MELCOR DEVELOPMENTS LTD.

Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2011

(Unaudited, in thousands of Canadian dollars)

Interim Consolidated Statements of Income

Unaudited **($000s)**	**For the three months ended** **Sept. 30, 2011**	Sept. 30, 2010	**For the nine months ended** **Sept. 30, 2011**	Sept. 30, 2010
Revenue	**41,446**	40,921	**90,920**	105,323
Cost of sales	**(22,359)**	(22,079)	**(47,894)**	(58,433)
	19,087	18,842	**43,026**	46,890
General and adminstrative expense	**(3,588)**	(3,793)	**(11,744)**	(9,918)
Amortization expense	**(424)**	(460)	**(916)**	(1,007)
Fair value gains on investment properties	**14,555**	3,335	**16,783**	4,677
Gain on sale of assets	**5**	7	**5**	14
	29,635	17,931	**47,154**	40,656
Interest income	**571**	537	**1,679**	1,598
Interest expense	**(4,232)**	(2,955)	**(11,895)**	(8,709)
Net finance costs	**(3,661)**	(2,418)	**(10,216)**	(7,111)
Income before income taxes	**25,974**	15,513	**36,938**	33,545
Income tax expense	**(4,834)**	(3,867)	**(7,364)**	(8,721)
Net income for the period	**21,140**	11,646	**29,574**	24,824
Basic earnings per share	**0.70**	0.39	**0.98**	0.82
Diluted earnings per share	**0.67**	0.38	**0.95**	0.81

Interim Consolidated Statements of Comprehensive Income

Unaudited **($000s)**	**For the three months ended** **Sept. 30, 2011**	Sept. 30, 2010	**For the nine months ended** **Sept. 30, 2011**	Sept. 30, 2010
Net income for the period	**21,140**	11,646	**29,574**	24,824
Other comprehensive income				
Unrealized gains (losses) on translation of foreign subsidiaries	**634**	(69)	**387**	(165)
Comprehensive income	**21,774**	11,577	**29,961**	24,659

Interim Consolidated Statements of Financial Position

Unaudited **($000s)**	**Sept. 30, 2011**	Dec. 31, 2010
ASSETS		
Cash and cash equivalents	**9,632**	6,391
Accounts receivable	**11,415**	12,992
Income taxes recoverable	**790**	-
Agreements receivable	**73,533**	97,474
Land inventory (Note 4)	**517,389**	478,461
Investment properties (Note 5)	**451,727**	415,255
Property and equipment	**12,738**	13,017
Other assets	**20,787**	20,406
	1,098,011	1,043,996
LIABILITIES		
Bank operating loan	**65,866**	53,651
Accounts payable and accrued liabilities	**40,450**	35,343
Income taxes payable	**-**	4,592
Provision for land development costs	**76,211**	72,255
General debt	**265,792**	287,725
Convertible debenture	**38,903**	-
Deferred income tax liabilities	**53,599**	57,612
	540,821	511,178
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	**14,054**	13,354
Contributed surplus	**2,412**	1,015
Convertible debenture	**639**	-
Accumulated other comprehensive income	**(80)**	(467)
Retained earnings	**540,165**	518,916
	557,190	532,818
	1,098,011	1,043,996

Interim Consolidated Statements of Changes in Equity

Unaudited **($000s)**	Share Capital	Contributed Surplus	Convertible Debenture	AOCI	Retained Earnings	Total Equity
Balance at January 1, 2011	**13,354**	**1,015**	**-**	**(467)**	**518,916**	**532,818**
Net income for the period	**-**	**-**	**-**	**-**	**29,574**	**29,574**
Cumulative translation adjustment	**-**	**-**	**-**	**387**	**-**	**387**
Transactions with equity holders						
Dividends paid	**-**	**-**	**-**	**-**	**(6,045)**	**(6,045)**
Issuance of convertible debenture	**-**	**-**	**639**	**-**	**-**	**639**
Share repurchase	**(98)**	**-**	**-**	**-**	**(2,280)**	**(2,378)**
Employee share options						
Value of services recognized	**-**	**1,439**	**-**	**-**	**-**	**1,439**
Share issuance	**798**	**(42)**	**-**	**-**	**-**	**756**
Balance at Sept. 30, 2011	**14,054**	**2,412**	**639**	**(80)**	**540,165**	**557,190**

Unaudited **($000s)**	Share Capital	Contributed Surplus	Convertible Debenture	AOCI	Retained Earnings	Total Equity
Balance at January 1, 2010	13,003	572	-	-	474,209	487,784
Net income for the period	-	-	-	-	24,824	24,824
Cumulative translation adjustment	-	-	-	(165)	-	(165)
Transactions with equity holders						
Dividends paid	-	-	-	-	(4,551)	(4,551)
Share repurchase	(121)	-	-	-	(3,113)	(3,234)
Employee share options						-
Value of services recognized	-	332	-	-	-	332
Share issuance	296	-	-	-	-	296
Balance at Sept. 30, 2010	13,178	904	-	(165)	491,369	505,286

Interim Consolidated Statements of Cash Flows

	For the three months ended		For the nine months ended	
Unaudited **($000s)**	**Sept. 30, 2011**	Sept. 30, 2010	**Sept. 30, 2011**	Sept. 30, 2010
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income for the period	**21,140**	11,646	**29,574**	24,824
Non cash items:				
Amortization of operating lease incentives	**920**	836	**2,543**	2,451
Amortization of property and equipment	**424**	460	**916**	1,007
Stock based compensation expense	**447**	111	**1,439**	332
Non cash interest	**276**	-	**665**	-
Gain on disposal of assets	**(5)**	(7)	**(5)**	(14)
Fair value gains	**(14,555)**	(3,335)	**(16,783)**	(4,677)
Deferred income taxes	**1,642**	873	**1,920**	(410)
	10,289	10,584	**20,269**	23,513
Agreements receivable	**2,617**	(260)	**23,941**	21,126
Development activities	**(23,044)**	(980)	**(32,883)**	4,137
Operating assets and liabilities	**15,739**	600	**(4,325)**	5,605
	5,601	9,944	**7,002**	54,381
INVESTING ACTIVITIES				
Purchase of land inventory	**(2,198)**	(9,300)	**(3,897)**	(15,222)
Payment of operating lease incentives	**(1,332)**	(832)	**(5,465)**	(3,636)
Net proceeds from disposal of investment properties	**15,948**	-	**15,948**	-
Purchase of investment properties	**(6,388)**	(6,825)	**(37,938)**	(14,533)
Proceeds from disposal of assets	**7**	12	**7**	22
Purchase of property and equipment	**(363)**	(38)	**(637)**	(77)
	5,674	(16,983)	**(31,982)**	(33,446)
FINANCING ACTIVITIES				
Bank operating loan	**(5,856)**	(1,595)	**12,215**	(17,594)
Proceeds from general debt	**13,000**	33,100	**19,500**	39,250
Repayment of general debt	**(14,831)**	(21,558)	**(35,506)**	(34,175)
Proceeds from convertible debenture	**-**	-	**39,642**	-
Dividends paid	**-**	-	**(6,045)**	(4,551)
Share capital issued	**172**	49	**756**	296
Common shares purchased	**(2,378)**	(3,234)	**(2,378)**	(3,234)
	(9,893)	6,762	**28,184**	(20,008)
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY	**56**	(37)	**37**	(6)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**1,438**	(314)	**3,241**	921
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**8,194**	5,182	**6,391**	3,947
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**9,632**	4,868	**9,632**	4,868

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 centres, and golf courses.

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

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

2. BASIS OF PRESENTATION AND ADOPTION OF IFRS

We prepare our consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, we have commenced reporting on this basis in the 2011 interim consolidated financial statements. In these consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim consolidated financial statements, including IAS 34 and IFRS 1. The accounting policies followed in these interim financial statements are the same as those applied and disclosed in the company's interim financial statements for the period ended March 31, 2011. We have consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 3 discloses the impact of the transition to IFRS on our previously disclosed shareholders' equity at September 30, 2010 and comprehensive income for the three and nine months ended September 30, 2010, including the nature and effect of significant changes in accounting policies from those used in our annual financial statements for the year ending December 31, 2010. Figures for fiscal 2010 in these financial statements have been restated for comparative purposes.

The accounting policies applied in these interim consolidated financial statements are based on IFRS effective for the year ended December 31, 2011, as issued and outstanding as of November 3, 2011, the date the Board of Directors approved these financial statements. Any subsequent changes to IFRS that take effect during the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

These interim consolidated financial statements should be read in conjunction with our Canadian GAAP annual financial statements for the year ended December 31, 2010, and our interim financial statements for the quarter ended March 31, 2011 prepared in accordance with IFRS applicable to interim financial statements.

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

3. TRANSITION TO IFRS

We have adopted IFRS effective January 1, 2010 ("the transition date") and we have prepared our opening statement of financial position as at that date. Prior to the adoption of IFRS, we reported our financial statements in accordance with Canadian GAAP. Our consolidated financial statements for the year ending December 31, 2011 will be the first annual financial statements prepared in accordance with IFRS.

We adopted IFRS in accordance with IFRS 1, *First-time adoption of International Financial Reporting Standards*. As a result, we have provided comparative financial information as required by this standard. We have elected to apply certain of the optional exemptions for full retrospective application in the adoption of IFRS as of our transition date. The IFRS 1 exemptions applied in the conversion from Canadian GAAP to IFRS are disclosed in our interim financial statements for the quarter ended March 31, 2011.

The following tables provide a reconciliation of our equity as previously reported under Canadian GAAP to IFRS as at the end of the current comparative interim period, September 30, 2010.

						Sept. 30, 2010
	Note	Share Capital	Contributed Surplus	AOCI	Retained earnings	Total Equity
As reported under Canadian GAAP - Sept. 30, 2010		13,178	904	(1,677)	324,655	337,060
Differences increasing (decreasing) reported amount:						
Investment properties	i				210,406	210,406
Property and equipment	ii				(5,499)	(5,499)
Decommissioning obligation	iii				(5,100)	(5,100)
Interest expense	iv				346	346
Deferred income tax impact	v				(31,927)	(31,927)
Cumulative translation differences	vi			1,512	(1,512)	-
As reported under IFRS - Sept. 30, 2010		13,178	904	(165)	491,369	505,286

The following is a reconciliation of our net earnings reported under Canadian GAAP to our net income reported under IFRS for the three months and the nine months ended September 30, 2010.

		For the three months ended Sept. 30, 2010	For the nine months ended Sept. 30, 2010
Net earnings as reported under Canadian GAAP		7,724	17,862
Differences increasing (decreasing) reported amount:	Note		
Fair value gains	i	3,335	4,677
Reversal of amortization on investment properties	i	1,219	3,547
Property and equipment amortization	ii	78	182
Capitalized costs	iv	163	346
Deferred income taxes	v	(873)	(1,790)
Net income under IFRS		11,646	24,824

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

The following is a reconciliation of our comprehensive income reported under Canadian GAAP to our comprehensive income reported under IFRS for the three months and the nine months ended September 30, 2010.

	For the three months ended Sept. 30, 2010	For the nine months ended Sept. 30, 2010
Comprehensive income as reported under Canadian GAAP	7,655	17,697
Differences increasing reported amount:		
Differences in net earnings	3,922	6,962
Comprehensive income under IFRS	11,577	24,659

Our explanatory notes are as follows:

i) Investment properties

Under IFRS, we have elected to measure investment properties at fair value with changes to fair value recorded in the statement of income. No amortization is recorded using this method. Under Canadian GAAP, investment properties were recorded at cost and amortized over the useful life. This resulted in an opening increase to the value reported for investment properties of $202,182 at January 1, 2010, with an additional fair value gain of $4,677 for the nine months ended September 30, 2010, along with a reversal of amortization expense of $3,547 for the nine months ended September 30, 2010.

ii) Property and equipment

An impairment of $5,681 was recognized on certain golf course assets at January 1, 2010, which was not reflected under Canadian GAAP. Under IFRS, the recoverable amount used in recognizing and measuring impairment is the higher of the asset's fair value less costs to sell and value in use. Under Canadian GAAP, the recoverable amount used to determine whether recognition of an impairment loss is required is the undiscounted future cash flows expected from its use and eventual disposition.

This impairment at January 1, 2010 under IFRS resulted in a reduction of amortization expense for the nine month period ended September 30, 2010 of $182.

iii) Recognition of decommissioning obligation

Under Canadian GAAP, we had previously disclosed a contingent liability related to asbestos in one of our buildings. As a result of applying IFRS, we have recognized the liability as an adjustment in our opening statement of financial position.

iv) Borrowing costs

As a result of applying IAS 23, Borrowing Costs, the recognition and timing of the capitalization of borrowing costs has changed the amount of interest expense recognized in the period. Borrowing costs have been capitalized on land under development, as well as property under development.

v) Deferred income tax impact

The increase to the deferred income tax liability at January 1, 2010 was $30,137. This was comprised of the following: an increase of $32,997 to the liability due to the increase of investment property values greater than tax values, a decrease in the liability of $1,585 due to the impairment of property and equipment, and an increase to the future income tax asset of $1,275 due to recognition of the decommissioning obligation. An additional increase of $1,790 to the deferred tax liability was recorded at September 30, 2010 due to changes in fair value of investment properties during that nine month period.

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

vi) Cumulative translation differences

We elected to deem the cumulative translation adjustment difference related to our foreign subsidiaries to be zero as at January 1, 2010. This resulted in a reclassification of $1,512 to retained earnings.

4. LAND INVENTORY

	Sept. 30, 2011	December 31, 2010
Raw land held	**248,603**	261,203
Land under development	**122,899**	77,051
Developed land	**145,887**	140,207
	517,389	478,461

During the nine month period ended September 30, 2011, we purchased 45 acres of land at a cost of $2,958 (Q3-2011 - $2,400), and received financing of $1,800 (Q3-2011 - $1,800).We also purchased 143 finished lots in the US for $2,739 (Q3-2011 – $1,598).

During the same period in the prior year, we purchased 653 acres of land (Q3-2010 – 305 acres) at a cost of $51,386 (Q3-2010 - $31,550) and received vendor financing of $36,164 (Q3-2010 – $22,250).

During the quarter, certain land inventories were classified as investment properties, and fair value gains of $2,760 were recognized in the consolidated financial statements. For the purposes of segment reporting, this is disclosed as revenue of $4,503 and cost of sales of $1,743 for the Community Development division.

5. INVESTMENT PROPERTIES

	For the nine months ended Sept. 30, 2011	For the year ended December 31, 2010
Balance - beginning of period	**415,255**	363,348
Additions		
Direct acquisition	**15,061**	2,829
Transfer from land inventory	**4,503**	-
Acquisition through business combination	**20,838**	21,607
Property improvements	**4,430**	3,402
Property development	**6,777**	14,086
Disposals	**(33,128)**	(1,650)
Fair value gains	**14,023**	12,996
Foreign currency translation	**3,968**	(1,363)
Balance - end of period	**451,727**	415,255

Investment properties were valued by qualified external valuation professionals as at December 31, 2010. 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 September 30, 2011. Fair values of investment properties were updated based on the updated data and model variables.

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

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

	September 30, 2011			December 31, 2010		
	Min	**Max**	**Weighted Average**	Min	Max	Weighted Average
Capitalization rate	6.00%	8.25%	7.21%	6.00%	8.50%	7.28%
Terminal capitalization rate	6.50%	8.50%	7.44%	6.25%	8.50%	7.55%

Acquisition through business combination

On May 31, 2011, we acquired a 264 unit residential complex near Houston, Texas, which has been accounted for using the acquisition method. The acquisition resulted in an increase to investment properties of $20,838 (US$21,500) and was financed with a promissory note in the amount of $8,721 (US$9,000) and a cash payment of $12,875 (US$12,500). The property is pledged as security against the promissory note.

The amounts of revenue and net income before tax of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period are $759 and $150 respectively (US$776 and US$153 respectively).

We are unable to present pro forma revenue and earnings as though the acquisition date had been January 1, 2011, as the information necessary to determine these amounts is not available.

6. SHARE CAPITAL

Issued and outstanding common shares at September 30, 2011 are 30,047,000 (December 31, 2010 – 30,110,000).

During the nine months ended September 30, 2011, there were 146,000 options exercised, with 31,000 exercised in the third quarter. There were 67,900 options exercised during the same period in the prior year, with 12,400 exercised in the third quarter of 2010.

During the three months ended September 30, 2011, no stock options were issued to employees of the company. There have been 105,000 stock options issued year-to-date in 2011. There were no stock options issued during the same period in the prior year.

During the first nine months of 2011, there were 209,000 common shares purchased for cancellation by the Company pursuant to the Normal Course Issuer Bid (2010 –277,500) at a cost of $2,378,000. Share capital was reduced by $98,000 and retained earnings by $2,280,000. Under the current bid, an additional 1,304,000 shares may be purchased by the Company, expiring on August 31, 2012.

7. PER SHARE AMOUNTS

(# of shares)	**Sept. 30, 2011**	Sept. 30, 2010
Basic weighted average common shares outstanding during the period	**30,174,000**	30,233,000
Dilutive effect of options	**373,000**	230,000
Dilutive effect of convertible debenture	**1,852,000**	-
Diluted weighted average common shares	**32,399,000**	30,463,000

Basic earnings per share is calculated by dividing our net income for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing our net income before debenture interest by the diluted weighted average number of shares outstanding. Diluted earnings per share is calculated to give dilutive effect to share options.

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

8. INCOME TAX EXPENSE

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate for the full financial year. The estimated average annual rate used for the nine month period ended September 30, 2011 was 26.2% (2010 – 27.9%).

9. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2011 we issued $22,000 (2010 - $nil) in convertible debentures to companies controlled by two members of our executive management team who are also directors of our company.

During the quarter, debenture coupon payments of $347 (Q3-2010 - $nil) were made to these two companies, with total year-to-date payments of $882 (2010 - $nil).

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

10. STATEMENT OF CASH FLOWS

During the nine months ended September 30, 2011 we paid interest of $14,865 (Q3-2011 - $5,736) compared to the same period in the prior year where we paid $11,805 (Q3-2010 - $5,460).

During the nine months ended September 30, 2011 we paid income taxes of $17,073 (Q3-2011 - $3,445) compared to the same period in the prior year where we paid $7,200 (Q3-2010 - $1,800).

11. SEGMENTED INFORMATION

The following table summarizes our US operations and assets:

	For the three months ended		**For the nine months ended**	
(in Canadian dollars)	**Sept. 30, 2011**	Sept. 30, 2010	**Sept. 30, 2011**	Sept. 30, 2010
External revenue	**1,864**	801	**3,694**	1,278
Net income (loss)	**(437)**	23	**(245)**	120
Assets	**70,263**	30,180	**70,263**	30,180
Equity	**7,868**	6,258	**7,868**	6,258

We are exposed to foreign currency risk mainly through our investment in our US subsidiaries. The impact of translating the net assets of the US operations is reported in the statement of comprehensive income.

The following table summarizes our assets by division:

	Sept. 30, 2011	December 31, 2010
Community Development	**610,681**	591,291
Property Development	**27,975**	5,446
Investment Properties	**444,383**	426,890
Recreational Properties	**12,793**	12,647
Corporate	**2,179**	7,722
	1,098,011	1,043,996

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

Our divisions reported the following results:

For the three months ended Sept. 30, 2011

	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Total
Segment revenue	30,484	27	12,197	3,717	-	46,425
Inter-segment elimination	(4,503)	-	(358)	(118)	-	(4,979)
External revenue	25,981	27	11,839	3,599	-	41,446
Segment earnings	13,007	5,998	8,870	1,161	(3,062)	25,974
Income tax						(4,834)
Net income						21,140

For the three months ended Sept. 30, 2010

	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Total
Segment revenue	30,463	31	10,470	3,455	-	44,419
Inter-segment elimination	(3,220)	-	(238)	(40)	-	(3,498)
External revenue	27,243	31	10,232	3,415	-	40,921
Segment earnings	11,218	2,769	2,577	1,080	(2,131)	15,513
Income tax						(3,867)
Net income						11,646

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

Our divisions reported the following results:

For the nine months ended Sept. 30, 2011

	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Total
Segment revenue	54,931	40	34,834	6,549	-	96,354
Inter-segment elimination	(4,503)	-	(750)	(181)	-	(5,434)
External revenue	50,428	40	34,084	6,368	-	90,920
Segment earnings	21,177	7,440	15,916	987	(8,582)	36,938
Income tax						(7,364)
Net income						29,574

For the nine months ended Sept. 30, 2010

	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Total
Segment revenue	72,349	36	30,672	6,290	-	109,347
Inter-segment elimination	(3,248)	-	(714)	(62)	-	(4,024)
External revenue	69,101	36	29,958	6,228	-	105,323
Segment earnings	25,401	5,151	7,704	925	(5,636)	33,545
Income tax						(8,721)
Net income						24,824

12. EVENTS AFTER THE REPORTING PERIOD

On November 3, 2011 we declared a dividend of $0.20 per share, payable on December 30, 2011 to shareholders of record on December 16, 2011.

Management's Discussion & Analysis

November 3, 2011

The following discussion & analysis should be read in conjunction with the consolidated financial statements and related notes of Melcor Developments Ltd. (Melcor) for the three and nine months ended September 30, 2011 and the Management's Discussion & Analysis (MD&A) and consolidated financial statements appearing in the Annual Report for the fiscal year ended December 31, 2010.

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on November 3, 2011.

The financial statements underlying this MD&A, including 2010 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted. Details regarding the adoption of IFRS can be found in note 6 in the first quarter financial statements.

All dollar amounts included in this MD&A are in thousands of Canadian dollars except per lot, share and acres amounts, or unless otherwise specified.

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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.

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 2011 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, project completion dates, development plans, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We caution readers of this document not to place undue reliance on forward-looking statements. Assumptions about the performance of the Canadian and US economies and how this performance will affect Melcor's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Risk Factors throughout our annual MD&A.

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

Non-standard Measures

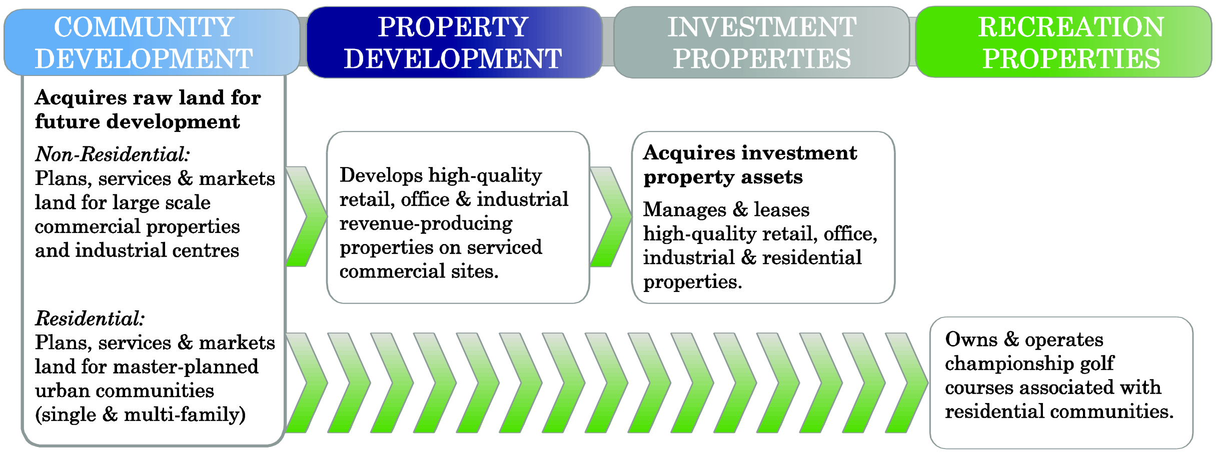
We refer to terms that are not specifically defined in the CICA Handbook and do not have any standardized meaning prescribed by IFRS. These non-standard measures may not be comparable to similar measures presented by other companies. We believe that these non-standard measures are useful in assisting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

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

Overview of our Business

Melcor Developments Ltd. is a real estate development and management company with a rich history of integrity and innovation in real estate since 1923.

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

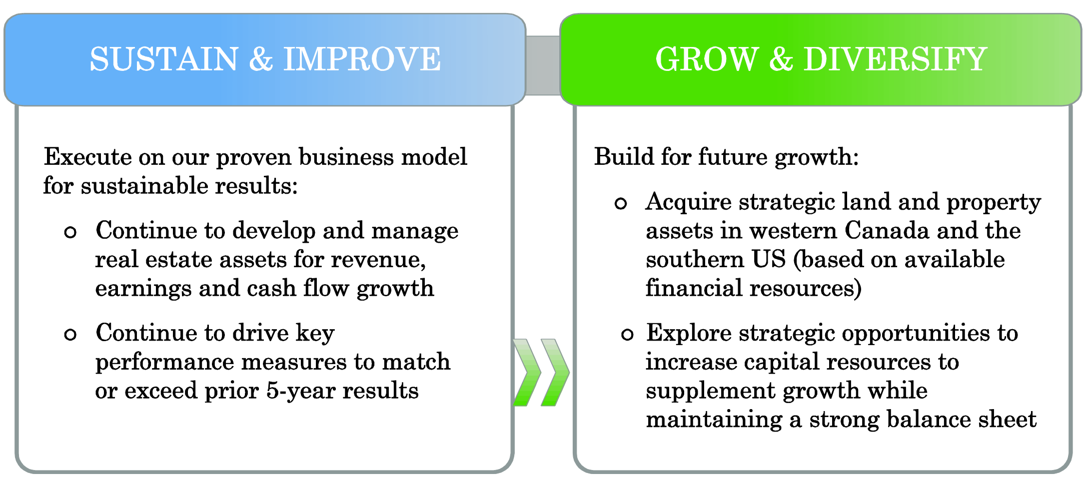


Melcor is headquartered in Edmonton, Alberta, with regional offices throughout Alberta (Calgary, Red Deer and Lethbridge) and British Columbia (Kelowna). Our developments span western Canada and the southern US.

Mission, Vision & Strategy

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

Our long-term strategy is to build for future growth by adding inventory and building capacity while sustaining and improving our existing businesses:



Given the long-term nature of our strategy, we do not provide quarterly updates except where warranted.

Q3-2011 Highlights

	Three months ended		Change	Nine months ended		Change
($000s except as noted)	30-Sep-11	30-Sep-10		30-Sep-11	30-Sep-10	
Revenue	41,446	40,921	1%	90,920	105,323	(14%)
Gross margin (%)	46.1%	46.0%	0%	47.3%	44.5%	6%
Net income	21,140	11,646	82%	29,574	24,824	19%
Margin on net income	51.0%	28.5%	79%	32.5%	23.6%	38%
Shareholders' equity	557,190	505,286	10%	557,190	505,286	10%
Cash from operations	5,601	9,944	(44%)	7,002	54,381	(87%)
Per Share Data						
Basic earnings	0.70	0.39	79%	0.98	0.82	20%
Diluted earnings	0.67	0.38	76%	0.95	0.81	17%
Cash from operations	0.19	0.33	(44%)	0.23	1.81	(87%)
Book value	18.54	16.80	10%	18.54	16.80	10%

Highlights for the quarter include:

- Revenue increased to $41.45 million in Q3-2011 compared to $40.92 million in the same quarter last year. Gross margins also increased this quarter compared to the same quarter last year, as well as year to date, primarily due to increased land margins. Gross margin is significantly impacted by the mix of land inventory sold in a period.
- Margin on net income increased to 51.0% from 28.5% in the same period last year as a result of higher fair value gains in the current quarter compared to the prior year. This increase however is also offset partially by increases to:
  - interest expense due to our higher debt base as a result of the convertible debenture issued in the first quarter and draws on our credit facility; and
  - general and administrative expenses as we invest in hiring additional staff, implementing infrastructure to support company growth, and higher stock based compensation expense.
- Fair value gains of $14.55 million were realized in multiple divisions in the current quarter. These were the result of:
  - land inventories (measured at cost) transferred to the Property Development division were classified as investment properties (measured at fair value), resulting in fair value gains of $2.76 million;
  - increased leasing activity and construction progress on Property Development projects resulting in fair value gains of $6.11 million; and
  - decreased capitalization rates on retail developments and capital improvements on office properties in the Investment Properties division resulting in fair value gains of $5.68 million.
- Basic earnings per share for the nine months ended September 30, 2011 is $0.98, an increase of $0.16, or 20%, from the prior year. Basic earnings per share for the three months ended September 30, 2011 is $0.70, an increase of $0.31, or 79%, from the same quarter last year.
- We announced our intention to make a Normal Course Issuer Bid on August 30, 2011, and have purchased a total of 304,300 shares for cancellation as at November 3, 2011, at a total cost of $3.45 million.

- The Investment Properties division sold "The Market at Magrath" for proceeds of $34.50 million in the third quarter. The sale closed on September 1, 2011 and resulted in cash proceeds to the company of $15.42 million. The sale had no impact on earnings as the property was included in our Investment Properties portfolio, and as such, was recorded at fair value.
- 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.

Subsequent to the end of the third quarter:

- The Investment Properties division acquired a 240 unit multi-family project in North Dallas, Texas for US$19.80 million. This acquisition is line with the division's objective to continue to build our US holdings and brings our Texas multi-family portfolio to 744 units.
- The Community Development division is in the final stages of closing on a 75% interest in approximately 1,000 acres of raw land located in Denver, Colorado for US$15.30 million. The lands have municipal development approvals and offsite infrastructure for residential development. Development is anticipated to commence in the next two years as market conditions improve. This will be our first major land development project in the US since 1988.
- Our Board of Directors declared a semi-annual dividend of $0.20 per share, payable on December 30, 2011 to shareholders of record on December 16, 2011.

Divisional Results

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

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

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

The following tables summarize our divisional results:

	Community Development		Property Development		Investment Properties		Recreational Properties		Corporate	
	Three months ended		Three months ended		Three months ended		Three months ended		Three months ended	
($000s except as noted)	30-Sep-11	30-Sep-10	30-Sep-11	30-Sep-10	30-Sep-11	30-Sep-10	30-Sep-11	30-Sep-10	30-Sep-11	30-Sep-10
Revenue	30,484	30,463	27	31	12,197	10,470	3,717	3,455	-	-
Portion of total revenue	65.7%	68.6%	0%	0.1%	26.3%	23.6%	8.0%	7.8%	-	-
Cost of sales	(16,576)	(18,434)	-	-	(5,850)	(4,607)	(1,632)	(1,338)	-	-
Gross margin	13,908	12,029	27	31	6,347	5,863	2,085	2,117	-	-
Gross margin %	45.6%	39.5%	100.0%	100.0%	52.0%	56.0%	56.1%	61.3%	-	-
Portion of total margin	62.2%	60.0%	0.1%	0.2%	28.4%	29.3%	9.3%	10.6%	-	-
General and administrative expense	(1,424)	(1,341)	(142)	(217)	(373)	(276)	(474)	(527)	(1,696)	(1,696)
Amortization expense	-	-	-	-	-	-	(383)	(426)	(40)	(34)
Gain on disposal	-	-	-	-	-	-	5	7	-	-
Fair value adjustment	-	-	6,112	2,955	5,683	(554)	-	-	-	-
Interest income	644	528	-	-	11	9	-	-	-	-
Interest expense	(120)	2	-	-	(2,798)	(2,465)	(72)	(91)	(1,326)	(401)
Divisional income before tax	13,008	11,218	5,997	2,769	8,870	2,577	1,161	1,080	(3,062)	(2,131)

Divisional results are shown before inter-segment eliminations

	Community Development		Property Development		Investment Properties		Recreational Properties		Corporate	
	Nine months ended		Nine months ended		Nine months ended		Nine months ended		Nine months ended	
($000s except as noted)	30-Sep-11	30-Sep-10	30-Sep-11	30-Sep-10	30-Sep-11	30-Sep-10	30-Sep-11	30-Sep-10	30-Sep-11	30-Sep-10
Revenue	54,931	72,349	40	36	34,834	30,672	6,549	6,290	-	-
Portion of total revenue	57.0%	66.2%	0.0%	0.0%	36.2%	28.1%	6.8%	5.8%	-	-
Cost of sales	(30,821)	(44,541)	-	-	(15,708)	(13,470)	(3,108)	(2,768)	-	-
Gross margin	24,110	27,808	40	36	19,126	17,202	3,441	3,522	-	-
Gross margin %	43.9%	38.4%	100.0%	100.0%	54.9%	56.1%	52.5%	56.0%	-	-
Portion of total margin	51.6%	57.3%	0.0%	0.1%	40.9%	35.4%	7.4%	7.3%	-	-
General and administrative expense	(3,942)	(3,648)	(875)	(615)	(959)	(724)	(1,453)	(1,498)	(5,446)	(4,177)
Amortization expense	-	-	-	-	-	-	(807)	(904)	(109)	(103)
Gain on disposal	-	-	-	-	-	-	5	14	-	-
Fair value adjustment	-	-	8,274	5,730	5,749	(1,987)	-	-	-	-
Interest income	1,605	1,495	-	-	36	28	-	-	38	75
Interest expense	(595)	(254)	-	-	(8,036)	(6,815)	(199)	(209)	(3,065)	(1,431)
Divisional income before tax	21,178	25,401	7,439	5,151	15,916	7,704	987	925	(8,582)	(5,636)

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 completed urban communities and large-scale commercial and industrial centres. The Community Development division currently owns over 9,000 acres of undeveloped land.

Timing of subdivision plan registrations has resulted in lower revenues for the nine months ended September 30, 2011 compared to the same period in the prior year. Revenue recognition for all development land is dependent on subdivision plan registrations, many of which are expected to register in the fourth quarter. There were five plan registrations in the current quarter, resulting in new developed lot inventory of 261 lots. This compares to Q3-2010 where seven plan registrations occurred resulting in 325 new developed lots.

We continue to actively develop a number of communities throughout Alberta and British Columbia. In 2011 we commenced development on new communities in Edmonton, Red Deer, Calgary, Cochrane and Lethbridge. Our level of activity is designed to meet current demand while managing our exposure. This is achieved by holding year end unsold inventory to approximately a one-year supply based on our market estimate for the upcoming year.

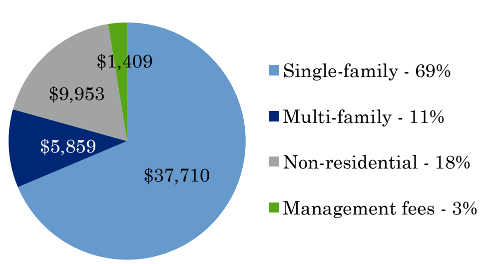
Non-residential revenues are generated from commercial and industrial land sales. These are large transactions which occur irregularly and do not trend like our residential lot sales. In the third quarter of 2011, we sold two multi-family sites representing 3.8 acres at an average price of $883,000 per acre and one commercial site representing 1.7 acres at an average price of $944,000 per acre.

In the current quarter, the division transferred 17.1 acres of land to our Property Development division. This resulted in revenues of $4.50 million to the division. The resultant net income effect of $2.76 million is reported as a fair value gain in our consolidated financial statements for the quarter ended September 30, 2011.

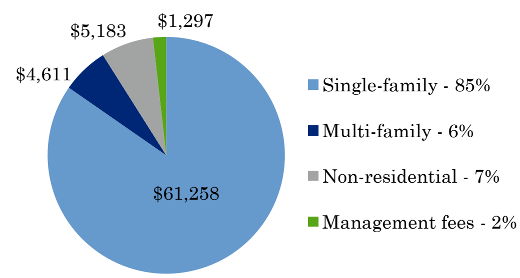
Sales of other land reflects sales of raw land, not included in our developed lot inventory.

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 product types, and the mix of joint operation sales activity.

Revenue by Type
Nine months ended September 30, 2011 ($000s)



Revenue by Type
Nine months ended September 30, 2010 ($000s)



Our Community Development division reported the following external sales:

Regional Sales Analysis	Three months ended 30-Sep-11				Three months ended 30-Sep-10			
(including joint ventures at 100%)	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Other (Acres)	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Other (Acres)
Edmonton Region	82	3.9	-	-	136	1.1	-	-
Red Deer	9		-	-	97	-	-	-
Calgary Region	142	-	1.7	-	50	-	-	-
Lethbridge	29	-	-	-	15	-	-	26.7
Kelowna	2	-	-	-	2	-	-	-
	264	3.9	1.7	-	300	1.1	-	26.7

Regional Sales Analysis	Nine months ended 30-Sep-11				Nine months ended 30-Sep-10			
(including joint ventures at 100%)	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Other (Acres)	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Other (Acres)
Edmonton Region	189	9.7	-	-	378	7.1	-	0.2
Red Deer	20	-	2.1	-	104	-	6.1	-
Calgary Region	161	-	7.5	4.1	91	-	-	-
Lethbridge	34	-	-	-	53	-	-	26.7
Kelowna	7	-	-	-	10	-	-	-
	411	9.7	9.6	4.1	636	7.1	6.1	26.9

Our average revenue per unit on single-family lots was $130,000, a decrease of $13,000 from the prior quarter average of $143,000. Average revenue per acre on multi-family sites was $750,000.

Developed Inventory	Nine months ended 30-Sep-11			Nine months ended 30-Sep-10		
(including joint ventures at 100%)	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	732	74.5	111.3	561	68.7	94.4
Purchases	143	-	-	-	-	-
New developments	322	41.8	159.7	520	12.1	27.9
Internal transfers	-	-	(17.1)	-	-	(5.0)
Sales	(411)	(9.7)	(9.6)	(636)	(7.1)	(6.1)
	786	106.6	244.4	445	73.7	111.2

Property Development

Our Property Development division develops, builds, markets and leases high-quality retail, office and industrial rental revenue-producing properties on prime commercial sites purchased at fair market value from our Community Development division. The Property Development division realizes fair value gains resulting from development and leasing activities.

The following table is a summary of current development projects:

	Development Status			
	Construction activity during the quarter	Estimated completion	Upcoming development activity	Estimated start
Northern Alberta:				
Leduc Common (Leduc, AB)	Construction completed: 16,700 sq ft Commercial Retail Unit (CRU) 6,000 restaurant pad site	Completed	CRU building (38,000 sq ft)	Q4-2011
Westgrove (Spruce Grove, AB)	Construction commenced: 8,400 sq ft CRU building	Q4-2011	Planning underway for an additional CRU building	2012
Central Alberta:				
Clearview Market (Red Deer, AB)	Construction completed: 4,615 sq ft bank building 7,500 sq ft bank building	Completed	Planning and leasing underway for 5 new buildings, site work started	2012
	Construction underway: 4,500 sq ft bank building 6,130 sq ft bank building	Q4-2011		
Southern Alberta:				
Kingsview Market (Airdrie, AB)	Servicing and sitework underway on the second phase	N/A	Planning and leasing underway for 3 buildings (approx total size 17,750 sq ft)	Q4-2011
Chestermere Station (Chestermere, AB)	Construction commenced: 6,130 sq ft bank building	Q4-2011	Planning and leasing underway for a CRU building (4,000 sq ft) and 2 pad sites	2012

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

In the current quarter, the division reported fair value gains of $6.11 million. These gains relate to various commercial development sites in Alberta, including Red Deer, Chestermere, Edmonton, and Leduc. The division has been very active in both the leasing and construction of these sites over the third quarter, and they will continue to be active until the construction season ends in Q4-2011.

Investment Properties

Investment Properties Summary	Three months ended		Nine months ended	
($000s except as noted)	30-Sep-11	30-Sep-10	30-Sep-11	30-Sep-10
Net operating income (NOI)	6,347	5,863	19,126	17,202
Same asset NOI	6,127	5,726	17,956	17,501
Occupancy	89%	88%	89%	88%
Fair value of portfolio	424,088	426,890	424,088	426,890
Funds from operations	4,107	3,967	12,710	12,142
Funds from operations per share	0.14	0.13	0.42	0.40

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 two 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.

During the quarter, the division sold "The Market at Magrath", a 78,400 sq. ft. commercial and office building development in southwest Edmonton, Alberta, comprising four buildings in total. The development was sold for $34.50 million which represents a return on investment (ROI) of 59.5%. The division also sold an industrial building in Saskatchewan.

Fair value gains of $5.68 million were earned by the division in the current quarter on the Investment Properties portfolio. This was primarily the result of a decrease in capitalization rates on several of our retail development sites, combined with an increased value to existing properties as a result of capital improvements.

The following table summarizes our net operating income:

	Three months ended		Change	Nine months ended		Change
($000s except as noted)	30-Sep-11	30-Sep-10		30-Sep-11	30-Sep-10	
Same properties	6,127	5,726	7%	17,956	17,501	3%
2010 acquisitions	555	327		1,642	462	
2010 dispositions	-	30		-	56	
2011 acquisitions	227	-		513	32	
2011 dispositions	358	616		1,558	1,602	
NOI before adjustments	7,267	6,699	8%	21,669	19,653	10%
Amortization of operating lease incentives	(920)	(836)		(2,543)	(2,451)	

Our same properties NOI has increased quarter over quarter due to increased rental rates on lease renewals and slightly increased occupancy rates in the period. Year to date, our NOI has increased due to additional leasable properties adding significant rentable square footage and residential units.

Recreational Properties

Recreational Properties Summary		**Nine months ended 30-Sep-11**		**Nine months ended 30-Sep-10**	
	Ownership interest	Season opened	Rounds of golf	Season opened	Rounds of golf
Managed by Melcor:					
Lewis Estates (Edmonton)	60%	April 28	22,922	April 4	25,414
The Links (Spruce Grove)	100%	April 29	20,177	April 6	22,056
Black Mountain (Kelowna)	100%	April 1	24,197	March 16	21,883
Managed by a Third Party:					
Jagare Ridge (Edmonton)	50%	May 6	22,406	April 23	24,789

Our Recreational Properties division owns and manages championship golf courses built to add value to Melcor residential communities. The financial performance of our golf courses is greatly influenced by the weather conditions during the golf season. Late course openings and unfavorable weather conditions experienced in the 2011 golf season have resulted in fewer rounds of golf being played at our Alberta courses. This was offset by our Black Mountain golf course, which experienced increased rounds as we continue to gain market share in Kelowna. All four courses are expected to remain open until mid-November.

Quarterly Results

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

	Three Months Ended							
($000s)	30-Sep-11	30-Jun-11	31-Mar-11	31-Dec-10	30-Sep-10	30-Jun-10	31-Mar-10	31-Dec-09*
Revenue	41,446	24,615	24,859	84,363	40,921	34,834	29,568	48,872
Net income	21,140	4,494	3,940	33,569	11,646	6,280	6,898	9,918
Per Share								
Basic earnings	0.70	0.15	0.13	1.11	0.39	0.20	0.23	0.33
Diluted earnings	0.67	0.15	0.13	1.10	0.38	0.20	0.23	0.33
Book value	18.54	17.77	17.84	17.70	16.80	16.37	16.33	10.78

*Denotes figures in historical Canadian GAAP that have not been restated for IFRS. Reported income and equity would have been impacted by the following adjustments required under IFRS

- Recognition of fair value changes in investment properties during the period;
- Reduction of amortization expense on investment properties; and
- Capitalization of borrowing costs on land and investment properties under development.

Liquidity & Capital Resources

The following table represents selected information as at September 30, 2011, compared to December 31, 2010.

	As at	
($000s except as noted)	30-Sep-11	31-Dec-10
Cash & cash equivalents	9,632	6,391
Accounts receivable	11,415	12,992
Agreements receivable	73,533	97,474
Operating loan	65,866	53,651
Accounts payable	40,450	35,343
Total assets	1,098,011	1,043,996
Total liabilities	540,821	511,178
Debt to equity ratio	0.97	0.96

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		Nine months ended	
($000s)	30-Sep-11	30-Sep-10	30-Sep-11	30-Sep-10
Cash flows from (used in) operating activities	5,601	9,944	7,002	54,381
Cash flows from (used in) investing activities	5,674	(16,983)	(31,982)	(33,446)
Cash flows from (used in) financing activities	(9,893)	6,762	28,184	(20,008)

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

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

We currently do not have any plans 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.

Cash generated from operations was $5.60 million in Q3-2011 compared to $9.94 million in Q3-2010. This change is primarily the result of increased cash spent on development activities in the Community Development division, as we continue to invest in developing new communities to create future inventory. The change is also a result of fluctuations to earnings, accounts payable, accounts receivable and other operating assets and liabilities through normal business activities.

Cash generated from investing activities was $5.67 million in Q3-2011 compared to cash used in investing activities of $16.98 million in Q3-2010. The sale of two investment properties in the current quarter resulted in net proceeds of $15.95 million. There were no similar sales in Q3-2010. There was also a decrease in the purchase of land inventory from $9.30 million in Q3-2010 compared to $2.20 million in Q3-2011. Investing activities related to the purchase of investment properties remained fairly consistent in Q3-2011. Year to date purchases of investment properties in the amount of $37.94 million reflect our growing portfolio of assets in the US.

Cash used in financing activities was $9.89 million in Q3-2011 compared to cash generated from financing activities of $6.76 million in Q3-2010. During Q3-2011, we obtained $13.00 million of new financing whereas in Q3-2010 there was new financing of $33.10 million obtained. In both Q3-2011 and Q3-2010 we repurchased, for cancellation, shares by way of a Normal Course Issuer Bid. We repurchased 208,600 in Q3-2011 for $2.38 million compared to 277,500 shares for $3.23 million in Q3-2010.

Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at November 3, 2011 there were 29,958,197 common shares issued and outstanding and 1,320,867 options, each convertible to one common share upon exercise or exchange.

Off Balance Sheet Arrangements, Contractual Obligations, Risks Related to our Business, Critical Accounting Estimates

There are no material changes to the above titled sections at September 30, 2011 in comparison to the December 31, 2010 annual MD&A.

Changes in Accounting Policies

The following are changes in accounting policies that will impact our financial reporting in the future:

IFRS 9 Financial Instruments

This standard aims to simplify the classification and measurement requirements for financial instruments (asset, debt and equity). It replaces IAS 39 and will apply to accounting periods beginning on or after January 1, 2013 with earlier adoption permitted. We have not yet assessed the impact of the standard or determined whether we will adopt the standard early.

IFRS 7 Financial Instruments: Disclosure

The amendment to this standard addresses disclosure of the transfer of financial assets (off balance sheet activities) and is intended to improve the understanding of transfer transactions. This standard applies to annual periods beginning on or after July 1, 2011 with earlier adoption permitted. We have not yet assessed the impact of the standard or determined whether we will adopt the standard early.

IAS 12 Income Taxes

This standard has been modified to introduce a rebuttable presumption that investment property measured at fair value will be recovered entirely through sale. Measurement of related deferred taxes will reflect the tax consequences of recovering the carrying amount through sale. We have adopted this amendment effective January 1, 2010.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities

These new standards include a revision to the definition of control for the purposes of determining which arrangements should be consolidated, a reduction in the types of joint arrangements which are now based on rights and obligations, and new disclosure requirements for significant judgments and assumptions used in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities. These standards are effective for annual periods commencing on or after January 1, 2013 with earlier adoption permitted. We have not yet assessed the impact of these standards or determined whether we will adopt the standard early.

IFRS 13 Fair Value Measurement

This new standard sets out a single IFRS framework for measuring fair value and establishes disclosure requirements for fair value measurements. This standard is effective for annual periods commencing on or after January 1, 2013 with earlier adoption permitted. We have not yet assessed the impact of the standard or determined whether we will adopt the standard early.

Internal Control over Financial Reporting and Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended September 30, 2011 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

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 and is used in our Investment Properties division.

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

Calculations

We use the following calculations in measuring our performance.

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

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

Gross margin = (NOI) / revenue (expressed as a percentage). This measure indicates the relative efficiency with which we earn revenue.

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

Debt to equity ratio = total debt / total equity

Funds from operations (FFO) = investment properties divisional income before tax + amortization of operating lease incentives - fair value gain on Investment Properties + fair value loss on Investment Properties

FFO per share = FFO/ number of common shares outstanding

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