiring and owning high quality leasable office, retail and residential sites (REIT: 51.1% owned). We retain a controlling 51.1% effective interest in the Melcor REIT and continue to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. We reflect the public's 48.9% interest in the REIT as a financial liability in our financial statements.

In addition, we own and operate championship golf courses associated with our residential communities (Recreational Properties).

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), diversify our revenue base and build value out of our asset base.



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

We are one of Canada's leading real estate development and management companies, an accomplishment we attained by demonstrating our values – honesty, integrity, loyalty, respect, quality and pride in our products – in all that we do and in our interactions with our customers, suppliers, shareholders and employees.

Our headquarters are in Edmonton, Alberta, with regional offices in Alberta, British Columbia, and Phoenix, Arizona. Our developments span Western Canada and the US. We have been publicly traded since 1968 (TSX:**MRD**).

First Quarter Highlights

Three months ended ($000s except as noted)	31-Mar-14	31-Mar-13	Change
Revenue	**32,011**	41,617	(23.1)%
Gross margin (%)	**51.5%**	46.8%	4.7 %
Net income	**6,864**	12,623	(45.6)%
Margin on net income	**21.4%**	30.3%	(8.9)%
Adjusted earnings*	**9,773**	12,623	(22.6)%
Funds from operations *	**6,196**	9,321	(33.5)%
Per Share Data			
Basic earnings	**0.22**	0.42	(47.6)%
Diluted earnings	**0.22**	0.40	(45.0)%
Adjusted basic earnings*	**0.32**	0.42	(23.8)%
Adjusted diluted earnings*	**0.29**	0.39	(25.6)%
Funds from operations *	**0.20**	0.31	(35.5)%

As at ($000s except as noted)	31-Mar-14	31-Dec-13	Change
Shareholders' equity	**780,392**	769,231	1.5 %
Total assets	**1,706,868**	1,727,933	(1.2)%
Per Share Data			
Book value *	**25.35**	25.03	1.3 %

**See non-standard measures for calculation.*

Highlights for the quarter include:

- Community Development revenue declined versus the comparative period due to the timing of plan registrations and commercial and multi-family land sales, which fluctuate period to period. Results are on budget for 2014 and development activity remains strong, with 38 projects under active development for the 2014 construction season compared to 40 projects in 2013.
- Investment Property revenue increased as a result of 71% growth in portfolio gross leasable area (GLA). Melcor REIT revenue also grew as a result of growth in portfolio GLA.
- Melcor REIT completed its third property acquisition since IPO with the purchase of LC Industrial, a 67,610 sq. ft. industrial warehouse in Lethbridge, Alberta, for $5.93 million.
- Melcor REIT paid distributions of $0.05625 per trust unit in January, February and March. Distributions made during each of the eleven months of the REIT's operations represent a payout ratio of 88%.
- Subsequent to the quarter, the REIT completed an offering of 1.9 million trust units for gross proceeds of $20.24 million. Partial proceeds were used to purchase two properties from Melcor in exchange for $7.40 million in Class B LP Units and $6.10 million in cash.
- We continued to invest in portfolio growth in our Investment Properties and land inventory in the Community Development division. Subsequent to the quarter, the following deals closed:
  - Investment Properties acquired two commercial properties in Arizona for $11.11 million. The office buildings have 59,220 sq. ft. of GLA.
  - Community Development purchased 73.86 acres in Calgary and 36.91 acres in Lethbridge.
- On May 9, 2014 we declared a semi-annual dividend of $0.28 per share, payable on June 30, 2014 to shareholders of record on June 16, 2014. The dividend is an eligible dividend for Canadian tax purposes.

Revenue & Margins:

- Revenue in Q1-2014 was $32.01 million compared to $41.62 million in Q1-2013. This decrease is a result of the timing of plan registrations and land sales in both the current and comparable periods in the Community Development division. The decrease was partially offset by revenue growth in the Investment Properties and REIT divisions.
- Gross margin increased to 51.5% in Q1-2014. This increase is a result of an increase in higher margin revenue in the US combined with the positive impact of foreign currency translation in the quarter.
- Net fair value gains on investment properties of $3.80 million were realized in Q1-2014. Property Development contributed $1.95 million of these gains, as we continue to develop commercial property. The majority of the remaining gain is a result of property redevelopment and improvements contributing to increased portfolio valuation.
- FFO per share adjusts for certain non-cash earnings items included in income such as fair value adjustments on investment properties and stock based compensation expense. FFO per share was $0.20 in Q1-2014, a decrease of $0.11 per share, or 35.5% from the same quarter last year as a result of distributions on trust units and lower revenue in the quarter.
- Adjusted earnings attributable to Melcor's shareholders ("adjusted earnings"), which reflects our proportionate interest in the earnings of the REIT, was $9.77 million in Q1-2014, a decrease of 22.6% over Q1-2013. Adjusted basic earnings per share were $0.32, a decrease of 23.8% over Q1-2013. The decrease reflects lower revenue and fair value adjustments, offset by improved gross margin during the year. Management believes that adjusted earnings and adjusted earnings per share provide a clearer measure of operational and relative performance.
- Our quarterly results are impacted by the cyclical nature of our business. Income can fluctuate significantly from period to period due to the timing of plan registrations, the cyclical nature of real estate and construction markets, the mix of lot sales and product types, and the mix of joint operation sales activity.

Formation of Melcor REIT

The REIT began operations on May 1, 2013 when its trust units were issued for cash pursuant to the initial public offering ("IPO"). Units of the REIT trade on the Toronto Stock Exchange under the symbol MR.UN. The REIT is externally managed, administered and operated by Melcor Developments Ltd. ("Melcor") pursuant to the Property Management Agreement and Asset Management Agreement.

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust dated January 25, 2013, which was subsequently amended and restated May 1, 2013.

Adjusted Earnings Attributable to Melcor's Shareholders

The following analysis adjusts the consolidated net income attributable to Melcor's shareholders for the three months ended March 31, 2014 to reflect our proportionate interest in the earnings of the REIT. As detailed below, we have adjusted consolidated net income attributable to Melcor's shareholders for amounts recorded as a result of the non-controlling interest ("NCI") being recorded as a financial liability, management fees earned from the REIT, and removed 48.9% of the REIT's post-formation net earnings, representing the public's interest. The adjustments are summarized as follows:

- adjustments related to REIT units for the three-month period were comprised of distributions to unitholders of $1.54 million and a fair value loss of $1.37 million;
- management fees earned by Melcor under the asset management and property management agreement, which are eliminated upon consolidation; and
- the unitholders' 48.9% interest in the REIT's post-formation earnings.

We consider adjusted earnings attributable to Melcor's shareholders ("adjusted earnings") to be more representative of the operational activities, financial results and earnings attributable to Melcor's shareholders. The most comparable IFRS metric is net income.

	Three months ended	
	31-Mar-14	31-Mar-13
Net income attributable to Melcor's shareholders	6,864	12,623
Adjustments related to REIT Units	2,911	—
Management fees earned from the REIT	427	—
Unitholders' portion of earnings of the REIT	(429)	—
Adjusted earnings	9,773	12,623
Adjusted basic EPS*	0.32	0.42
Adjusted diluted EPS*	0.29	0.39

**See non-standard measures for calculation.*

Divisional Results

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

- Community Development, which acquires raw land for future commercial and residential community development;
- Property Development, which develops high-quality retail, office and industrial revenue-producing properties on serviced commercial sites developed by Community Development;
- Investment Properties, which manages and leases the commercial developments produced by the Property Development division and an externally purchased portfolio of assets, as well as assets held in Melcor REIT;
- Melcor REIT, which owns and holds 30 income-producing properties; and
- Recreational Properties, which owns and operates four championship golf courses associated with Melcor residential communities.

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

The following tables summarize results of our operating divisions:

($000s except as noted)	Community Development Three months ended March 31 2014	2013	Property Development Three months ended March 31 2014	2013	Investment Properties Three months ended March 31 2014	2013	REIT Three months ended March 31 2014	2013	Recreational Properties Three months ended March 31 2014	2013
Revenue	13,847	26,727	171	654	8,348	4,572	10,647	9,688	92	177
Portion of total revenue	43%	64%	1%	2%	26%	11%	33%	23%	— %	— %
Cost of sales	(7,690)	(15,524)	—	—	(3,277)	(2,203)	(4,345)	(3,842)	(450)	(485)
Gross margin	6,157	11,203	171	654	5,071	2,369	6,302	5,846	(358)	(308)
Gross margin %	44%	42%	100%	—%	61%	52%	59%	60%	(389)%	(174)%
Portion of total margin	37%	58%	1%	3%	31%	12%	38%	30%	(2)%	(2)%
General and administrative expense	(1,690)	(2,337)	(620)	(411)	(562)	(19)	(363)	(394)	(317)	(272)
Fair value adjustment on investment properties	—	—	1,947	2,178	1,429	499	169	2,594	—	—
Gain (loss) on sale of assets	—	—	—	—	—	—	—	—	—	—
Interest income	573	602	—	1	8	6	18	6	—	—
Divisional income before tax	5,040	9,468	1,498	2,422	5,946	2,855	6,126	8,052	(675)	(580)

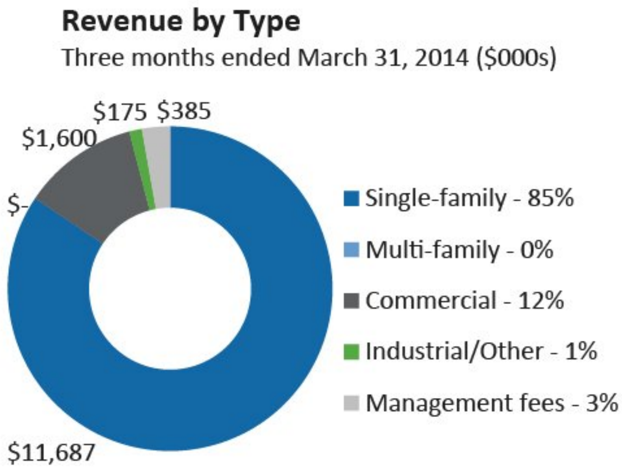
Divisional results are shown before inter-segment eliminations and exclude corporate division

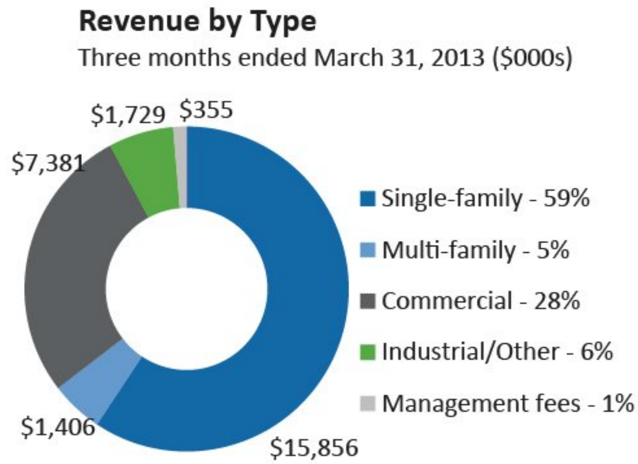
Community Development

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

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

Sales Activity





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

Consolidated	Three months ended	
	31-Mar-14	31-Mar-13
Sales data: (including joint ventures at 100%)		
Single family sales (number of lots)	125	196
Gross average revenue per single-family lot ($)	154,100	102,800
Multi-family sales (acres)	—	2.84
Gross average revenue per multi-family acre ($)	—	825,000
Commercial sales (acres)	1.23	9.99
Gross average revenue per commercial land acre ($)	1,300,800	795,100
Industrial sales (acres)	2.67	6.82
Gross average revenue per industrial land acre ($)	131,100	249,300
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)	13,847	26,727
Earnings ($000s)	5,040	9,468

Community Development division achieved on budget results for Q1-2014. Revenue declined compared to the exceptionally strong Q1-2013 due to the timing of plan registrations and commercial land sales. Although the number of single-family lots sold was also down, the average revenue per lot increased by 50% compared to last year. In Q1-2013 a significant portion of the lots sold were in the US at an average revenue far below our typical range. Excluding these sales, average revenue per single family unit was approximately $148,000 in Q1-2013. The Edmonton and Red Deer regions were the main contributors to the division's revenue and earnings with strong sales activity. Our primary market is Alberta, where overall market conditions remain strong.

Regional Sales Analysis

A summary of our lot and acre sales by region is as follows:

Regional Sales Analysis	Three months ended 31-Mar-14			Three months ended 31-Mar-13		
(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	**74**	—	—	60	2.84	1.61
Red Deer Region	**43**	—	**2.67**	1	—	6.82
Calgary Region	**6**	—	**1.23**	44	—	9.99
Lethbridge	**2**	—	—	8	—	16.38
Kelowna	—	—	—	—	—	—
United States	—	—	—	83	—	—
	125	—	**3.90**	196	2.84	34.80

The Edmonton and Red Deer regions both had strong sales activity in Q1-2014, with 74 lots sold in Edmonton (Q1-2013: 60) and 43 sold in Red Deer (Q1-2013: 1). Lot sales in the Edmonton region were driven by registration of a new phase in a Spruce Grove community and continued strong sales in South Edmonton projects. Sales in the Red Deer region were primarily driven by the plan registration of a Sylvan Lake community. Calgary saw a decrease in single family lot sales in Q1-2014, however, the commercial land sales of 1.23 acres contributed $1.60 million to the division's overall revenue.

Inventory

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

Developed Inventory	Three months ended 31-Mar-14			Three months ended 31-Mar-13		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	**1,498**	**70.93**	**181.15**	1,115	93.05	237.63
Purchases	—	—	—	—	—	—
New developments	**25**	—	—	21	9.59	12.96
Internal sales	—	—	—	—	—	—
Sales	**(125)**	—	**(3.90)**	(196)	(2.84)	(16.81)
	1,398	**70.93**	**177.25**	940	99.80	233.78

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. Subsequent to the quarter, we purchased 36.91 acres of raw land in the Lethbridge region for $1.85 million and a 50% interest in 147.72 acres in Calgary for $10.49 million. We continue to monitor our land holdings to secure our position in our target markets.

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 division recognizes revenues on development fees earned from its joint arrangement partners' based on a percentage fee of the total development costs incurred. During Q1-2014, the division recognized $0.17 million related to these fees, a decrease of $0.48 million compared to Q1-2013. In Q1-2014, our joint arrangement projects were closer to completion. Development costs are typically higher earlier in the development process.

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

In Q1-2014, the division recognized fair value gains on development sites of $1.95 million, compared with $2.18 million in Q1-2013. These gains were primarily the result of commercial and industrial development in Edmonton and Airdire.

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

Current Projects				
Project	Location	Type	Total Sq. Ft. *	Sq. Ft. Under Development
The Village at Blackmud Creek	South Edmonton	*Regional business park*	725,000	59,000
Telford Industrial	Leduc	*Industrial Park*	600,000	89,000
West Henday Promenade	West Edmonton	*Regional mixed use centre*	378,000	81,000
Kingsview Market	Airdire	*Regional shopping centre*	234,000	12,000
Stoneycreek Shopping Centre	Fort McMurray	*Regional mixed use centre*	210,000	210,000
McKenzie Industrial	Red Deer	*Industrial Park*	66,000	66,000
Chestermere Station	Chestermere	*Neighbourhood shopping centre*	58,000	12,000
Clearview Market	Red Deer	*Neighbourhood shopping centre*	36,000	36,000
Leduc Common	Leduc	*Regional shopping centre*	31,000	25,000

Expected Future Projects				
Project	Location	Type	Total Sq. Ft. *	Expected Start
The District at North Deerfoot	North Calgary	*Regional business / industrial park*	2,250,000	2014
The Shops at Jagare Ridge	South Edmonton	*Neighbourhood shopping centre*	105,000	2015
The Shoppes at Canyons	Lethbridge	*Neighbourhood shopping centre*	105,000	2015
Greenwich	West Calgary	*Regional mixed use centre*	395,000	2016
Keystone Common	North Calgary	*Regional power centre*	775,000	2016
West Pointe Marketplace	Lethbridge	*Regional power centre*	750,000	2016
West Calgary Marketplace	West Calgary	*Regional power centre*	800,000	2017

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

Investment Properties

Our Investment Properties division manages and leases our portfolio of high-quality residential, office, retail and industrial properties, which are located across western Canada and the US (including the properties owned by Melcor REIT).

Our Investment Properties division oversees 2.68 million square feet of income-producing commercial gross leasable area (GLA) and 1,284 residential units. Our portfolio has high occupancy rates with long-term tenancies from high-quality retail and commercial clients.

Operating results

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

($000s except as noted)	Three months ended	
	31-Mar-14	31-Mar-13
Rental revenue	**7,475**	4,572
Management fees from Melcor REIT	**873**	—
Net operating income (NOI) *	**5,018**	2,448
*Same asset NOI * (see calculation following)*	**2,611**	2,357
Fair value gains	**1,429**	499
Gross leasable area	**641,075**	375,871
Occupancy	**88.3%**	95.2%
Fair value of portfolio	**395,578**	239,577
Funds from operations *	**4,836**	2,601
Funds from operations per share *	**0.16**	0.09

** See non-standard measures for definition and calculation.*

Rental revenues grew $2.90 million or 63% over Q1-2013 primarily due to the acquisition of our Joint Venture partner's 50% interest in LethCentre, which added 223,116 sq. ft. to GLA in Q4-2013 and the addition of 42,088 sq. ft. in 7 properties as Property Development completed properties since Q1-2013. These newly acquired properties contributed $2.47 million in rental revenues in Q1-2014. Ongoing redevelopment on our LethCentre property translated into increased base rent per sq. ft. and a 10% improvement in rental revenues. Continued strengthening of the US dollar and foreign currency translation gains, in conjunction with improved occupancy on our US residential units contributed an additional $0.39 million in Q1-14 revenues over the same period in the prior year.

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

($000s except as noted)	Three months ended	
	31-Mar-14	31-Mar-13
Same asset NOI *	**2,611**	2,357
Acquisitions	**1,429**	—
NOI before adjustments	**4,040**	2,357
Foreign currency translation	**158**	12
Management fees from Melcor REIT	**873**	—
Amortization of operating lease incentives	**319**	245
Straight-line rent adjustment	**(372)**	(166)
NOI *	**5,018**	2,448

** See non-standard measures for definition.*

Divisional NOI is defined as rental revenue less property operating costs plus amortization of tenant incentives plus/minus straight-line rent adjustment. NOI increased $2.57 million or 105% over Q1-2013, primarily due to portfolio growth as detailed above. On a same asset basis, NOI improved by $0.25 million or 11% over Q1-2013, of which $0.14 million was attributable to improved occupancy on our US residential units. An additional $0.14 million of NOI growth related to higher rental revenues at LethCentre.

Divisional revenue in Q1-2014 includes the fees earned from the REIT under the asset management and property management agreements. During the three months ended March 31, 2014 total management fees earned under these agreements were $0.87 million.

Funds from operations increased by $2.24 million over Q1-2013. The increase was driven by higher NOI and offset by higher general and administrative expense (G&A). Analysis of G&A period over period is not meaningful due to the formation of the REIT and resulting changes in structure of the portfolio.

Fair value of investment properties will fluctuate based on changes in capitalization rates, capital and tenant lease incentives spending, and non-cash adjustments related to amortization of tenant lease incentives and straight-line rent adjustments. In Q1-2014 we realized a fair value adjustment due to higher stabilized NOI on our LethCentre property, which was recently redeveloped.

Subsequent to the quarter, we acquired two commercial properties (59,220 sq. ft. on 3.05 acres) in the Greater Phoenix area for a purchase price of $11.10 million.

REIT

The REIT owns 30 income-producing office, retail and industrial properties, comprising 1,759,761 square feet of GLA and a land lease community at March 31,2014. The REIT's portfolio has a diversified tenant profile, with a mix of national, regional and local tenants, operating in a variety of industries.

We have a controlling 51.1% effective interest in the REIT through ownership of all Class B LP Units. As Melcor controls the REIT we consolidate 100% of the REIT's revenues, expenses, assets and liabilities. The following tables include financial information for the pre-acquisition period, as included in the comparative period, based on financial information previously reported by the Investment Properties division, at 100% interest. Subsequent to the quarter the REIT issued 1.9 million trust units for gross proceeds of $20.24 million. Partial proceeds are to be used to purchase two properties from Melcor in exchange for $7.40 million in Class B LP Units and $6.10 million in cash. On closing of the transaction Melcor will hold a controlling 48.1% effective interest in the REIT (47.5% if the over-allotment option is exercised in full). Refer to *Subsequent Event: Bought Deal Issuance of Trust Units and Sale of Properties*.

Operating results

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

($000s except as noted)	Three months ended	
	31-Mar-14	31-Mar-13
Rental revenue	**10,647**	9,688
Net operating income (NOI) *	**6,734**	6,342
Same asset NOI * *(see calculation following)*	**5,716**	5,846
Fair value gains	**169**	2,594
Gross leasable area	**1,759,761**	1,564,796
Occupancy	**90.1%**	91.0%
Fair value of portfolio	**447,815**	396,402
Funds from operations *	**6,498**	6,036
Funds from operations per share *	**0.21**	0.20

** See non-standard measures for definition and calculation.*

Rental revenue for the period increased by $0.96 million or 10% over Q1-2013 as a result of GLA growth of 12% over Q1-2013. Q1-2014 rental revenue includes $0.78 million related to the three newly acquired properties (Coast Home Centre in Q3-2013, Liberty Crossing in Q4-2013 and LC Industrial in Q1-2014). Revenue growth was also due to increased recoveries from tenants over the comparative period and correlates with the increase in operating expenses during the period. Changes in non-cash adjustments related to amortization of tenant incentives and straight-line rent adjustment had a net positive impact on rental revenue during the period.

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

($000s except as noted)	Three months ended	
	31-Mar-14	31-Mar-13
Same asset NOI *	**5,716**	5,846
Acquisitions	**586**	—
NOI before adjustments	**6,302**	5,846
Amortization of operating lease incentives	**541**	578
Straight-line rent adjustment	**(109)**	(82)
Divisional NOI	**6,734**	6,342

** See non-standard measures for definition and calculation.*

Divisional NOI is defined as rental revenue less property operating costs plus amortization of operating lease incentives plus/minus straight-line rent adjustment. During the first quarter NOI increased $0.39 million or 6% over Q1-2013, primarily a result of the portfolio growth as detailed above. On a same asset basis, NOI was steady over Q1-2013, with timing of operating expenses affecting margins during Q1-2014.

Funds from operations (FFO) increased by $0.46 million or 8% over Q1-13. The increase reflects higher NOI and lower general and administrative expenses during the period.

The REIT recognized fair value gains of $0.17 million three months ended March 31, 2014. Fair value gains were realized on newly acquired properties, which realized decreases in capitalization rates by 25 and 50 basis points. These gains were offset by a fair value loss on one of our retail CRUs to reflect lower occupancy on the property and the associated lost revenue during the lease-up period and the costs associated with securing a new tenant.

Recreational Properties

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

	Ownership interest	Season opened 2014	Season opened 2013
Managed by Melcor:			
Lewis Estates (Edmonton)	60%	**April 20**	May 1
The Links (Spruce Grove)	100%	**April 19**	May 1
Black Mountain (Kelowna)	100%	**March 28**	March 22
Managed by a Third Party:			
Jagare Ridge (Edmonton)	50%	**April 30**	May 8

General and administrative expense

General and administrative expense (G&A) decreased by 5% compared to Q1-2013. The decrease is a result of senior level retirements since the comparative period.

Liquidity & Capital Resources

The following table represents selected information as at March 31, 2014, compared to December 31, 2013.

As at ($000s except as noted)	**31-Mar-14**	31-Dec-13
Cash & cash equivalents	**19,932**	28,973
Restricted cash	**5,247**	5,969
Accounts receivable	**20,262**	21,542
Agreements receivable	**144,791**	177,961
Revolving credit facilities	**92,808**	104,618
Accounts payable and accrued liabilities	**45,435**	65,256
Total assets	**1,706,868**	1,727,933
Total liabilities	**926,476**	958,702
Debt to equity ratio	**1.19**	1.25

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

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

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

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

Subsequent to quarter the REIT completed the issuance of 1,900,000 trust units at $10.65 through a bought deal for total proceeds of $20.24 million (gross). The funds are intended to be used to fund two property acquisitions from Melcor, via the proprietary pipeline, to reduce the indebtedness under the REIT's revolving credit facility, and for future acquisitions and general trust purposes. Refer to *Subsequent Event: Bought Deal Issuance of Trust Units and Sale of Properties*.

We do not currently plan to raise additional capital through the issuance of common shares, trust units, preferred shares, 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, 2014, our total general debt outstanding was $570.01 million. This compares to $574.33 million at December 31, 2013. A summary of our debt is as follows:

As at ($000s)	**31-Mar-14**	31-Dec-13
Melcor - revolving credit facility	**74,473**	80,870
REIT - revolving credit facility	**18,335**	23,748
Project specific financing	**69,695**	64,383
Secured vendor take back debt on land inventory	**71,877**	77,194
Debt on investment properties and golf course assets	**296,245**	288,801
Convertible debenture	**39,387**	39,336
	570,012	574,332

We are subject to financial covenants on our $120.00 million (December 31, 2013 - $120.00 million) Melcor revolving credit facility. The covenants include a maximum debt to total capital ratio of 1.25, a minimum interest coverage ratio of 3.00, and a minimum net book value of shareholder's equity of $300.00 million. As at March 31, 2014, we were in compliance with our financial covenants with a debt to total capital ratio of 0.85, an interest coverage ratio of 7.96 and net book value of shareholder's equity of $780,391.

In addition, we are subject to financial covenants on our $25.00 million (December 31, 2013 - $25.00 million) REIT revolving credit facility. The covenants include a maximum debt to total capital ratio of 60%, a minimum interest coverage ratio of 1.50, and a minimum net book value of unitholders' equity of $140.00 million. As at March 31, 2014, the REIT was in compliance with its financial covenants with a debt to total capital ratio of 51%, interest coverage ratio of 1.76, and a net book value of unitholders' equity of $223.28 million. We also have financial covenants on certain mortgages for investment properties. At March 31, 2014, and throughout the period, we were in compliance with our financial covenants on our mortgages. We prepare financial forecasts to monitor the changes in our debt and capital levels and our ability to meet our financial covenants.

The above metrics are non-standard measures used to assess compliance with our lending agreements and are not specifically defined in the CICA Handbook or in IFRS. These non-standard measures may not be comparable to similar measures presented by other companies.

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-14	31-Mar-13
Cash flows from operating activities	**11,846**	19,282
Cash flows used in investing activities	**(14,926)**	(10,521)
Cash flows used in financing activities	**(6,007)**	(2,425)

Cash flows from operations were $11.85 million in the current quarter, a decrease of $7.44 million over Q1-13. Timing of plan registrations resulted in a decrease of $5.05 million in gross profit from our largest division, Community Development. Higher net working capital in Q1-2014 negatively affected cash flows from operating activities by an additional $16.98 million due primarily to lower accounts payable and accrued liabilities, which reflects the cyclical nature of the land development business. Collection on agreements receivable partially offset the decline with an increase of $14.47 million over Q1-13.

Cash flows used in investing activities increased by $4.41 million in the current period as a result of the acquisition of LC Industrial by the REIT for $5.97 million. Strong leasing on investment properties through the current quarter and throughout 2013 led to an increase of $0.72 million in payments of tenant incentives. We commenced with our 2014 capital asset program on investment properties with $0.95 million in strategic value-added asset enhancing projects. Spending on our properties under development was $0.40 million lower than Q1-13 due to timing of construction activities.

Cash flows used in financing activities were $6.01 million an increase of $3.58 over Q1-13. Collections on agreements receivable and mortgage financing obtained by the REIT enabled us to reduce the amount outstanding on our revolving credit facilities by $11.80 million in the current period, compared to a net increase in Q1-13. During the three months ended March 31, 2014 we recognized net proceeds from general debt of $4.91 million compared to net repayments of general debt of $5.27 million in the prior year. Net proceeds in the current period reflects new mortgages obtained by the REIT for $10.90 million and an increase in our project specific financing with continued construction on our Property Development projects. In the comparative period repayments on secured vendor take back debt on land inventory led to net cash outflows.

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, 2014 there were 30,778,708 common shares issued and outstanding and 891,523 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, 2014 in comparison to the December 31, 2013 annual MD&A. Refer to note 3 of the condensed interim consolidated financial statements for changes in accounting policies.

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-14**	31-Dec-13	30-Sep-13	30-Jun-13	31-Mar-13	31-Dec-12	30-Sep-12	30-Jun-12
Revenue	**32,011**	152,193	59,195	50,737	41,617	141,962	64,674	34,973
Net income	**6,864**	53,909	21,882	10,209	12,623	55,468	24,832	18,871
Per Share								
Basic earnings	**0.22**	1.76	0.72	0.34	0.41	1.84	0.83	0.63
Diluted earnings	**0.22**	1.64	0.68	0.33	0.40	1.72	0.78	0.60
Book value	**25.35**	25.03	23.52	22.87	23.36	22.89	21.28	20.59

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

Subsequent Event: Bought Deal Issuance of Trust Units and Sale of Properties

On April 16, 2014 the REIT entered into an agreement to sell to a syndicate of underwriters, on a bought deal basis, 1,900,000 trust units at $10.65 per unit for gross proceeds of $20.24 million (" the Offering"). The issuance was qualified under a short form prospectus filed April 30, 2014. The total proceeds received by the REIT, net of underwriters' fee was $19.43 million. Pursuant to the underwriters agreement, the underwriters have an over-allotment option which grants them the option to purchase an additional 285,000 trust units at $10.65 per unit. The over-allotment option expires 30 days from closing. The funds are intended to be used to fund two property acquisitions from Melcor, with the remainder to be applied against the revolving credit facility, for future acquisitions and for general trust purposes. The Offering closed on May 7, 2014.

On April 15, 2014 the REIT's board of trustees also approved the acquisition of two multi-tenant retail properties (the "Acquisitions") for a purchase price of approximately $13.50 million (excluding closing and transaction costs) from Melcor. The properties include phase three (11,540 sq. ft.) of the Kingsview Market retail complex in Airdrie, Alberta completed by Melcor in early 2013 and a 42,586 sq. ft. retail community strip centre (Market Mall) located in Regina, Saskatchewan that was substantially redeveloped by Melcor in 2009. These two acquisitions represent the first transactions through our proprietary pipeline between Melcor and the REIT.

The REIT intends to satisfy approximately $7.40 million of the purchase price of the Acquisitions by issuing 694,836 Class B LP Units at $10.65 per unit to Melcor. On closing of the Acquisitions it is expected that Melcor will hold an approximate 48.1% effective interest in the REIT through ownership of 10,225,634 Class B LP Units of the Partnership (or an approximate 47.5% effective interest in the REIT if the over-allotment option is exercised in full). On closing of the Acquisitions Melcor will retain control of the REIT, and will continue to consolidate the REIT and record 100% of its revenues, expenses, assets and liabilities. The Acquisitions closed on May 9, 2014.

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, 2014 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. No such changes were identified.

Non-standard Measures

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

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

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

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

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

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

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

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

Calculations

We use the following calculations in measuring our performance.

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

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

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

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

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

Investment Properties

($000s)	Three months ended	
	March 31, 2014	March 31, 2013
Divisional income for the period	**5,946**	**2,855**
Fair value adjustment on investment properties	**(1,429)**	(499)
General and administrative expenses	**562**	19
Interest income	**(8)**	(6)
Amortization of operating lease incentives	**319**	245
Straight-line rent adjustment	**(372)**	(166)
Divisional NOI	**5,018**	**2,448**

REIT

($000s)	Three months ended	
	March 31, 2014	March 31, 2013
Divisional income for the period	**6,126**	**8,052**
Fair value adjustment on investment properties	**(169)**	(2,594)
General and administrative expenses	**363**	394
Interest income	**(18)**	(6)
Amortization of operating lease incentives	**541**	578
Straight-line rent adjustment	**(109)**	(82)
Divisional NOI	**6,734**	**6,342**

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

Consolidated

($000s)	Three months ended	
	March 31, 2014	March 31, 2013
Net income for the period	**6,864**	12,623
Amortization of operating lease incentives	**860**	823
Fair value adjustment on investment properties	**(3,798)**	(5,271)
Depreciation on property and equipment	**211**	194
Stock based compensation expense	**137**	172
Non-cash interest	**213**	187
Deferred income taxes	**339**	593
Fair value adjustment on REIT units	**1,370**	—
FFO	**6,196**	9,321

Investment Properties

($000s)	Three months ended	
	March 31, 2014	March 31, 2013
Divisional income for the period	**5,946**	2,855
Fair value adjustment on investment properties	**(1,429)**	(499)
Amortization of operating lease incentives	**319**	245
Divisional FFO	**4,836**	2,601

REIT

($000s)	Three months ended	
	March 31, 2014	March 31, 2013
Divisional income for the period	**6,126**	8,052
Fair value adjustment on investment properties	**(169)**	(2,594)
Amortization of operating lease incentives	**541**	578
Divisional FFO	**6,498**	6,036

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

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

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

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2014

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

For the three months ended ($000s) Unaudited	**March 31, 2014**	March 31, 2013
Revenue	**32,011**	41,617
Cost of sales	**(15,530)**	(22,151)
Gross profit	**16,481**	19,466
General and administrative expense	**(4,510)**	(4,725)
Fair value adjustment on investment properties (note 5 and 12)	**3,798**	5,271
Adjustments related to REIT units (note 11)	**(2,911)**	—
Operating earnings	**12,858**	20,012
Interest income	**599**	617
Interest expense	**(4,183)**	(4,196)
Net finance costs	**(3,584)**	(3,579)
Income before income taxes	**9,274**	16,433
Income tax expense (note 8)	**(2,410)**	(3,810)
Net income for the period	**6,864**	12,623
Net income (loss) attributable to:		
Melcor's shareholders	**6,864**	12,626
Non-controlling interest (NCI)	**—**	(3)
Net income for the period	**6,864**	12,623
Earnings per share attributable to Melcor's shareholders:		
Basic earnings per share	**0.22**	0.42
Diluted earnings per share	**0.22**	0.40

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income

For the three months ended ($000s) Unaudited	March 31, 2014	March 31, 2013
Net income for the period	6,864	12,623
Other comprehensive income		
Items that may be reclassified subsequently to net income:		
Currency translation differences	3,529	1,786
Comprehensive income	10,393	14,409
Comprehensive income attributable to:		
Melcor's shareholders	10,393	14,217
Non-controlling interest (NCI)	—	192
Comprehensive income	10,393	14,409

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited ($000s)	March 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	19,932	28,973
Restricted cash	5,247	5,969
Accounts receivable	20,262	21,542
Income taxes recoverable	832	—
Agreements receivable	144,791	177,961
Land inventory (note 4)	658,022	658,590
Investment properties (note 5 and 12)	805,182	784,510
Property and equipment	15,927	15,892
Other assets	36,673	34,496
	1,706,868	1,727,933
LIABILITIES		
Accounts payable and accrued liabilities	45,435	65,256
Income taxes payable	—	6,612
Provision for land development costs	154,918	154,909
General debt (note 6)	570,012	574,332
Deferred income tax liabilities	59,789	62,641
REIT units (note 11 and 12)	96,322	94,952
	926,476	958,702
SHAREHOLDERS' EQUITY		
Equity attributable to Melcor's shareholders		
Share capital (note 7)	24,232	23,405
Contributed surplus	3,298	3,357
Convertible debenture	639	639
Accumulated other comprehensive income (AOCI)	6,909	3,380
Retained earnings	745,314	738,450
	780,392	769,231
	1,706,868	1,727,933

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, 2014	**23,405**	**3,357**	**639**	**3,380**	**738,450**	**—**	**769,231**
Net income for the period	—	—	—	—	6,864	—	6,864
Cumulative translation adjustment	—	—	—	3,529	—	—	3,529
Transactions with equity holders							
Employee share options							
Value of services recognized	—	137	—	—	—	—	137
Share issuance	827	(196)	—	—	—	—	631
Balance at March 31, 2014	**24,232**	**3,298**	**639**	**6,909**	**745,314**	**—**	**780,392**

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 (loss) 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

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, 2014**	March 31, 2013
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the period	6,864	12,623
Non cash items:		
Amortization of tenant incentives	860	823
Depreciation of property and equipment	211	194
Stock based compensation expense	137	172
Non cash interest	213	187
Straight-line rent adjustment	(481)	(248)
Fair value adjustment on investment properties (note 5 and 12)	(3,798)	(5,271)
Fair value adjustment on REIT Units (note 11)	1,370	—
Deferred income taxes	339	593
	5,715	9,073
Agreements receivable	33,170	18,700
Development activities	1,751	3,319
Operating assets and liabilities	(28,790)	(11,810)
	11,846	19,282
INVESTING ACTIVITIES		
Purchase of land inventory (note 4)	—	(806)
Payment of tenant incentives	(2,186)	(1,463)
Purchase of investment properties	(6,062)	—
Additions to investment properties	(6,900)	(7,847)
Purchase of property and equipment	(246)	(405)
Change in restricted cash	468	—
	(14,926)	(10,521)
FINANCING ACTIVITIES		
Revolving credit facilities	(11,802)	2,784
Proceeds from general debt	25,435	33,592
Repayment of general debt	(20,525)	(38,861)
Change in restricted cash	254	—
Contributions from non-controlling interest	—	11
Share capital issued	631	49
	(6,007)	(2,425)
FOREIGN EXCHANGE GAIN ON CASH HELD IN A FOREIGN CURRENCY	46	67
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	(9,041)	6,403
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	28,973	11,628
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	19,932	18,031
Total income taxes paid	12,067	4,530
Total interest paid	5,856	5,477

See accompanying notes to these condensed interim consolidated financial statements.

1. CORPORATE INFORMATION

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

The parent company is Melcor Developments Ltd. ("Melcor" 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". As at March 31, 2014 Melton Holdings Ltd. holds approximately 48% of the outstanding shares and pursuant to IAS 24, Related party disclosures, is the ultimate controlling party of Melcor.

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

Our quarterly results are impacted by the cyclical nature of our business environment. 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

We prepare our condensed interim consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as set out in Part 1 of the Handbook of the Canadian Institute of Chartered Accountants ("CICA") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

The REIT is accounted for as a reorganization and recapitalization using the continuity of interests method, with Melcor consolidating the REIT and recording 100% of its revenues, expenses, assets and liabilities. The remaining 48.9% publicly held interest in the REIT is presented as a liability in our consolidated financial statements.

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2013, 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, 2014.

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 interpretation effective January 1, 2014.

a) ***IFRIC 21, Levies,*** is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This standard is required to be applied for accounting periods beginning on or after January 1, 2014, with earlier adoption permitted.

   The adoption of IFRIC 21 did not require any adjustments to the method of accounting for property taxes, which is our most significant levy, on our investment properties, land holdings or depreciable property as at January 1, 2014.

4. LAND INVENTORY

($000s)	March 31, 2014	December 31, 2013
Raw land held	287,042	286,504
Land under development	140,931	136,317
Developed land	230,049	235,769
	658,022	658,590

There were no land purchases during the three months ended March 31, 2014. During the comparative 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.

5. INVESTMENT PROPERTIES

Investment properties consists of the following:

	March 31, 2014	December 31, 2013
Investment properties	655,110	642,275
Properties under development	150,072	142,235
Total	805,182	784,510

The following table summarizes the change in investment properties during the period:

			Three months ended March 31, 2014
($000s)	Investment Properties	Property under Development	Total
Balance - beginning of period	642,275	142,235	784,510
Additions			
Direct acquisition	6,062	—	6,062
Direct leasing costs	64	—	64
Property improvements	946	—	946
Development costs	—	5,516	5,516
Capitalized borrowing costs	—	374	374
Net fair value adjustment on investment properties	1,851	1,947	3,798
Foreign currency translation (included in OCI)	3,912	—	3,912
Balance - end of period	655,110	150,072	805,182

	Investment Properties	Property under Development	Year ended December 31, 2013 Total
Balance - beginning of year	537,358	61,870	599,228
Additions			
Direct acquisition	49,047	11,466	60,513
Transfer from land inventory	—	7,522	7,522
Direct leasing costs	1,480	—	1,480
Property improvements	4,763	—	4,763
Development costs	—	55,973	55,973
Capitalized borrowing costs	—	1,030	1,030
Transfers	26,142	(26,142)	—
Net fair value adjustment on investment properties	17,055	30,516	47,571
Change in provision	109	—	109
Foreign currency translation (included in OCI)	6,321	—	6,321
Balance - end of year	642,275	142,235	784,510

On January 10, 2014 the REIT completed the acquisition of an industrial warehouse, LC Industrial, located in Lethbridge, Alberta for $5,968.

This purchase has been accounted for as asset purchase, in accordance with our policy, as detailed in the 2013 annual financial statements.

In accordance with our policy we record our investment properties at fair value. Investment properties were valued by qualified independent external valuation professionals as at December 31, 2013. We obtained updated market data and considered whether changes to any valuation model variables resulted in significant changes to any of the property fair values at March 31, 2014. Fair values of investment properties were revised based on the updated data and model variables.

Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized NOI, while development activity on properties under development and leasing activity drive fair value adjustments on properties under development. Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 12.

6. GENERAL DEBT

($000s)	**March 31, 2014**	December 31, 2013
Melcor - revolving credit facility	**74,473**	80,870
REIT - revolving credit facility	**18,335**	23,748
Project specific financing	**69,695**	64,383
Secured vendor take back debt on land inventory	**71,877**	77,194
Debt on investment properties and golf course assets	**296,245**	288,801
Convertible debenture	**39,387**	39,336
	570,012	574,332

7. SHARE CAPITAL

Issued and outstanding common shares at March 31, 2014 are 30,778,708 (December 31, 2013 – 30,729,074). During the three-months ended March 31, 2014, there were 49,634 options exercised (Q1-2013 – 4,300).

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 26.0% (2013 – 23.2%).

9. RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2014, there were debenture coupon payments of $339 (Q1-2013 - $339) paid to companies controlled by two members of our executive management team who are also directors of Melcor.

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

10. SEGMENTED INFORMATION

Geographic Analysis

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

External Revenues

For the three months ended (in Canadian dollars) ($000s)	**March 31, 2014**	March 31, 2013
United States	**3,111**	6,353
Canada	**28,900**	35,264
	32,011	41,617

Total Assets

As at (in Canadian dollars) ($000s)	**March 31, 2014**	December 31, 2013
United States	**158,212**	132,219
Canada	**1,548,656**	1,595,714
	1,706,868	1,727,933

Divisional Analysis

The following segment analysis has been amended from the prior period to include the results of the newly formed REIT. Results for the REIT's comparative three months ended March 31, 2013 includes the pre-acquisition results previously reported under the Investment Properties division.

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

10. SEGMENTED INFORMATION (continued)

Our divisions reported the following results:

For the three months ended March 31, 2014	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	13,847	171	8,348	10,647	92	—	(1,094)	32,011
Cost of sales	(7,690)	—	(3,277)	(4,345)	(450)	(120)	352	(15,530)
Gross profit	6,157	171	5,071	6,302	(358)	(120)	(742)	16,481
General and administrative expense	(1,690)	(620)	(562)	(363)	(317)	(1,447)	489	(4,510)
Fair value adjustment on investment properties	—	1,947	1,429	169	—	—	253	3,798
Interest income	573	—	8	18	—	—	—	599
	5,040	1,498	5,946	6,126	(675)	(1,567)	—	16,368
Interest expense								(4,183)
Adjustments related to REIT units								(2,911)
Income before tax								9,274
Income tax expense								(2,410)
Net income								6,864

For the three months ended March 31, 2013	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	26,727	654	4,572	9,688	177	—	(201)	41,617
Cost of sales	(15,524)	—	(2,203)	(3,842)	(485)	(97)	—	(22,151)
Gross profit	11,203	654	2,369	5,846	(308)	(97)	(201)	19,466
General and administrative expense	(2,337)	(411)	(19)	(394)	(272)	(1,493)	201	(4,725)
Fair value adjustment on investment properties	—	2,178	499	2,594	—	—	—	5,271
Interest income	602	1	6	6	—	2	—	617
	9,468	2,422	2,855	8,052	(580)	(1,588)	—	20,629
Interest expense								(4,196)
Adjustments related to REIT units								—
Income before tax								16,433
Income tax expense								(3,810)
Net income								12,623

11. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, we account for the remaining 48.9% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at March 31, 2014 the REIT units had a fair value of $96,322. We recorded adjustments related to REIT units for the three months ended March 31, 2014 of $2,911. As illustrated in the table below, the adjustment is comprised of:

For the three months ended ($000s)	**March 31, 2014**	March 31, 2013
Fair value adjustment on REIT units (note 12)	**1,370**	—
Distributions to REIT unitholders	**1,541**	—
Adjustments related to REIT units	**2,911**	—

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

($000s)	**March 31, 2014**	December 31, 2013
Assets	**458,801**	454,743
Liabilities	**228,296**	225,005
Net assets	**230,505**	229,738
Cost of NCI	**82,709**	82,709
Fair value of NCI	**96,322**	94,952

For the three months ended ($000s)	**March 31, 2014**	March 31, 2013
Revenue	**10,647**	9,688
Net income and comprehensive income	**878**	4,816
Cash flows from operating activities	**2,296**	7,036
Cash flows used in investing activities	**(7,261)**	(843)
Cash flows from (used in) financing activities, before distributions to REIT Unitholders	**4,149**	(6,024)
Cash flows used in financing activities - cash distributions to REIT Unitholders	**(1,541)**	—
Increase (decrease) in cash and cash equivalents during the period	**(2,357)**	169

12. FAIR VALUE ESTIMATION

Fair value is the price that market participants would be willing to pay for an asset or liability in an orderly transaction under current market conditions at the measurement date.

The fair value of Melcor's financial instruments were determined as follows:

- the carrying amounts of cash and cash equivalents, restricted cash, accounts receivables and accounts payable and accrued liabilities approximate their fair values based on the short term maturities of these financial instruments.
- fair values of general debt is estimated by discounting the future cash flows associated with the debt at market interest rates (Level 2).
- fair value of REIT units are estimated based on the closing trading price of the REIT's trust units (Level 1).

In addition, Melcor carries its investment properties at fair value which is determined by using unobservable inputs (Level 3).

The following table summarizes the REIT's assets and liabilities carried at fair value and its financial assets and liabilities where carrying value may not approximate fair value.

	March 31, 2014				December 31, 2013	
($000s)	**Fair Value**	**Amortized Cost**	**Total Carrying Value**	**Total Fair Value**	Total Carrying Value	Total Fair Value
Non-financial assets						
Investment properties	**805,182**	**—**	**805,182**	**805,182**	784,510	784,510
Financial liabilities						
General debt	**—**	**570,012**	**570,012**	**586,469**	574,332	580,651
REIT units	**96,322**	**—**	**96,322**	**96,322**	94,952	94,952

The table below analyzes assets and liabilities carried at fair value in the condensed interim consolidated statement of financial position, by the levels in the fair value hierarchy. The fair hierarchy categorizes fair value measurement into three levels based upon the inputs to valuation technique, which are defined as follows:

- Level 1: quote prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

There were no transfers between the levels of the fair value hierarchy during the period.

($000s)	**Level 1**	**Level 2**	**Level 3**	**Total**
Non-financial assets				
Investment properties	—	—	805,182	805,182
Financial liabilities				
REIT units	96,322	—	—	96,322

Investment properties

Investment properties are remeasured to fair value on a recurring basis and categorized as Level 3 in the fair value hierarchy. Investment properties were valued by qualified independent external valuation professionals as at December 31, 2013. We obtained updated market data at March 31, 2014 and considered whether changes to any valuation model variables resulted in significant changes to any of the investment property fair values at March 31, 2014. Fair values of investment properties were revised based on the updated data and model variables with fair value gains of $3,798 (March 31, 2013 - $5,271) recorded as fair value adjustment on investment properties in income.

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

The following table summarizes the valuation approach, significant unobservable inputs, and the relationship between the inputs and the fair value:

Asset	Valuation approach	Significant unobservable inputs	Relationship between inputs and fair value
Investment properties	Direct capitalization or discounted cash flows	- Capitalization rate - Discount rate - Terminal rate - Stabilized NOI - Cash flows	Inverse relationship between capitalization, discount and terminal rates and fair value (higher rates result in decreased fair value); whereas higher stabilized NOI or cash flows results in increased fair value.
Properties under development	Direct capitalization less cost to complete	- Capitalization rate - Stabilized NOI - Costs to complete	Inverse relationship between capitalization rate and fair value (higher capitalization rate results in lower fair value); whereas higher stabilized NOI results in increased fair value.
Properties under development - undeveloped land	Direct comparison	- Comparison to market transactions for similar assets	Land value reflects market value.

The significant unobservable inputs in the Level 3 valuation under the above methods are as follows:

- Capitalization rate - based on actual location, size and quality of the property and taking into consideration available market data as at the valuation date;
- Stabilized net operating income - revenue less direct operating expenses adjusted for items such as average lease up costs, vacancies, non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items;
- Discount rate - reflecting current market assessments of the uncertainty in the amount and timing of cash flows;
- Terminal rate - taking into account assumptions regarding vacancy rates and market rents; and
- Cash flows - based on the physical location, type and quality of the property and supported by the terms of existing leases, other contracts or external evidence such as current market rents for similar properties.

In determining the fair value of our investment properties judgment is required in assessing the 'highest and best use' as required under IFRS 13, *Fair value measurement*. We have determined that the current uses of our investment properties are their 'highest and best use'.

Melcor's executive management team is responsible for determining fair value measurements including verifying all major inputs included in the valuation and reviewing the results with the independent valuator. Management, along with the Audit Committee, discuss the valuation process and key inputs on a quarterly basis.

Weighted average stabilized net operating income for investment properties as at March 31, 2014 is $1,407 (December 31, 2013 - $1,364). Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	Investment Properties			**Properties under Development**		
March 31, 2014	**Min**	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.50%**	**9.00%**	**6.49%**	**6.00%**	**6.75%**	**6.11%**
Terminal capitalization rate	**5.75%**	**9.25%**	**6.80%**	**6.25%**	**7.00%**	**6.38%**
Discount rate	**6.50%**	**10.00%**	**7.71%**	**7.00%**	**7.75%**	**7.45%**

	Investment Properties			Properties under Development		
December 31, 2013	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	9.00%	6.46%	6.00%	7.00%	6.07%
Terminal capitalization rate	5.75%	9.25%	6.77%	6.25%	7.25%	6.33%
Discount rate	6.50%	10.00%	7.66%	7.00%	7.75%	7.45%

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

A change in capitalization rates by a 50 basis points increase or decrease would change the carrying amount of investment properties by $39,224 or $45,848 (December 31, 2013 - $38,437 or $44,883) respectively.

REIT units

REIT units are remeasured to fair value on a recurring basis and categorized as Level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the REIT units at the period end date. At March 31, 2014 the fair value of the REIT units was $96,322, resulting in a fair value loss of $1,370 in the statement of income and comprehensive income.

13. EVENTS AFTER THE REPORTING PERIOD

Distributions on REIT trust units

On April 15, 2014 Melcor REIT declared a distribution of $0.05625 per unit for the months of April, May and June 2014. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
April 2014	April 30, 2014	May 15, 2014	$0.05625 per unit
May 2014	May 30, 2014	June 16, 2014	$0.05625 per unit
June 2014	June 30, 2014	July 15, 2014	$0.05625 per unit

Trust unit offering by Melcor REIT

On April 16, 2014 the REIT entered into an agreement to sell to a syndicate of underwriters, on a bought deal basis, 1,900,000 trust units at $10.65 per unit for gross proceeds of $20,235 ("Offering"). The issuance was qualified under a short form prospectus filed April 30, 2014. The total proceeds received by the REIT, net of underwriters' fee was $19,426. Pursuant to the underwriters agreement, the underwriters have an over-allotment option which grants them the option to purchase an additional 285,000 trust units at $10.65 per unit. The over-allotment option expires 30 days from closing. Proceeds from the Offering are to be used to purchase two investment properties from Melcor, and reduce the amount outstanding under the revolving credit facility, for future acquisitions and for general trust purposes. The Offering closed on May 7, 2014.

Sale of properties to Melcor REIT

On April 15, 2014 the REIT's board of trustees approved the acquisition of two multi-tenant retail properties (the "Acquisitions") for a purchase price of approximately $13,500 (excluding closing and transaction costs) from Melcor. The REIT intends to satisfy approximately $7,400 of the purchase price of the Acquisitions by issuing 694,836 Class B LP Units at $10.65 per unit to Melcor. On closing of the Acquisitions it is expected that Melcor will hold an approximate 48.1% effective interest in the REIT through ownership of 10,225,634 Class B LP Units of the Partnership (or an approximate 47.5% effective interest in the REIT if the over-allotment option is exercised in full). On closing of the Acquisitions Melcor will retain control of the REIT, and will continue to consolidate the REIT and record 100% of its revenues, expenses, assets and liabilities. The Acquisitions closed on May 9, 2014.

Dividends declared

On May 9, 2014 we declared a semi-annual dividend of $0.28 per share, payable on June 30, 2014 to shareholders of record on June 16, 2014.

14. COMPARATIVE FIGURES

We have reclassified $194 in depreciation expense to cost of sales in the comparative figures for the three months ended March 31, 2013 in the statement of income and comprehensive income to conform to the current years presentation.