News Release

Tuesday, November 6, 2012

For Immediate Release

Melcor reports third quarter earnings for 2012 and declares $0.23 dividend

Melcor Developments Ltd. (TSX: MRD), an Alberta-based real estate development company, today reported net income of $49.55 million or $1.65 per share (basic) on revenue of $132.97 million for the nine months ended September 30, 2012. These figures represent growth in net income and revenues of 68% and 46% respectively over 2011 results for the same period. Earnings include net fair value gains of $29.30 million, primarily from the Investment Property division, where changes in capitalization rates on certain office properties and higher leasing activity contributed $23.24 million to these fair value gains.

Third quarter net income was $24.83 million or $0.83 per share (basic) on revenue of $64.67 million compared to net income of $21.14 million or $0.70 per share (basic) on revenue of $41.45 million in the third quarter of 2011.

Funds from operations (FFO) per share was $0.53 per share in Q3-2012, an increase of $0.19 per share, or 56% from the same quarter last year. FFO per share adjusts for all non-cash earnings items included in income such as fair value adjustments on investment properties and stock based compensation expense.

Brian Baker, Melcor's President and COO, reported on the quarter: "We had a successful development season and healthy sales and leasing activity throughout the third quarter, all of which led to strong results. In addition, we continue to build for the future and have received approvals on a number of key projects. These approvals ensure that a steady pipeline of 'shovel-ready' assets remains available to the company. We are in a good position for a strong finish to 2012 and we are optimistic about our future opportunities as we approach 2013."

Highlights for Q3-2012 include:

- The Community Development division had a strong quarter with revenue of $47.57 million, a 56% increase from Q3-2012. Year-to-date single-family lot sales totalled 613, 49% more than the same period of 2011. Lot sales in Red Deer, Calgary and Lethbridge were particularly strong.
- The Community Development division also completed land acquisitions in the third quarter of 2012, adding 233 acres of land strategically located near our existing land holdings in St. Albert and Red Deer.
- The Investment Properties division's retail, commercial and office portfolio continues to grow in size and operating profitability. During the quarter, Melcor negotiated a 7-year fixed rate loan at 3.32% for $8.25 million on a neighbourhood commercial centre in Edmonton, Alberta.
- The Property Development division completed construction on 44,000 sq. ft. in leasable space in the quarter and expects to complete construction on a number of projects by the end of the year.
- The Recreational Properties division had a successful golf season, with a 7% increase in the number rounds played compared to 2011.

Melcor's Board of Directors declared a semi-annual dividend of $0.23 per share, payable on December 28, 2012 to shareholders of record on December 14, 2012.

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

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

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

FFO is a non-IFRS measure used in this Press Release that does not have any standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and is therefore unlikely to be comparable to similar measures presented by other issuers. This non-IFRS measure is more fully defined and discussed in Melcor's management's discussion and analysis of the Company for the nine-months ended September 30, 2012.

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MELCOR DEVELOPMENTS LTD.

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statements of Income

($000s) Unaudited	For the three months ended Sept. 30, 2012	Sept. 30, 2011	For the nine months ended Sept. 30, 2012	Sept. 30, 2011
Revenue	64,674	41,446	132,968	90,920
Cost of sales	(36,345)	(22,359)	(73,504)	(47,894)
	28,329	19,087	59,464	43,026
General and adminstrative expense	(5,238)	(3,588)	(15,454)	(11,744)
Depreciation expense	(450)	(424)	(971)	(916)
	22,641	15,075	43,039	30,366
Fair value adjustment on investment properties (note 4)	12,274	14,555	29,301	16,783
Gain on sale of assets	-	5	-	5
	34,915	29,635	72,340	47,154
Interest income	621	571	1,651	1,679
Interest expense (note 8)	(4,331)	(4,232)	(12,663)	(11,895)
Net finance costs	(3,710)	(3,661)	(11,012)	(10,216)
Income before income taxes	31,205	25,974	61,328	36,938
Income tax expense (note 7)	(6,373)	(4,834)	(11,777)	(7,364)
Net income for the period	24,832	21,140	49,551	29,574
Net income (loss) attributable to:				
Owners of Melcor	24,836	21,140	49,566	29,574
Non-controlling interest	(4)	-	(15)	-
Net income for the period	24,832	21,140	49,551	29,574
Earnings per share attributable to owners of Melcor:				
Basic earnings per share	0.83	0.70	1.65	0.98
Diluted earnings per share	0.78	0.67	1.57	0.95

Condensed Interim Consolidated Statements of Comprehensive Income

($000s) Unaudited	For the three months ended Sept. 30, 2012	Sept. 30, 2011	For the nine months ended Sept. 30, 2012	Sept. 30, 2011
Net income for the period	24,832	21,140	49,551	29,574
Other comprehensive income (loss)				
Currency translation differences	(4,179)	634	(2,054)	387
Comprehensive income for the period	20,653	21,774	47,497	29,961
Comprehensive income (loss) attributable to:				
Owners of Melcor	20,691	21,774	47,548	29,961
Non-controlling interest	(38)	-	(51)	-
Comprehensive income for the period	20,653	21,774	47,497	29,961

Condensed Interim Consolidated Statements of Financial Position

Unaudited ($000s)	September 30, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	10,854	10,703
Accounts receivable	12,444	14,205
Income taxes recoverable	5,398	1,208
Agreements receivable	122,482	139,840
Land inventory (note 3)	580,233	529,803
Investment properties (note 4)	548,401	493,520
Property and equipment	14,690	12,942
Other assets	21,406	16,664
	1,315,908	1,218,885
LIABILITIES		
Accounts payable and accrued liabilities	47,372	41,749
Provision for land development costs	99,452	92,946
General debt (note 5)	466,024	429,689
Deferred income tax liabilities	57,037	51,757
	669,885	616,141
SHAREHOLDERS' EQUITY		
Equity attributable to owners of Melcor		
Share capital (note 6)	15,503	14,446
Contributed surplus	4,090	2,810
Convertible debenture	639	639
Accumulated other comprehensive income (AOCI)	(1,971)	47
Retained earnings	623,757	580,821
	642,018	598,763
Non-controlling interest (NCI)	4,005	3,981
	646,023	602,744
	1,315,908	1,218,885

Condensed Interim Consolidated Statements of Changes in Equity

Unaudited ($000s)	Share Capital	Contributed Surplus	Convertible Debenture	AOCI	Retained Earnings	NCI	Total Equity
	Equity attributable to owners of Melcor						
Balance at January 1, 2012	**14,446**	**2,810**	**639**	**47**	**580,821**	**3,981**	**602,744**
Net income for the period	-	-	-	-	49,566	(15)	49,551
Contributions from non-controlling interest	-	-	-	-	-	75	75
Cumulative translation adjustment	-	-	-	(2,018)	-	(36)	(2,054)
Transactions with equity holders							
Dividends paid	-	-	-	-	(6,630)	-	(6,630)
Employee share options							
Value of services recognized	-	1,368	-	-	-	-	1,368
Share issuance	1,057	(88)	-	-	-	-	969
Balance at Sept. 30, 2012	**15,503**	**4,090**	**639**	**(1,971)**	**623,757**	**4,005**	**646,023**

Unaudited ($000s)	Share Capital	Contributed Surplus	Convertible Debenture	AOCI	Retained Earnings	NCI	Total Equity
	Equity attributable to owners of Melcor						
Balance at January 1, 2011	13,354	1,015	-	(467)	514,791	-	528,693
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)	536,040	-	553,065

Condensed Interim Consolidated Statements of Cash Flows

($000s) Unaudited	For the three months ended Sept. 30, 2012	Sept. 30, 2011	For the nine months ended Sept. 30, 2012	Sept. 30, 2011
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income for the period	24,832	21,140	49,551	29,574
Non cash items:				
Amortization of operating lease incentives	753	920	2,341	2,543
Depreciation of property and equipment	450	424	971	916
Stock based compensation expense	441	447	1,368	1,439
Non cash interest	194	276	696	665
Fair value adjustment on investment properties (note 4)	(12,274)	(14,555)	(29,301)	(16,783)
Gain on disposal of assets	-	(5)	-	(5)
Deferred income taxes	1,534	1,642	3,673	1,920
	15,930	10,289	29,299	20,269
Agreements receivable	(265)	2,617	17,358	23,941
Development activities	(14,907)	(23,044)	(22,734)	(32,883)
Operating assets and liabilities	15,708	15,739	3,644	(4,325)
	16,466	5,601	27,567	7,002
INVESTING ACTIVITIES				
Purchase of land inventory	(5,852)	(2,198)	(8,883)	(3,897)
Payment of tenant lease incentives	(2,727)	(1,332)	(5,945)	(5,465)
Proceeds from disposal of investment properties	-	15,948	-	15,948
Additions to investment properties	(12,142)	(6,388)	(26,543)	(37,938)
Proceesd from disposal of assets	-	7	-	7
Purchase of property and equipment	(1,001)	(363)	(2,719)	(637)
	(21,722)	5,674	(44,090)	(31,982)
FINANCING ACTIVITIES				
Bank operating loan	1,006	(5,856)	15,072	12,215
Proceeds from debt on land inventory	1,096	-	2,982	-
Repayment of debt on land inventory	(4,594)	(11,591)	(13,371)	(26,581)
Proceeds from debt on investment properties and golf course assets	11,284	13,000	24,017	19,500
Repayment of debt on investment properties and golf course assets	(3,192)	(3,240)	(6,280)	(8,925)
Proceeds from convertible debenture	-	-	-	39,642
Dividends paid	-	-	(6,630)	(6,045)
Share capital issued	282	172	969	756
Common shares purchased	-	(2,378)	-	(2,378)
	5,882	(9,893)	16,759	28,184
FOREIGN EXCHANGE LOSS ON CASH HELD IN A FOREIGN CURRENCY	(90)	56	(85)	37
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	536	1,438	151	3,241
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	10,318	8,194	10,703	6,391
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	10,854	9,632	10,854	9,632
Total income taxes paid	4,470	3,445	11,944	17,073
Total interest paid	5,322	5,736	14,885	14,895

1. CORPORATE INFORMATION

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

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

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

2. BASIS OF PRESENTATION

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

These condensed interim consolidated financial statements should be read in conjunction with our annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim financial statements were approved for issue by the Board of Directors on November 6, 2012.

3. LAND INVENTORY

($000s)	**September 30, 2012**	December 31, 2011
Raw land held	**272,925**	263,029
Land under development	**144,615**	96,694
Developed land	**162,693**	170,080
	580,233	529,803

During the nine month period ended September 30, 2012 we entered into a joint arrangement in which we have a 50% undivided interest with unrelated parties owning the remaining 50% of the assets, liabilities, revenue and expenses under this agreement. This resulted in the recognition of 83 acres of land at a cost of $6,623, and $4,636 in vendor financing (Q3-2012 - $nil). In addition, we also purchased 261 acres of land at a cost of $17,265 (Q3-2012 - $16,221) and received vendor financing of $10,369 (Q3-2012 - $10,369).

During the same period in the prior year, we purchased 45 acres of land at a cost of $2,958 (Q3-2011 - $2,400) and 143 finished lots in the US for $2,739 (Q3-2011 - $1,598), and received vendor financing of $1,800 (Q3-2011 - $1,800).

4. INVESTMENT PROPERTIES

	Nine months ended September 30, 2012	Year ended December 31, 2011
Balance - beginning of period	**493,520**	401,429
Additions		
Direct acquisition	**5,531**	21,645
Transfer from land inventory	**1,779**	2,988
Acquisition through business combination	**-**	40,838
Property improvements	**4,632**	7,009
Property development	**16,155**	12,149
Capitalized borrowing costs	**493**	225
Disposals	**(268)**	(36,695)
Net fair value adjustment on investment properties	**29,301**	41,696
Foreign currency translation	**(2,742)**	2,236
Balance - end of period	**548,401**	493,520

Investment properties were valued by qualified independent external valuation professionals as at December 31, 2011. We obtained updated market data and considered whether changes to any important valuation model variables resulted in significant changes to any of the property fair values at September 30, 2012. Fair values of investment properties were updated based on the updated data and model variables.

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

	September 30, 2012			December 31, 2011		
	Min	**Max**	**Weighted Average**	Min	Max	Weighted Average
Capitalization rate	5.75%	7.75%	6.56%	5.75%	8.00%	6.88%
Terminal capitalization rate	6.00%	8.00%	6.80%	6.00%	8.50%	7.14%

5. GENERAL DEBT

($000s)	**September 30, 2012**	December 31, 2011
Bank operating loan	**106,107**	91,094
Debt on land inventory	**71,220**	66,378
Debt on investment properties and golf course assets	**249,607**	233,268
Convertible debenture	**39,090**	38,949
	466,024	429,689

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

6. SHARE CAPITAL

Issued and outstanding common shares at September 30, 2012 are 30,175,000 (December 31, 2011 – 30,033,000).

During the nine months ended September 30, 2012, there were 142,000 options exercised, with 34,000 exercised in the third quarter. There were 146,000 options exercised during the same period in the prior year, with 31,000 exercised in the third quarter.

During the nine months ended September 30, 2012 there were no stock options issued to employees of the company. There were 105,000 stock options issued during the same period in the prior year (Q3-2011 – nil).

7. INCOME TAX EXPENSE

Income tax expense is recognized based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year is 25.8% (2011 – 26.2%) for income except items for which a capital gains rate of 12.5% (2011 – 13.3%) is applicable.

8. RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2012, there were debenture coupon payments of $346 (Q3-2011 - $347) paid to companies controlled by two members of our executive management team who are also directors of our company, with total year-to-date payments of $1,030 (2011 - $882).

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

9. SEGMENTED INFORMATION

The following table summarizes our US operations and assets:

	For the three months ended		**For the nine months ended**	
(in Canadian dollars)	**Sept. 30, 2012**	Sept. 30, 2011	**Sept. 30, 2012**	Sept. 30, 2011
External revenue	**2,561**	1,864	**7,451**	3,694
Net loss	**(194)**	(437)	**(665)**	(245)

As at (in Canadian dollars)	**Sept. 30, 2012**	December 31, 2011
Assets	**112,363**	111,428
Equity	**8,773**	11,315

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

Our divisions reported the following results:

For the three months ended September 30, 2012	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	47,572	100	13,353	3,803	-	(154)	64,674
Cost of sales	(28,487)	-	(5,992)	(1,866)	-	-	(36,345)
	19,085	100	7,361	1,937	-	(154)	28,329
General and administrative	(1,917)	(565)	(254)	(478)	(2,178)	154	(5,238)
Depreciation expense	-	-	-	(393)	(57)	-	(450)
	17,168	(465)	7,107	1,066	(2,235)	-	22,641
Fair value adjustment on investment properties	-	3,803	8,471	-	-	-	12,274
Interest income	599	-	12	-	10	-	621
	17,767	3,338	15,590	1,066	(2,225)	-	35,536
Interest expense							(4,331)
Income before tax							31,205
Income tax							(6,373)
Net income							24,832

For the three months ended September 30, 2011	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	30,484	27	12,197	3,717	-	(4,979)	41,446
Cost of sales	(16,576)	-	(5,850)	(1,632)	-	1,699	(22,359)
	13,908	27	6,347	2,085	-	(3,280)	19,087
General and administrative	(1,424)	(142)	(373)	(473)	(1,696)	520	(3,588)
Depreciation expense	-	-	-	(384)	(40)	-	(424)
	12,484	(115)	5,974	1,228	(1,736)	(2,760)	15,075
Fair value adjustment on investment properties	-	6,113	5,682	-	-	2,760	14,555
Gain on sale of asset	-	-	-	5	-	-	5
Interest income	560	-	11	-	-	-	571
	13,044	5,998	11,667	1,233	(1,736)	-	30,206
Interest expense							(4,232)
Income before tax							25,974
Income tax							(4,834)
Net income							21,140

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

For the nine months ended September 30, 2012	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	90,277	573	38,699	7,074	-	(3,655)	132,968
Cost of sales	(54,655)	-	(17,231)	(3,397)	-	1,779	(73,504)
	35,622	573	21,468	3,677	-	(1,876)	59,464
General and administrative	(4,925)	(1,362)	(1,278)	(1,533)	(6,925)	569	(15,454)
Depreciation expense	-	-	-	(827)	(144)	-	(971)
	30,697	(789)	20,190	1,317	(7,069)	(1,307)	43,039
Fair value adjustment on investment properties	-	4,756	23,238	-	-	1,307	29,301
Interest income	1,519	-	36	-	96	-	1,651
	32,216	3,967	43,464	1,317	(6,973)	-	73,991
Interest expense							(12,663)
Income before tax							61,328
Income tax							(11,777)
Net income							49,551

For the nine months ended September 30, 2011	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	54,931	40	34,834	6,549	-	(5,434)	90,920
Cost of sales	(30,821)	-	(15,708)	(3,108)	-	1,743	(47,894)
	24,110	40	19,126	3,441	-	(3,691)	43,026
General and administrative	(3,942)	(876)	(957)	(1,454)	(5,446)	931	(11,744)
Depreciation expense	-	-	-	(808)	(108)	-	(916)
	20,168	(836)	18,169	1,179	(5,554)	(2,760)	30,366
Fair value adjustment on investment properties	-	8,275	5,748	-	-	2,760	16,783
Gain on sale of asset	-	-	-	5	-	-	5
Interest income	1,521	-	36	-	122	-	1,679
	21,689	7,439	23,953	1,184	(5,432)	-	48,833
Interest expense							(11,895)
Income before tax							36,938
Income tax							(7,364)
Net income							29,574

10. EVENTS AFTER THE REPORTING PERIOD

On November 6, 2012 we declared a dividend of $0.23 per share, payable December 28, 2012 to shareholders of record on December 14, 2012.

Management's Discussion & Analysis

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November 6, 2012

The following discussion of Melcor's financial condition and results of operations should be read in conjunction with the condensed interim consolidated financial statements and related notes for the quarter ended September 30, 2012 and the Management's Discussion & Analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2011.

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

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on November 6, 2012.

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

Other Information

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

Non-GAAP Measures

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

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

Forward-looking Statements

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

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

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2012 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

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

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

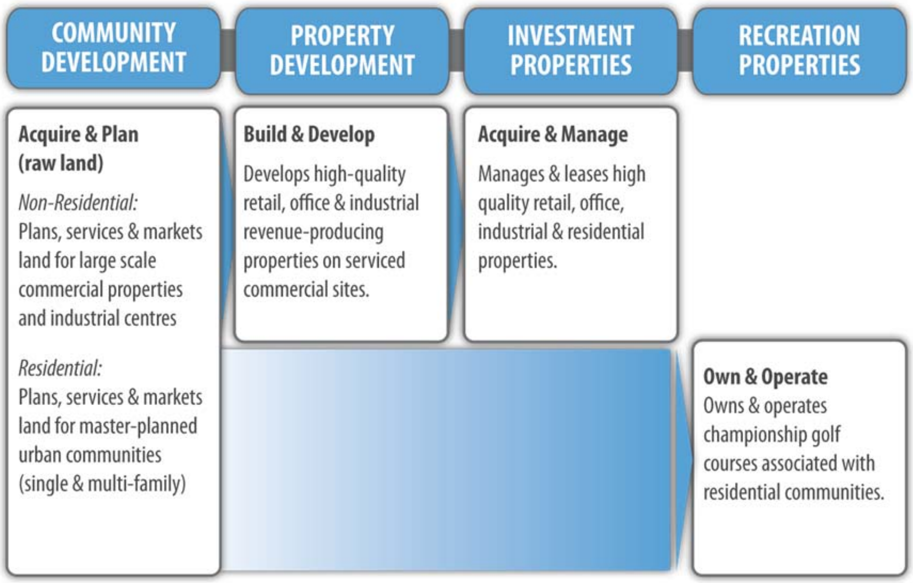
Overview of our Business

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

As a real estate development and management company, we operate four integrated divisions. Through these operating divisions, we manage the full life cycle of real estate development:

- acquiring raw land (Community Development)
- residential community and commercial planning (Community Development)
- development and construction project management (Property Development)
- managing leasable office, retail and residential sites (Investment Properties)

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



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

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

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

Our headquarters are in Edmonton, Alberta, with regional offices throughout Alberta and British Columbia. Our developments span western Canada and the US.

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

Third Quarter Highlights

($000s except as noted)	Three months ended			Nine months ended		
	30-Sep-12	30-Sep-11	Change	30-Sep-12	30-Sep-11	Change
Revenue	64,674	41,446	56%	132,968	90,920	46%
Gross margin (%)	43.8%	46.1%	-5.0%	44.7%	47.3%	-5.5%
Net income	24,832	21,140	17%	49,551	29,574	68%
Margin on net income	38.4%	51.0%	-25%	37.3%	32.5%	15%
Funds from operations *	15,930	10,289	55%	29,299	20,269	45%
Per Share Data						
Basic earnings	0.83	0.70	19%	1.65	0.98	68%
Diluted earnings	0.78	0.67	16%	1.57	0.95	65%
Funds from operations *	0.53	0.34	56%	0.97	0.67	45%

$000s except as noted)	As at		
	30-Sep-12	31-Dec-11	Change
Shareholders' equity	642,018	598,763	7%
Total assets	1,315,908	1,218,885	8%
Per Share Data			
Book value *	21.28	19.93	7%

** See non-GAAP measurements for calculation.*

Highlights for the third quarter include:

- Strong growth in revenues and earnings through the third quarter, with growth over the same period in the prior year of 56% and 17% respectively.
- The Investment Property division recorded net fair value gains in Q3-2012 of $8.47, million due primarily to a decrease in capitalization rates in the Alberta and Saskatchewan markets and new leasing completed during the quarter.
- The Community Development division generated revenue of $47.57 million, a 56% increase from Q3-2011.
- Subsequent to the quarter (November 6), our Board of Directors declared a dividend of $0.23 per share, payable on December 28, 2012 to shareholders of record on December 14, 2012. The dividend is an eligible dividend for Canadian tax purposes.

Revenue & Margins:

- Revenue increased to $64.67 million in Q3-2012 compared to $41.45 million in Q3-2011. Our Community Development division was the main contributor to this increase due to higher lot and acre sales in Q3-2012. In Q3-2012, we sold 345 lots and 18.33 acres in multi-family developments, commercial sites and industrial sites compared to 264 lots and 18.45 acres in the same quarter last year.
- General and administrative costs increased by $1.65 million in Q3-2012 compared to the same period last year, primarily due to higher employee costs across all operating divisions as we continue to build capacity to execute our growth plans.
- Net fair value gains of $12.27 million were realized across multiple divisions in the current quarter. Changes in capitalization rates on certain office properties and higher leasing activity in the Investment Properties division contributed $8.47 million in fair value gains in Q3-2012.
- Funds from operations (FFO) per share is a non-standard measure that adjusts for all non-cash earnings items included in income such as fair value adjustments on investment properties and stock based compensation expense. This measure is useful because these items can often fluctuate due to reasons beyond our control. As such, this provides a normalized financial metric to assess Melcor's operations. FFO per share was $0.53 per share in Q3-2012, an increase of $0.19 per share, or 56% from the same quarter last year. This is primarily due to the increase in earnings resulting from higher lot sales reported in the Community Development division.
- Basic earnings per share for the three months ended September 30, 2012 was $0.83, an increase of $0.13 per share, or 19%, from the same quarter last year.
- Our quarterly results are affected by the seasonal 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.

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-12	30-Sep-11	30-Sep-12	30-Sep-11	30-Sep-12	30-Sep-11	30-Sep-12	30-Sep-11	30-Sep-12	30-Sep-11
Revenue	47,572	30,484	100	27	13,353	12,197	3,803	3,717	-	-
Portion of total revenue	73%	66%	0%	0%	21%	26%	6%	8%	-	-
Cost of sales	(28,487)	(16,576)	-	-	(5,992)	(5,850)	(1,866)	(1,632)	-	-
Gross margin	19,085	13,908	100	27	7,361	6,347	1,937	2,085	-	-
Gross margin %	40%	46%	100%	100%	55%	52%	51%	56%	-	-
Portion of total margin	67%	62%	0%	0%	26%	28%	7%	9%	-	-
Depreciation expense	-	-	-	-	-	-	(393)	(384)	(57)	(40)
General and administrative expense	(1,917)	(1,424)	(565)	(142)	(254)	(373)	(478)	(473)	(2,178)	(1,696)
Gain on disposal	-	-	-	-	-	-	-	5	-	-
Net fair value adjustment	-	-	3,803	6,113	8,471	5,682	-	-	-	-
Interest income	599	560	-	-	12	11	-	-	10	-
Divisional income before tax	17,767	13,044	3,338	5,998	15,590	11,667	1,066	1,233	(2,225)	(1,736)

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-12	30-Sep-11	30-Sep-12	30-Sep-11	30-Sep-12	30-Sep-11	30-Sep-12	30-Sep-11	30-Sep-12	30-Sep-11
Revenue	90,277	54,931	573	40	38,699	34,834	7,074	6,549	-	-
Portion of total revenue	66%	57%	0%	0%	28%	36%	5%	7%	-	-
Cost of sales	(54,655)	(30,821)	-	-	(17,231)	(15,708)	(3,397)	(3,108)	-	-
Gross margin	35,622	24,110	573	40	21,468	19,126	3,677	3,441	-	-
Gross margin %	39%	44%	100%	100%	55%	55%	52%	53%	-	-
Portion of total margin	58%	52%	1%	0%	35%	41%	6%	7%	-	-
Depreciation expense	-	-	-	-	-	-	(827)	(808)	(144)	(108)
General and administrative expense	(4,925)	(3,942)	(1,362)	(876)	(1,278)	(957)	(1,533)	(1,454)	(6,925)	(5,446)
Gain on disposal	-	-	-	-	-	-	-	5	-	-
Net fair value adjustment	-	-	4,756	8,275	23,238	5,748	-	-	-	-
Interest income	1,519	1,521	-	-	36	36	-	-	96	122
Divisional income before tax	32,216	21,689	3,967	7,439	43,464	23,953	1,317	1,184	(6,973)	(5,432)

Divisional results are shown before inter-segment eliminations

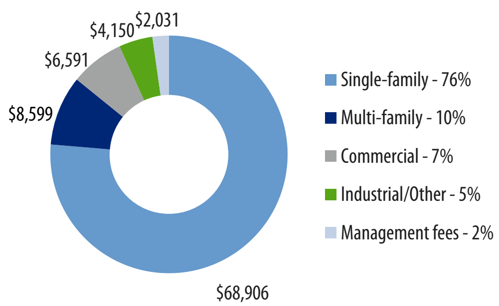
Community Development

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

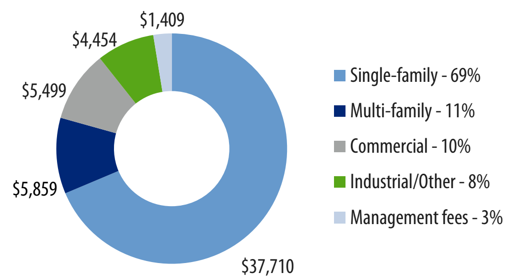
Sales Activity

The division produced strong results in Q3-2012, with 345 single-family lot sales, 7.45 acres sold for multi-family projects, and 10.88 acres sold for commercial or industrial use. Our primary market is Alberta, Canada, where overall market conditions remain strong.

Revenue by Type
Nine months ended September 30, 2012 ($000s)



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



Consolidated	Three months ended		Nine months ended	
	30-Sep-12	30-Sep-11	30-Sep-12	30-Sep-11
Sales data:				
Single family sales (number of lots)	**345**	264	**613**	411
Gross average revenue per single family lot ($)	**149,500**	122,200	**146,700**	129,900
Multi-family sales (acres)	**7.45**	3.85	**18.29**	9.73
Gross average revenue per multi-family acre ($)	**719,700**	882,700	**796,200**	750,500
Commercial sales (acres)	**3.51**	14.60	**12.00**	17.47
Gross average revenue per commercial land acre ($)	**707,200**	628,300	**709,800**	673,900
Other land sales - Industrial, Other (acres)	**7.37**	-	**19.23**	9.12
Gross average revenue per other land acre ($)	**402,400**	-	**311,800**	361,500
Financial results:				
Revenue ($000s)	**47,572**	30,484	**90,277**	54,931
Earnings ($000s)	**17,767**	13,044	**32,216**	21,689

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.

Regional Sales Analysis

Regional Sales Analysis	Three months ended 30-Sep-12			Three months ended 30-Sep-11		
(including joint ventures at 100%)	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	45	2.15	3.51	82	3.85	-
Red Deer	115	-	4.92	9	-	12.95
Calgary Region	115	5.30	2.45	142	-	1.65
Lethbridge	66	-	-	29	-	-
Kelowna	4	-	-	2	-	-
	345	7.45	10.88	264	3.85	14.60

Regional Sales Analysis	Nine months ended 30-Sep-12			Nine months ended 30-Sep-11		
(including joint ventures at 100%)	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	171	4.62	9.07	189	9.73	-
Red Deer	126	-	16.37	20	-	15.02
Calgary Region	188	13.67	5.79	161	-	11.57
Lethbridge	123	-	-	34	-	-
Kelowna	5	-	-	7	-	-
	613	18.29	31.23	411	9.73	26.59

The Edmonton region trails prior year results with 45 single-family lot sales in Q3-2012, compared with 82 lots in Q3-2011. This decrease in sales is due primarily to delays in plan registrations, which are expected to be realized in Q4-2012. This region remains well positioned to deliver solid results through the remainder of the year.

The Calgary region had the division's strongest sales activity year to date with the sale of 188 single-family lots. The Calgary region remains a very strong market with continued oil and gas industry expansion, net municipal in-migration and steady job growth.

The Red Deer and Lethbridge regions both had strong quarters with 115 and 66 single-family lot sales respectively; compared with 9 and 29 in the same period in 2011. These markets continue to be solid contributors to Melcor's results and benefit from the general strengthening of the Alberta housing market. Strong demand in the Lethbridge region has led to the development a new community, Garry Station, which is responsible for approximately half of the region's year-to-date sales.

Inventory

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

Developed Inventory	30-Sep-12			30-Sep-11		
(including joint ventures at 100%)	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	**997**	**95.36**	**177.39**	732	71.56	114.30
Purchases	-	-	-	143	-	-
New developments	**430**	**29.05**	**68.69**	322	41.83	159.72
Internal sales	-	-	**(10.24)**	-	-	-
Sales	**(613)**	**(18.29)**	**(20.99)**	(411)	(9.73)	(26.59)
	814	**106.12**	**214.85**	786	103.66	247.43

Raw land inventory

To support future growth, we acquire land in strategic growth corridors and maintain an inventory of land for future development in our primary markets. In January 2012, the company formed a joint arrangement to purchase a 50% interest in 166 acres of land at a cost of $6.62 million and received vendor financing of $4.63 million. The land is located in St. Albert, Alberta. The division also completed land acquisitions in the second and third quarters of 2012, adding 261 acres of land strategically located near our existing land holdings in St. Albert and Red Deer.

Property Development

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

The Property Development division realizes fair value gains resulting from development and leasing activities. Built and leased properties are transferred at fair market value to the Investment Properties division for long-term property management.

The following table is a summary of current development projects:

Development Status			
	Construction activity during the quarter	Estimated completion	Upcoming development activity
Northern Alberta:			
Leduc Common (Leduc, AB)	Construction completed: 38,000 sq ft Commercial Retail Unit (CRU)	*Completed*	CRU building (30,000 - 40,000 sq ft) 6,500 sq ft pad site
Village at Blackmud Creek (Edmonton, AB)	Preleasing activities underway	*Ongoing*	Planning and leasing underway for 45,000 sq ft office building
West Henday Promenade (Edmonton, AB)	Preleasing activities underway	*Ongoing*	Planning and leasing underway for two banks, gas station and pharmacy (approx. total size 32,600 sq ft)
Telford Lake (Leduc, AB)	Preleasing activities underway	*Ongoing*	Planning and leasing underway for 89,000 sq ft industrial building
Central Alberta:			
Clearview Market (Red Deer, AB)	Construction substantially complete: Three CRU's, one pad site, one free standing pharmacy (approx. total size 54,000 sq ft)	*Q4-2012*	Planning and leasing underway for one CRU, one office building and one pad site (approx. total size 20,000 - 25,000 sq ft)
	Construction completed: 6,130 sq ft bank building	*Completed*	
McKenzie Industrial Business Park (Red Deer, AB)	Construction underway: 66,000 sq ft industrial building	*Q4-2012*	Ongoing leasing activities
Southern Alberta:			
Kingsview Market (Airdrie, AB)	Construction underway: One free standing restaurant, one free standing automobile servicing shop and one CRU (approx. total size 19,300 sq ft)	*Q1-2013*	Planning and leasing underway for one additional free standing CRU (approx size 6,000 sq ft)
Chestermere Station (Chestermere, AB)	Construction underway: Two CRU buildings (14,600 sq ft)	*Q4-2012*	Planning and leasing underway for three additional pad sites (approx total size 14,500 sq ft)
The District at North Deerfoot (Calgary, AB)	Preleasing activities underway	*Ongoing*	One office building, two CRU's and industrial building (approx total size 205,000 sq ft)

In the current quarter, the Property Development division completed a 38,000 sq. ft. CRU in the Northern Alberta region and a 6,130 sq. ft. bank building in Central Alberta. The completion of these two buildings, along with leasing activity in other projects, resulted in a fair value gain for the division of $3.80 million.

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

Investment Properties

Our Investment Properties division manages and leases our portfolio of high-quality residential, office, retail and industrial properties, which are located across western Canada and the southern US.

Our Investment Properties portfolio includes over three million square feet of leasable space across seven different asset classes. Our portfolio has high occupancy rates with long-term tenancies from high-quality retail and commercial clients.

Operating results

The following table summarizes the division's net operating income:

($000s except as noted)	Three months ended		Nine months ended	
	30-Sep-12	30-Sep-11	30-Sep-12	30-Sep-11
Revenue	**13,353**	12,197	**38,699**	34,834
Net operating income (NOI) *	**7,361**	6,347	**21,468**	19,126
Same properties NOI *(see calculation below)*	**7,143**	6,599	**20,813**	19,752
Net fair value gains	**8,471**	5,682	**23,238**	5,748
Occupancy	**90%**	89%	**90%**	89%
Fair value of portfolio	**514,988**	424,088	**514,988**	424,088
Funds from operations *	**7,872**	6,905	**22,556**	20,736
Funds from operations per share *	**0.26**	0.24	**0.75**	0.46

** See non-GAAP measurements for calculation.*

The division continues to grow primarily through acquisitions and with properties transferred from the Property Development division. Operating results in 2012 have been positively impacted by transfers from Property Development which added 61,000 leasable square feet to the porfolio in 2011. The division also acquired 617 residential units in the US in 2011. In Q3-2012, revenues increased 9.5% to $13.53 million compared to $12.20 million in the same quarter last year. Occupancy levels have increased to 90% compared with 89% at the same time last year.

Fair value gains on the Investment Properties portfolio of $8.47 million were recorded in the current quarter, bringing year to date gains to $23.24 million. This was primarily the result of higher valuations due to decreased capitalization rates and general leasing activity on properties located in the Alberta and Saskatchewan markets.

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

($000s except as noted)	Three months ended		Nine months ended	
	30-Sep-12	30-Sep-11	30-Sep-12	30-Sep-11
Same properties NOI	**7,143**	6,599	**20,813**	19,752
Acquisitions	**971**	361	**2,996**	506
Dispositions	**-**	307	**-**	1,411
NOI before adjustments	**8,114**	7,267	**23,809**	21,669
Amortization of operating lease incentives	**(753)**	(920)	**(2,341)**	(2,543)
Divisional NOI	**7,361**	6,347	**21,468**	19,126

Our same properties NOI increased due to higher rental rates realized on lease renewals and improved occupancy rates, while overall NOI increased as a result of growth in leasable square footage and residential units.

Recreational Properties

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

		Nine months ended September 30, 2012		Nine months ended September 30, 2011	
	Ownership Interest	Season opened 2012	Rounds of Golf	Season opened 2011	Rounds of Golf
Managed by Melcor:					
Lewis Estates (Edmonton)	60%	**April 12**	**25,645**	April 28	22,922
The Links (Spruce Grove)	100%	**April 20**	**23,777**	April 29	20,177
Black Mountain (Kelowna)	100%	**March 30**	**24,195**	April 1	24,197
Managed by a Third Party:					
Jagare Ridge (Edmonton)	50%	**April 25**	**22,031**	May 6	22,406

Good weather conditions during the golf season in 2012 resulted in a 7% increase in the number of rounds played compared to the prior year at our golf courses. The increase in rounds has positively affected the 2012 year-to-date revenue and earnings, with revenues of $7.07 million and earnings of $1.32 million this year compared to $6.55 million and $1.18 million at the same time last year, representing increases of 8% and 11% respectively. The new clubhouse at the Links at Spruce Grove was open throughout the summer, and was very well received resulting in increased food and beverage sales. Our Black Mountain course remains open for play, while our other courses have been closed for the 2012 season.

Liquidity & Capital Resources

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

As at *($000s except as noted)*	30-Sep-12	31-Dec-11
Cash & cash equivalents	**10,854**	10,703
Accounts receivable	**12,444**	14,205
Agreements receivable	**122,482**	139,840
Bank operating loan	**106,107**	91,094
Accounts payable and accrued liabilities	**47,372**	41,749
Total assets	**1,315,908**	1,218,885
Total liabilities	**669,885**	616,141
Debt to equity ratio	**1.04**	1.02

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

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

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

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

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

Financing

As at September 30, 2012, our total general debt outstanding was $466.02 million. This compares to $429.69 million at December 31, 2011. A summary of our debt is as follows:

As at *($000s)*	30-Sep-12	31-Dec-11
Bank operating loan	**106,107**	91,094
Debt on land inventory	**71,220**	66,378
Debt on investment properties	**249,607**	233,268
Convertible debenture	**39,090**	38,949
	466,024	429,689

During the quarter, we negotiated a 7 year fixed rate loan at 3.32% for $8.25 million on a neighbourhood commercial centre in north Edmonton, Alberta. This project was constructed by our Property Development division and is now being managed by our Investment Properties division. We also refinanced one of our existing investment properties for $3.00 million ($1.45 million net of previous mortgage payout) for a fixed term of 5 years at 3.13 %.

Sources and uses of cash

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

($000s)	Three months ended		Nine months ended	
	30-Sep-12	30-Sep-11	30-Sep-12	30-Sep-11
Cash flows from operating activities	**16,466**	5,601	**27,567**	7,002
Cash flows from (used in) investing activities	**(21,722)**	5,674	**(44,090)**	(31,982)
Cash flows from (used in) financing activities	**5,882**	(9,893)	**(16,759)**	28,184

Cash flow from operating activities was higher in the current quarter due to increased sales activity, which was partially offset by development activities. Fluctuations to accounts payable, accounts receivable and other operating assets and liabilities through normal business activities also impacted cash flows from operations.

Cash used in investing activities in Q3-2012 was primarily for purchases of land and investment properties. Additions to the investment properties portfolio accounted for $12.14 million of cash used and included improvements to our existing buildings and new property construction. We also utilized cash for tenant work on several investment properties.

Cash flows from financing activities in Q3-2012 were $5.88 million in the quarter. New mortgage financing of $11.28 million was offset by repayments of current debt outstanding, as well as additional draws on our operating line of credit.

Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at November 6, 2012 there were 30,174,724 common shares issued and outstanding, 1,462,340 options, each convertible to one common share upon exercise or exchange and convertible debentures which can be exchanged for a maximum of 2,160,994 common shares. There is only one class of common shares issued.

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

There are no material changes to the above titled sections at September 30, 2012 since the December 31, 2011 annual MD&A.

Quarterly Results

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

	Three Months Ended							
($000s)	30-Sep-12	30-Jun-12	31-Mar-12	31-Dec-11	30-Sep-11	30-Jun-11	31-Mar-11	31-Dec-10
Revenue	64,674	34,973	33,321	129,429	41,446	24,615	24,859	84,588
Net income	24,832	18,871	5,848	51,820	21,140	4,494	3,940	32,028
Per Share								
Basic earnings	0.83	0.63	0.19	1.72	0.70	0.15	0.13	1.06
Diluted earnings	0.78	0.60	0.19	1.62	0.67	0.15	0.13	1.05
Book value	21.28	20.59	20.09	19.94	18.54	17.77	17.84	17.56

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

Other Financial Information

Related Party Transactions

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

Internal Control over Financial Reporting and Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. No such changes were identified.

Non-GAAP Measures

We refer to terms that are not specifically defined in the CICA Handbook and do not have any standardized meaning prescribed by IFRS. These non-GAAP measures may not be comparable to similar measures presented by other companies.

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

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

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

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

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

Funds from operations (FFO): This measure is commonly used to measure the performance of real estate operations. It is a measure of net income generated by the operations of the company (or division) adjusted for all non-cash items included in net income

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

Calculations

We use the following calculations in measuring our performance.

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

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

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

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

Debt to equity ratio = total debt / total equity

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

FFO per share = FFO/ number of common shares outstanding

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