Management's Discussion & Analysis

Table of Contents

November 6, 2013

The following discussion of Melcor Developments Ltd.'s ("Melcor" or the "Company") financial condition and results of operations should be read in conjunction with the condensed interim consolidated financial statements and related notes for the quarter ended September 30, 2013 and the Management's Discussion & Analysis (MD&A) and consolidated financial statements for the fiscal year ended December 31, 2012.

The financial statements underlying this management's discussion and analysis (MD&A), including 2012 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted.

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on November 6, 2013.

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

Other Information

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

Non-standard Measures

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

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

Forward-looking Statements

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

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

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2013 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We caution readers of this document not to place undue reliance on forward-looking statements. Assumptions about the performance of the Canadian and US economies and how this performance will affect Melcor's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Business Environment and Risks, pages 25-26 of our annual MD&A.

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

Overview of our Business

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

On May 1, 2013, we formed Melcor REIT (the "REIT") through an initial public offering (the "Offering"). We sold interests in a portfolio of 27 income-producing properties to the REIT for total consideration of $266.03 million. We retain a controlling 51.1% effective interest in the REIT and continue to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. We reflect the public's 48.9% interest in the REIT as a financial liability in our financial statements.

We operate five integrated divisions that together manage the full life cycle of real estate development:

- acquiring raw land (Community Development)
- planning residential and commercial communities (Community Development)
- project managing development and construction (Property Development)
- operating a portfolio of commercial and residential properties, focused on property improvements and capital appreciation of owned properties and property management of REIT owned properties (Investment Properties)
- acquiring and owning high quality leasable office, retail and residential sites (REIT: 51.1% owned)

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 complements 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 in Alberta, British Columbia, and Phoenix, Arizona. 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-13	30-Sep-12	Change	**30-Sept-13**	30-Sept-12	Change
Revenue	**59,195**	64,674	(8.5)%	**151,549**	132,968	14.0 %
Gross margin (%)	**46.5%**	43.8%	6.2 %	**47.0%**	44.7%	5.1 %
Net income	**21,882**	24,832	(11.9)%	**44,714**	49,551	(9.8)%
Margin on net income	**37.0%**	38.4%	(3.6)%	**29.5%**	37.3%	(20.9)%
Adjusted earnings*	**20,146**	24,836	(18.9)%	**53,603**	49,566	8.1 %
Funds from operations *	**10,588**	15,930	(33.5)%	**26,581**	29,299	(9.3)%
Per Share Data						
Basic earnings	**0.72**	0.83	(13.3)%	**1.47**	1.65	(10.9)%
Diluted earnings	**0.68**	0.78	(12.8)%	**1.41**	1.57	(10.2)%
Adjusted basic earnings*	**0.66**	0.83	(20.5)%	**1.76**	1.65	6.7 %
Adjusted diluted earnings*	**0.61**	0.78	(21.8)%	**1.63**	1.57	3.8 %
Funds from operations *	**0.35**	0.53	(34.0)%	**0.87**	0.97	(10.3)%

As at ($000s except as noted)	30-Sept-13	31-Dec-12	Change
Shareholders' equity	**721,360**	690,832	4.4 %
Total assets	**1,604,920**	1,447,356	10.9 %
Per Share Data			
Book value *	**23.52**	22.89	2.8 %

**See non-GAAP measurements for calculation.*

Highlights for the quarter include:

- Strong sales in Q3-2013 in our Community Development division and growth in revenues across all other divisions. We continue to invest in development activity to position the company well for a strong fourth quarter.
- Acquired our joint venture partner's 50% interest in LethCentre, one of our commercial properties, for a net purchase price of $14.34 million.
- Melcor REIT acquired Coast Home Centre for total consideration of $12.32 million.
- Melcor REIT paid distributions of $0.05625 per trust unit in July, August and September, providing unitholders an effective holding period return of 2.81% since its IPO on May 1, 2013.
- Effective July 2, 2013 Brian Baker assumed the role of Chief Executive Officer of Melcor.
- On November 6, 2013, we declared a semi-annual dividend of $0.25 per share, payable on December 31, 2013 to shareholders of record on December 17, 2013. The dividend is an eligible dividend for Canadian tax purposes.

Revenue & Margins:

- Revenue in Q3-2013 was $59.20 million compared to $64.67 million in Q3-2012. Despite a decline in quarterly revenues resulting directly from timing of plan registrations, all divisions reported strong results with year to date revenues increasing to $151.55 million compared to $132.97 million in the same period last year.
- Gross margin improved by 6.2% over Q3-2012 with a year to date increase of 5.1% over the same period in the prior year. The increase was predominately driven by the mix of land inventory sold by the Community Development division during the period. Higher revenues in the Property Development division on development fees also positively contributed to gross margins.
- Net fair value gains on investment properties of $13.97 million were realized in Q3-2013. Property Development contributed $10.21 million of these gains, as we continue development activities on these assets. Increased leasing activity, higher base rents on new and renewed leases, and a 0.25% decrease in capitalization rates on certain properties led to fair value gains of $2.03 million in the REIT and Investment Properties divisions.
- FFO per share adjusts for certain non-cash earnings items included in income such as fair value adjustments on investment properties and stock based compensation expense. FFO per share was $0.35 per share in Q3-2013, a decrease of $0.18 per share, or 34.0% from the same quarter last year, resulting from lower revenues and higher general and administrative expenses during the period. General and administrative expenses grew due to higher personnel costs associated with increased head count and a one-time increase to the performance incentive program, as approved by the Corporate Governance and Compensation Committee, resulting from the successful completion of the Melcor REIT IPO.
- Adjusted earnings attributable to Melcor's shareholders ("adjusted earnings"), which reflects our proportionate interest in the earnings of the REIT, was $53.60 million year to date, an increase of 8.1% over 2012. Adjusted basic earnings per share were $1.76, an increase of 6.7% over 2012. The increase reflects revenue growth and improved gross margin during the year. Management believes that adjusted earnings and adjusted earnings per share provide a clearer measure of operational and relative performance.
- Our quarterly results are impacted by the cyclical nature of our business. Income can fluctuate significantly from period to period due to the timing of plan registrations, the cyclical nature of real estate and construction markets, the mix of lot sales and product types, and the mix of joint operation sales activity.

Formation of Melcor REIT

On May 1, 2013, we completed an initial public offering (the "Offering") of trust units of the REIT. The Offering raised gross proceeds of $83.00 million through the issuance of 8,300,000 trust units at a price of $10.00 per trust unit. The total proceeds received by the REIT, net of underwriters' fee, was $78.02 million.

On closing of the Offering, Melcor sold to a subsidiary of the REIT (the "Partnership"), interests in a portfolio of 27 income-producing properties located in Western Canada, comprised primarily of retail, office and industrial properties (the "Initial Properties"), that have a total carrying value of $397.90 million at May 1, 2013. In connection with the sale of the Initial Properties the REIT has assumed mortgages and obligations totaling $92.36 million at April 30, 2013 that are secured by the Initial Properties. Deferred financing fees of $0.10 million are capitalized against the mortgages assumed by the REIT. Melcor retained debt on certain properties (the "Retained Debt") with a fair value of $96.51 million at April 30, 2013. In consideration of the Retained Debt, Melcor received Class C LP Units of the Partnership on which we will receive a priority distribution to fund principal and interest payments.

On May 10, 2013, the underwriters exercised, in full, their over-allotment option to purchase an additional 830,000 trust units from Melcor at a price of $10.00 per unit for gross proceeds of $8.30 million ($7.80 million net of underwriters' fee). The over-allotment was fulfilled through conversion of Class B LP Units into trust units. Following closing of the over-allotment option, we, through an affiliate, hold an effective 51.1% interest in the REIT through ownership of all remaining Class B LP Units of the Partnership.

As we retain control over the REIT, we consolidate the REIT and record 100% of its revenues, expenses, assets and liabilities. We reflect the public's 48.9% interest in the REIT as a financial liability.

Refer to our Second Quarter 2013 interim filings for additional information on the consideration received, net assets sold, and the continuing arrangements between Melcor and Melcor REIT.

Adjusted Earnings Attributable to Melcor's Shareholders

The following analysis adjusts the consolidated net income attributable to Melcor's shareholders for the three and nine months ended September 30, 2013 to reflect our proportionate interest in the earnings of the REIT. As detailed below, we have adjusted consolidated net income attributable to Melcor's shareholders for amounts recorded as a result of the non-controlling interest ("NCI") being recorded as a financial liability, management fees earned from the REIT, and removed 48.9% of the REIT's post-formation net earnings, representing the public's 48.9% interest. The adjustments are summarized as follows:

- adjustments related to REIT units for the three month period were comprised of transaction costs of $0.06 million, distributions to unitholders of $1.54 million and fair value adjustment of $0.91 million; year to date transaction costs totaled $9.36 million and cumulative distributions to unitholders were $2.57 million;
- management fees earned by Melcor from NCI in the REIT under the asset management and property management agreement which are eliminated upon consolidation; and
- unitholders' 48.9% interest in the REIT's post-formation earnings.

We consider adjusted earnings attributable to Melcor's shareholders ("adjusted earnings") to be more representative of the operational activities, financial results and earnings attributable to Melcor's shareholders.

	For the three months ended		**For the nine months ended**	
	30-Sep-13	30-Sep-12	**30-Sep-13**	30-Sep-12
Net income attributable to Melcor's shareholders	**21,882**	**24,836**	**44,719**	**49,566**
Adjustments related to REIT Units	**685**	—	**11,929**	—
Management fees earned from the REIT	**486**	—	**734**	—
Unitholders' portion of earnings of the REIT	**(2,907)**	—	**(3,779)**	—
Adjusted earnings	**20,146**	**24,836**	**53,603**	**49,566**
Adjusted basic EPS*	**0.66**	0.83	**1.76**	1.65
Adjusted diluted EPS*	**0.61**	0.78	**1.63**	1.57

**See non-GAAP measurements for calculation.*

Divisional Results

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

- Community Development, which acquires raw land for future commercial and residential community development;
- Property Development, which develops high-quality retail, office and industrial revenue-producing properties on serviced commercial sites developed by Community Development;
- Investment Properties, which manages and leases the commercial developments produced by the Property Development division, externally purchased portfolio of assets, as well as assets held in Melcor REIT;
- REIT, which owns and holds 28 income-producing properties; and
- Recreational Properties, which includes the operation of championship golf courses associated with Melcor residential communities.

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

The following tables summarize results of our operating divisions:

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Three months ended September 30		Three months ended September 30		Three months ended September 30		Three months ended September 30		Three months ended September 30	
($000s except as noted)	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Revenue	**42,865**	47,572	**1,019**	100	**6,444**	4,158	**9,794**	9,195	**4,243**	3,803
Portion of total revenue	**72%**	74%	**2%**	—%	**11%**	6%	**17%**	14%	**7%**	6%
Cost of sales	**(24,949)**	(28,487)	**—**	—	**(2,969)**	(2,222)	**(3,874)**	(3,770)	**(1,927)**	(1,866)
Gross margin	**17,916**	19,085	**1,019**	100	**3,475**	1,936	**5,920**	5,425	**2,316**	1,937
Gross margin %	**42%**	40%	**100%**	—%	**54%**	47%	**60%**	59%	**55%**	51%
Portion of total margin	**65%**	67%	**4%**	—%	**13%**	7%	**22%**	19%	**8%**	7%
General and administrative expense	**(2,672)**	(1,917)	**(443)**	(565)	**(848)**	184	**(458)**	(438)	**(558)**	(478)
Depreciation expense	**—**	—	**—**	—	**—**	—	**—**	—	**(398)**	(393)
Fair value adjustment on investment properties	**—**	—	**10,206**	3,803	**(1,045)**	3,331	**3,079**	5,290	**—**	—
Gain (loss) on sale of assets	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
Interest income	**555**	599	**3**	—	**24**	6	**23**	6	**—**	—
Divisional income before tax	**15,799**	17,767	**10,785**	3,338	**1,606**	5,457	**8,564**	10,283	**1,360**	1,066

	Community Development		Property Development		Investment Properties		REIT		Recreational Properties	
	Nine months ended September 30		Nine months ended September 30		Nine months ended September 30		Nine months ended September 30		Nine months ended September 30	
($000s except as noted)	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Revenue	**101,780**	90,277	**2,415**	573	**16,567**	11,780	**29,255**	26,919	**7,751**	7,074
Portion of total revenue	**67%**	68%	**2%**	—%	**11%**	9%	**19%**	20%	**5%**	5%
Cost of sales	**(59,334)**	(54,655)	**—**	—	**(7,624)**	(6,354)	**(11,556)**	(10,877)	**(3,855)**	(3,397)
Gross margin	**42,446**	35,622	**2,415**	573	**8,943**	5,426	**17,699**	16,042	**3,896**	3,677
Gross margin %	**42%**	39%	**100%**	—%	**54%**	46%	**60%**	60%	**50%**	52%
Portion of total margin	**60%**	60%	**3%**	1%	**13%**	9%	**25%**	27%	**5%**	6%
General and administrative expense	**(7,679)**	(4,925)	**(1,272)**	(1,362)	**(1,417)**	(13)	**(1,269)**	(1,265)	**(1,531)**	(1,533)
Depreciation expense	**—**	—	**—**	—	**—**	—		—	**(843)**	(827)
Fair value adjustment on investment properties	**—**	—	**13,813**	4,756	**3,470**	4,596	**7,465**	18,792	**—**	—
Gain (loss) on sale of assets	**—**		**—**		**—**		**—**		**9**	—
Interest income	**1,587**	1,519	**5**	—	**38**	19	**46**	17	**—**	—
Divisional income before tax	**36,354**	32,216	**14,961**	3,967	**11,034**	10,028	**23,941**	33,586	**1,531**	1,317

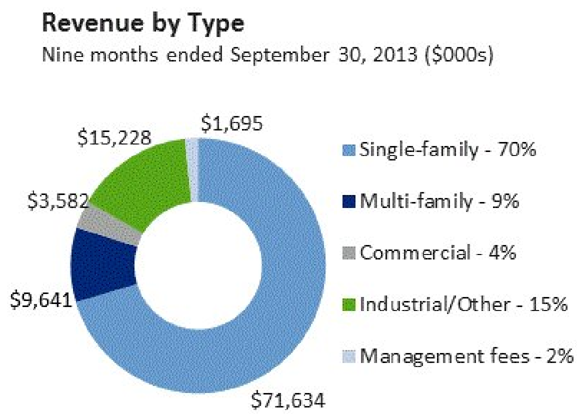
Divisional results are shown before inter-segment eliminations and exclude corporate division

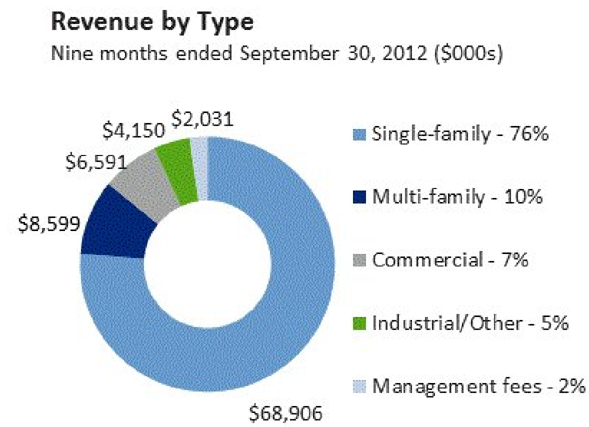
Community Development

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

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

Sales Activity





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

Consolidated	Three months ended		Nine months ended	
	30-Sep-13	30-Sep-12	**30-Sep-13**	30-Sep-12
Sales data: (including joint ventures at 100%)				
Single family sales (number of lots)	**289**	345	**682**	613
Gross average revenue per single family lot ($)	**169,400**	149,500	**145,500**	146,700
Multi-family sales (acres)	**6.56**	7.45	**16.77**	18.29
Gross average revenue per multi-family acre ($)	**854,400**	719,700	**892,200**	796,200
Commercial sales (acres)	**—**	3.51	**5.5**	12
Gross average revenue per commercial land acre ($)	**—**	707,200	**753,900**	709,800
Industrial sales (acres)	**11.85**	7.37	**28.27**	19.23
Gross average revenue per industrial land acre ($)	**551,600**	402,400	**486,000**	311,800
Other land sales - Raw, Other (acres)	**69.42**	—	**87.74**	—
Gross average revenue per other land acre ($)	**34,800**	—	**37,600**	—
Financial results: (including joint ventures at Melcor's interest)				
Revenue ($000s)	**42,865**	47,572	**101,780**	90,277
Earnings ($000s)	**15,799**	17,767	**36,354**	32,216

The Community Development division experienced a decline in lot sales compared to Q3-2012 due to timing of plan registrations, with sales of 289 single-family lots, 6.56 acres sold for multi-family projects, and 11.85 acres sold for industrial use. During the quarter we also sold 69.42 acres of raw land in Saskatchewan pursuant to an expropriation order from the government of Saskatchewan for $2.42 million at a margin of $1.73 million. Our primary market is Alberta, where overall market conditions remain strong.

Regional Sales Analysis

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

Regional Sales Analysis	Three months ended 30-Sep-13			Three months ended 30-Sep-12		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	**152**	**6.05**	**8.35**	45	2.15	3.51
Red Deer	**—**	**0.51**	**1.5**	115	—	4.92
Calgary Region	**127**	**—**	**2**	115	5.3	2.45
Lethbridge	**8**	**—**	**—**	66	—	—
Kelowna	**2**	**—**	**—**	4	—	—
United States	**—**	**—**	**—**	—	—	—
	289	**6.56**	**11.85**	345	7.45	10.88

Regional Sales Analysis	Nine months ended 30-Sep-13			Nine months ended 30-Sep-12		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Edmonton Region	**328**	**12.65**	**9.3**	171	4.62	9.07
Red Deer	**20**	**0.51**	**12.48**	126	—	16.37
Calgary Region	**204**	**3.61**	**11.99**	188	13.67	5.79
Lethbridge	**41**	**—**	**—**	123	—	—
Kelowna	**6**	**—**	**—**	5	—	—
United States	**83**	**—**	**—**	—	—	—
	682	**16.77**	**33.77**	613	18.29	31.23

The Edmonton and Calgary regions both had strong sales activity in Q3-2013, with 152 lots sold in Edmonton (Q3-2012: 45) and 127 sold in Calgary (Q3-2012: 115). Lot sales in Edmonton were driven by registration of Glenridding Phase 2 and 3 with 60 lots sold; and continued strong sales in other South Edmonton projects. Sales in Calgary were primarily driven by registration of two projects in Kings Heights with 39 lot sales and Kinwood Phase 3 with 45 lot sales.

Inventory

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

Developed Inventory	Nine months ended 30-Sep-13			Nine months ended 30-Sep-12		
(including joint ventures at 100%)	**Single- family (Lots)**	**Multi-family (Acres)**	**Non-Residential (Acres)**	Single- family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	**1,180**	**93.05**	**237.63**	997	95.36	177.39
Purchases	**—**	**—**	**—**	—	—	—
New developments	**702**	**13.72**	**9.2**	430	29.05	68.69
Internal sales	**—**	**—**	**(8.35)**	—	—	(10.24)
Sales	**(682)**	**(16.77)**	**(25.42)**	(613)	(18.29)	(20.99)
	1,200	**90**	**213.06**	814	106.12	214.85

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 July 2013 we purchased 35.66 acres in St. Albert which are adjacent to existing land holdings. Year to date, we also purchased 42.66 acres of residential land in the Lethbridge region, 2.59 acres in the Calgary region and 131.46 acres of industrial land in the Edmonton region.

Property Development

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

The division recognizes revenues on development fees earned from its joint arrangement partners' based on a percentage fee of the total development costs incurred. During Q3-2013 the division recognized $1.02 million related to theses fees, an increase of $0.92 million compared to Q3-2012. The increase reflects higher development activity during the period, across all our regions.

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

In Q3-2013, the division recognized fair value gains on development sites of $10.21 million, compared with $3.80 million in Q3-2012. These gains were the result of development activities in the Calgary and Edmonton regions on both commercial and industrial development sites.

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

Current Projects			
Project	Location	Type	Square Feet*
The Village at Blackmud Creek	South Edmonton	*Regional business park*	725,000
West Henday Promenade	West Edmonton	*Regional mixed use centre*	378,000
Kingsview Market	Airdire	*Regional shopping centre*	234,000
Stoneycreek Shopping Centre	Fort McMurray	*Regional mixed use centre*	209,000
Chestermere Station	Chestermere	*Neighbourhood shopping centre*	115,000
Clearview Market	Red Deer	*Neighbourhood shopping centre*	115,000
McKenzie Industrial	Red Deer	*Industrial Park*	100,000
Leduc Common	Leduc	*Regional shopping centre*	38,000
Telford Industrial	Leduc	*Industrial Park*	1,200,000

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

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

Investment Properties

Our Investment Properties division manages and leases our portfolio of high-quality residential, office, retail and industrial properties, which are located across western Canada and the southern US. They also manage and lease the 28 assets held in Melcor REIT.

Our Investment Properties portfolio manages over three million square feet of leasable space across seven different asset classes, including 1,628,603 square feet owned by the REIT. Our portfolio has high occupancy rates with long-term tenancies from high-quality retail and commercial clients.

Operating results

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

($000s except as noted)	Three months ended		Nine months ended	
	30-Sep-13	30-Sep-12	**30-Sep-13**	30-Sep-12
Rental revenue	**5,450**	4,158	**15,065**	11,780
Management fees from Melcor REIT	**994**	—	**1,502**	—
Net operating income (NOI) *	**3,735**	2,091	**9,336**	5,865
Same properties NOI *(see calculation below)*	**1,980**	1,892	**6,075**	5,306
Fair value gains	**(1,045)**	3,331	**3,470**	4,596
Occupancy	**91%**	91%	**91%**	91%
Fair value of portfolio	**205,672**	140,379	**205,672**	140,379
Funds from operations *	**2,976**	2,281	**8,347**	5,871
Funds from operations per share *	**0.10**	0.08	**0.27**	0.20

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-13	30-Sep-12	**30-Sep-13**	30-Sep-12
Same properties NOI	**1,980**	1,892	**6,075**	5,306
Acquisitions	**501**	44	**1,366**	120
NOI before adjustments	**2,481**	1,936	**7,441**	5,426
Management fees from Melcor REIT	**994**	—	**1,502**	—
Amortization of operating lease incentives	**325**	155	**783**	439
Straight-line rent adjustment	**(65)**	—	**(390)**	—
Divisional NOI	**3,735**	2,091	**9,336**	5,865

** See non-GAAP measurements for calculation.*

Divisional NOI is defined as rental revenue less property operating costs plus amortization of operating lease incentives plus/minus straight-line rent adjustment. Our same properties NOI increased due to higher rental rates realized on lease renewals and improved occupancy rates in the period, while overall NOI increased as a result of growth in rentable square footage and residential units.

The Investment Properties division grew through properties transferred from the Property Development division in 2012 and in 2013. During Q3-2013, we transferred 4 completed buildings to the investment properties division in Airdrie, Alberta, which contributed $0.35 million in revenue year to date. These transfers positively impacted operating results for Q3-2013 compared with the same period last year.

Overall revenue in the Investment Properties division also increased in Q3-2013 as a result of fees charged to the REIT under the asset management and property management agreements. During the three and nine months ended September 30, 2013 Investment Properties recorded fees of $0.99 million and $1.50 million under these agreements.

Fair value of investment properties will fluctuate based upon changes in capitalization rates and capital spending. In Q3-2013 we realized a fair value adjustment due to cost revisions on property improvements underway at one of our properties.

REIT

The REIT owns 28 income-producing office, retail and industrial properties, comprising 1,628,603 square feet of gross leasable area ("GLA") and a land lease community. The REIT's portfolio has a diversified tenant profile, with a mix of national, regional and local tenants, operating in a variety of industries.

We hold a controlling 51.1% effective interest in the REIT through ownership of all Class B LP Units. As we have concluded that Melcor retains control of the REIT we consolidate 100% of the REIT's revenues, expenses, assets and liabilities. The following tables include financial information for the pre-acquisition period, including the comparative periods, based upon financial information previously reported by the Investment Properties division, at 100% interest.

Operating results

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

($000s except as noted)	Three months ended		Nine months ended	
	30-Sep-13	30-Sep-12	**30-Sep-13**	30-Sep-12
Rental revenue	**9,794**	9,195	**29,255**	26,919
Net operating income (NOI) *	**6,343**	6,023	**19,064**	17,944
Same properties NOI *(see calculation below)*	**5,738**	5,382	**17,285**	15,985
Fair value gains	**3,079**	5,290	**7,465**	18,792
Occupancy	**92%**	91%	**92%**	91%
Fair value of portfolio	**416,514**	383,004	**416,514**	383,004
Funds from operations *	**6,039**	5,591	**18,157**	16,696
Funds from operations per share *	**0.20**	0.19	**0.59**	0.55

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-13	30-Sep-12	**30-Sep-13**	30-Sep-12
Same properties NOI	**5,738**	5,382	**17,285**	15,985
Acquisitions	**182**	43	**414**	57
NOI before adjustments	**5,920**	5,425	**17,699**	16,042
Amortization of operating lease incentives	**554**	598	**1,681**	1,902
Straight-line rent adjustment	**(131)**	—	**(316)**	—
Divisional NOI	**6,343**	6,023	**19,064**	17,944

** See non-GAAP measurements for calculation.*

Rental revenue for the third quarter increased by $0.60 million or 7% over Q3-2012; with year to date revenue $2.34 million or 9% higher that the comparative period. Higher occupancy and average base rent (per sq. ft.) drove increased rental revenue in the third quarter and year to date. Strong leasing activity during the period on new and renewed leases led to our occupancy increasing to 92% at September 30, 2013. Higher average base rent (per sq. ft.) is consistent with expectation and reflects higher rents negotiated on new and renewed leases. Revenue growth was also due to increased recoveries during the three and nine-months ended September 30, 2013 over the comparative period which is consistent with the increase in direct operating expenses and higher occupancy.

During the third quarter NOI increased by $0.32 million or 5% over Q3-2012. Year to date, NOI increased by $1.12 million or 6% over the same period in the prior year. Same asset NOI increased by $0.36 million and $1.30 million for the three and nine-months ended September 30, 2013. Timing of operating expenditures; in conjunction with higher revenues, were the primary drivers behind increased NOI.

The REIT recognized fair value gains of $3.08 million and $7.47 million during the three and nine months ended September 30, 2013. Increased leasing activity, higher base rents on new and renewed leases, and a 0.25% decrease in capitalization rates on certain properties lead to these gains.

Funds from operations ("FFO") increased by $0.45 million or 8% over Q3-2013. Year to date, FFO increased $1.46 million or 9%. The increase is due to higher NOI and straight-line rent adjustments during the period.

Recreational Properties

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

	Ownership interest	Nine months ended September 30, 2013		Nine months ended September 30, 2012	
		Season opened 2013	Rounds of Golf	Season opened 2012	Rounds of Golf
Managed by Melcor:					
Lewis Estates (Edmonton)	60%	**May 1**	**27,785**	April 12	25,645
The Links (Spruce Grove)	100%	**May 1**	**24,880**	April 20	23,777
Black Mountain (Kelowna)	100%	**March 22**	**26,866**	March 30	24,195
Managed by a Third Party:					
Jagare Ridge (Edmonton)	50%	**May 8**	**20,767**	April 25	22,031

After a spring characterized by inclement weather, the Edmonton region golf courses had a strong third quarter to make up ground, with rounds played 4% higher than 2012. Overall, rounds of golf played increased by 3% over 2012. The Kelowna region had favorable weather conditions throughout the season, with rounds played up 11% from 2012. The increase in divisional earnings is also attributed to higher revenues and gross margin from food and beverage operations which increased $0.39 million and $0.30 million respectively over the comparative nine-month period.

General and administrative expense

General and administrative expense (“G&A”) for the third quarter increased $4.98 million over Q3-2012. Year to date, G&A was $7.13 million higher over the comparative period. During the third quarter the Corporate Governance and Compensation Committee approved a one-time increase to the performance incentive program resulting from the sale of the Initial Properties to the REIT. The performance incentive is calculated pursuant to a pre-existing compensation plan based upon the gain on disposition of the net assets. The remainder of the increase was due to higher head count as a result of organizational growth. Year to date, G&A was also impacted by costs incurred by Melcor, which were not eligible for recovery from the REIT, related to the REIT IPO and sale of the Initial Properties.

Liquidity & Capital Resources

The following table represents selected information as at September 30, 2013, compared to December 31, 2012.

As at ($000s except as noted)	**30-Sep-13**	31-Dec-12
Cash & cash equivalents	**26,208**	11,628
Restricted cash	**6,780**	—
Accounts receivable	**19,761**	21,966
Agreements receivable	**114,719**	173,950
Bank operating loan and revolving credit facility	**70,432**	93,232
Accounts payable and accrued liabilities	**71,107**	57,728
Total assets	**1,604,920**	1,447,356
Total liabilities	**879,091**	752,599
Debt to equity ratio	**1.21**	1.08

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

- Fund recurring expenses;
- Meet debt service requirements;
- Make dividend payments;
- Make distributions to unitholders of the REIT;
- Fund land development and property development; and

- Fund investing activities such as the discretionary and strategic purchases of land inventory and/or investment property purchases.

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

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

On May 1, 2013, we completed the Offering of the REIT which generated proceeds (net of underwriters' fee) of $78.02 million. On May 10, 2013, the underwriters exercised their over-allotment option to purchase additional shares from Melcor which generated proceeds (net of underwriters' fee) of $7.80 million. Proceeds will be used to fund development activities and cover general corporate costs.

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

Financing

As at September 30, 2013, our total general debt outstanding was $500.12 million. This compares to $490.53 million at December 31, 2012. A summary of our debt is as follows:

As at ($000s)	**30-Sep-13**	31-Dec-12
Bank operating loan	**60,671**	93,232
Revolving credit facility	**9,761**	—
Debt on land inventory	**77,694**	96,971
Debt on investment properties	**312,712**	261,191
Convertible debenture	**39,285**	39,138
	500,123	490,532

The revolving credit facility was entered into subsequent to the formation of the REIT with two major Canadian chartered banks. Under the terms of the agreement the REIT has an available credit limit based upon the carrying values of specific investment properties, as calculated quarterly, up to a maximum of $25,000 for general purposes. The agreement also provides the REIT with $5,000 in available letters of credit which bear interest at 2.25%. The facility matures on May 1, 2015, with a one year extension period at the discretion of the lenders. The lenders hold demand debentures, a first priority general security and a general assignment of leases and rents over specific investment properties as security for the facility. We capitalized $252 in transaction costs associated with the facility which are presented net of the outstanding balance. During the third quarter the REIT drew $10,000 from the facility in order to fund the acquisition of Coast.

Sources and uses of cash

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

Three months ended ($000s)	**Three months ended**		**Nine months ended**	
	30-Sep-13	30-Sep-12	**30-Sep-13**	30-Sep-12
Cash flows from operating activities	**23,829**	16,466	**61,117**	27,567
Cash flows used in investing activities	**(68,780)**	(21,722)	**(110,664)**	(44,090)
Cash flows from financing activities	**47,569**	5,882	**64,022**	16,759

Cash flows from operations grew in the current quarter and year to date, primarily as a result of sales activity and agreements receivable collections. Higher funds from operations and receipts on receivables were used to fund increased development activities, with $23.04 million net spending during Q3-2013. Spending on development activities during the quarter is consistent with the seasonal nature of our business as the majority of plan registrations occur in the fourth quarter.

During Q3-2013 we invested $38.56 million in two asset acquisitions: the purchases of our joint venture partner's 50% interest in LethCentre and Coast Home Centre. In addition, we spent $23.00 million on property development on investment properties under development. Year to date, we spent $44.20 million on property development and an additional $5.06 million on ongoing improvements to older assets, and invested an additional $2.39 million in the purchase of new condo units in the US.

Cash used in financing activities was driven by changes in the amount drawn on the bank operating line and revolving credit facility during Q3-2013 with net cash inflows of $21.39 million. In addition, we increased our draw on project financing arrangements on certain properties under development, resulting in cash inflows $26.55 million; and acquired $11.04 million in debt as part of the LethCentre purchase. During Q3-2013 we made debt repayments of $11.84 million on regular principal repayments on our land, investment properties and golf course debts. Year to date, we received $91.30 million in net proceeds on the REIT's IPO; which was in part used to pay out $22.99 million in dividends, comprised of a semi-annual dividend of $0.25 per share and special dividend of $0.50 per share.

Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at September 30, 2013 there were 30,671,774 common shares issued and outstanding; 792,790 options, each convertible to one common share upon exercise or exchange; and a debenture outstanding convertible to 2,160,994 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, 2013 in comparison to the December 31, 2012 annual MD&A. Refer to note 3 and note 4 of the condensed interim consolidated financial statements for changes and adoption of new accounting policies and additions to significant judgments and critical accounting estimates.

Quarterly Results

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

	Three Months Ended							
($000s)	**30-Sep-13**	30-Jun-13	31-Mar-13	31-Dec-12	30-Sep-12	30-Jun-12	31-Mar-12	31-Dec-11
Revenue	**59,195**	50,737	41,617	141,962	64,674	34,973	33,321	129,429
Net income	**21,882**	10,209	12,623	55,468	24,832	18,871	5,848	51,820
Per Share								
Basic earnings	**0.72**	0.34	0.41	1.84	0.83	0.63	0.19	1.72
Diluted earnings	**0.68**	0.33	0.4	1.72	0.78	0.6	0.19	1.62
Book value	**23.52**	22.87	23.36	22.89	21.28	20.59	20.09	19.94

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

Related Party Transactions

Please refer to note 12 to the condensed interim consolidated financial statements for information pertaining to transactions with related parties.

Internal Control over Financial Reporting & Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. No such changes were identified.

Non-GAAP Measurements

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

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

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

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

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

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

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

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

Calculations

We use the following calculations in measuring our performance.

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

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

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

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

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

Investment Properties

($000s)	Three months ended		Nine months ended	
	30-Sep-13	30-Sep-12	**30-Sep-13**	30-Sep-12
Divisional income for the period	**1,606**	**5,457**	**11,034**	**10,028**
Fair value adjustment on investment properties	**1,045**	(3,331)	**(3,470)**	(4,596)
General and administrative expenses	**848**	(184)	**1,417**	13
Interest income	**(24)**	(6)	**(38)**	(19)
Amortization of operating lease incentives	**325**	155	**783**	439
Straight-line rent adjustment	**(65)**	—	**(390)**	—
Divisional NOI	**3,735**	**2,091**	**9,336**	**5,865**

REIT

($000s)	Three months ended		Nine months ended	
	30-Sep-13	30-Sep-12	**30-Sep-13**	30-Sep-12
Divisional income for the period	**8,564**	**10,283**	**23,941**	**33,586**
Fair value adjustment on investment properties	**(3,079)**	(5,290)	**(7,465)**	(18,792)
General and administrative expenses	**458**	438	**1,269**	1,265
Interest income	**(23)**	(6)	**(46)**	(17)
Amortization of operating lease incentives	**554**	598	**1,681**	1,902
Straight-line rent adjustment	**(131)**	—	**(316)**	—
Divisional NOI	**6,343**	**6,023**	**19,064**	**17,944**

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

Consolidated

($000s)	Three months ended		Nine months ended	
	30-Sep-13	30-Sep-12	**30-Sep-13**	30-Sep-12
Net income for the period	**21,882**	**24,832**	**44,714**	**49,551**
Amortization of operating lease incentives	**879**	753	**2,464**	2,341
Fair value adjustment on investment properties	**13,967**	12,274	**26,475**	29,301
Depreciation on property and equipment	**539**	450	**1,178**	971
Stock based compensation expense	**163**	441	**504**	1,368
Non-cash interest	**28**	194	**396**	696
Gain (loss) on sale of asset	**—**	—	**(9)**	—
Deferred income taxes	**2,017**	1,534	**3,518**	3,673
Fair value adjustment on REIT units	**(913)**	—	**—**	—
FFO	**10,588**	**15,930**	**26,581**	**29,299**

Investment Properties

($000s)	Three months ended		Nine months ended	
	30-Sep-13	30-Sep-12	**30-Sep-13**	30-Sep-12
Divisional income for the period	**1,606**	**5,457**	**11,034**	**10,028**
Fair value adjustment on investment properties	**1,045**	(3,331)	**(3,470)**	(4,596)
Amortization of operating lease incentives	**325**	155	**783**	439
Divisional FFO	**2,976**	**2,281**	**8,347**	**5,871**

REIT

($000s)	Three months ended		Nine months ended	
	30-Sep-13	30-Sep-12	**30-Sep-13**	30-Sep-12
Divisional income for the period	**8,564**	**10,283**	**23,941**	**33,586**
Fair value adjustment on investment properties	**(3,079)**	(5,290)	**(7,465)**	(18,792)
Amortization of operating lease incentives	**554**	598	**1,681**	1,902
Divisional FFO	**6,039**	**5,591**	**18,157**	**16,696**

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

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

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

MELCOR DEVELOPMENTS LTD.

Condensed Interim Consolidated Financial Statements

For the three and nine-months ended September 30, 2013

(Unaudited, in thousands of Canadian dollars)

Condensed Interim Consolidated Statement of Income

Unaudited ($000s)	For the three months ended September 30, 2013	September 30, 2012	For the nine months ended September 30, 2013	September 30, 2012
Revenue	**59,195**	64,674	**151,549**	132,968
Cost of sales	**(31,697)**	(36,345)	**(80,347)**	(73,504)
	27,498	28,329	**71,202**	59,464
General and administrative expense	**(10,215)**	(5,238)	**(22,580)**	(15,454)
Depreciation expense	**(539)**	(450)	**(1,178)**	(971)
	16,744	22,641	**47,444**	43,039
Fair value adjustment on investment properties (note 7)	**13,967**	12,274	**26,475**	29,301
Adjustments related to REIT units (note 14)	**(685)**	—	**(11,929)**	—
Gain on sale of asset	**—**	—	**9**	—
	30,026	34,915	**61,999**	72,340
Interest income	**613**	621	**1,690**	1,651
Interest expense	**(3,964)**	(4,331)	**(11,886)**	(12,663)
Net finance costs	**(3,351)**	(3,710)	**(10,196)**	(11,012)
Income before income taxes	**26,675**	31,205	**51,803**	61,328
Income tax expense (note 10)	**(4,793)**	(6,373)	**(7,089)**	(11,777)
Net income for the period	**21,882**	24,832	**44,714**	49,551
Net income (loss) attributable to:				
Melcor's shareholders	**21,882**	24,836	**44,719**	49,566
Non-controlling interest (NCI)	**—**	(4)	**(5)**	(15)
Net income for the period	**21,882**	24,832	**44,714**	49,551
Earnings per share attributable to Melcor's shareholders:				
Basic earnings per share	**0.72**	0.83	**1.47**	1.65
Diluted earnings per share	**0.68**	0.78	**1.41**	1.57

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income

Unaudited ($000s)	For the three months ended September 30, 2013	September 30, 2012	For the nine months ended September 30, 2013	September 30, 2012
Net income for the period	**21,882**	24,832	**44,714**	49,551
Other comprehensive income				
Items that may be reclassified subsequently to net income				
Currency translation differences	**(1,945)**	(4,179)	**3,066**	(2,054)
Comprehensive income	**19,937**	20,653	**47,780**	47,497
Comprehensive income (loss) attributable to:				
Melcor's shareholders	**19,976**	20,691	**47,560**	47,548
Non-controlling interest (NCI)	**(39)**	(38)	**220**	(51)
Comprehensive income	**19,937**	20,653	**47,780**	47,497

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Financial Position

Unaudited ($000s)	September 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	26,208	11,628
Restricted cash (note 3(a))	6,780	—
Accounts receivable	19,761	21,966
Income taxes recoverable	—	1,069
Agreements receivable	114,719	173,950
Land inventory (note 6)	672,092	603,576
Investment properties (note 7)	716,414	599,228
Property and equipment	15,841	15,269
Other assets	33,105	20,670
	1,604,920	1,447,356
LIABILITIES		
Accounts payable and accrued liabilities	71,107	57,728
Income taxes payable	6,297	—
Provision for land development costs	157,740	138,551
General debt (note 8)	500,123	490,532
Deferred income tax liabilities	52,524	65,788
REIT units (note 11 and 14)	91,300	—
	879,091	752,599
SHAREHOLDERS' EQUITY		
Equity attributable to Melcor's shareholders		
Share capital (note 9)	22,605	15,580
Contributed surplus	3,397	4,460
Convertible debenture	639	639
Accumulated other comprehensive income (AOCI)	711	(2,130)
Retained earnings	694,008	672,283
	721,360	690,832
Non-controlling interest (NCI)	4,469	3,925
	725,829	694,757
	1,604,920	1,447,356

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Changes in Equity

	Equity attributable to Melcor's shareholders						
Unaudited ($000s)	Share capital	Contributed surplus	Convertible debenture	AOCI	Retained earnings	NCI	Total equity
Balance at January 1, 2013	**15,580**	**4,460**	**639**	**(2,130)**	**672,283**	**3,925**	**694,757**
Net income (loss) for the period	—	—	—	—	44,719	(5)	44,714
Contributions from non-controlling interest	—	—	—	—	—	324	324
Cumulative translation adjustment	—	—	—	2,841	—	225	3,066
Transactions with equity holders							
Dividends	—	—	—	—	(22,994)	—	(22,994)
Employee share options							
Value of services recognized	—	504	—	—	—	—	504
Share issuance	7,025	(1,567)	—	—	—	—	5,458
Balance at September 30, 2013	**22,605**	**3,397**	**639**	**711**	**694,008**	**4,469**	**725,829**

	Equity attributable to Melcor's shareholders						
Unaudited ($000s)	Share capital	Contributed surplus	Convertible debenture	AOCI	Retained earnings	NCI	Total equity
Balance at January 1, 2012	14,446	2,810	639	47	580,821	3,981	602,744
Net income (loss) 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	—	—	—	—	(6,630)	—	(6,630)
Employee share options							—
Value of services recognized	—	1,368	—	—	—	—	1,368
Share issuance	1,057	(88)	—	—	—	—	969
Balance at September 30, 2012	15,503	4,090	639	(1,971)	623,757	4,005	646,023

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows

Unaudited ($000s)	For the three months ended September 30, 2013	September 30, 2012	For the nine months ended September 30, 2013	September 30, 2012
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income for the period	**21,882**	24,832	**44,714**	49,551
Non cash items:				
Amortization of operating lease incentives	**879**	753	**2,464**	2,341
Depreciation of property and equipment	**539**	450	**1,178**	971
Stock based compensation expense	**163**	441	**504**	1,368
Non cash interest	**28**	194	**396**	696
Fair value adjustment on investment properties (note 7)	**(13,967)**	(12,274)	**(26,475)**	(29,301)
Fair value adjustment on REIT Units (note 14)	**(913)**	—	**—**	—
Gain on sale of asset	**—**	—	**(9)**	—
Deferred income taxes	**2,017**	1,534	**3,518**	3,673
	10,628	15,930	**26,290**	29,299
Agreements receivable	**15,740**	(265)	**59,231**	17,358
Development activities	**(23,043)**	(14,907)	**(27,662)**	(22,734)
Operating assets and liabilities	**20,504**	15,708	**3,258**	3,644
	23,829	16,466	**61,117**	27,567
INVESTING ACTIVITIES				
Purchase of land inventory (note 6)	**(3,575)**	(5,852)	**(8,380)**	(8,883)
Payment of operating lease incentives	**(2,891)**	(2,727)	**(6,092)**	(5,945)
Purchase of investment properties	**(38,471)**	(95)	**(40,949)**	(5,531)
Additions to investment properties	**(23,844)**	(12,047)	**(49,823)**	(21,012)
Purchase of property and equipment	**(687)**	(1,001)	**(1,741)**	(2,719)
Change in restricted cash	**688**	—	**(3,679)**	—
	(68,780)	(21,722)	**(110,664)**	(44,090)
FINANCING ACTIVITIES				
Proceeds from issuance of trust units	**—**	—	**91,300**	—
Bank operating loan and revolving credit facility	**21,386**	1,006	**(22,749)**	15,072
Proceeds from general debt	**37,586**	12,380	**104,608**	26,999
Repayment of general debt	**(11,837)**	(7,786)	**(88,824)**	(19,651)
Change in restricted cash	**274**	—	**(3,101)**	
Contributions from non-controlling interest	**—**	—	**324**	—
Dividends paid	**—**	—	**(22,994)**	(6,630)
Share capital issued	**160**	282	**5,458**	969
	47,569	5,882	**64,022**	16,759
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY	**86**	(90)	**105**	(85)
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**2,704**	536	**14,580**	151
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**23,504**	10,318	**11,628**	10,703
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**26,208**	10,854	**26,208**	10,854
Total income taxes paid	**2,032**	4,470	**11,032**	11,944
Total interest paid	**16,558**	5,322	**26,822**	14,885

See accompanying notes to these condensed interim consolidated financial statements.

1. CORPORATE INFORMATION

We are a real estate development company with community development, property development, investment property and recreational property divisions. We develop 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. ("Melcor" or "we") and is incorporated in Canada. The registered office is located at Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8. We operate in Canada and the United States ("US"). Our shares are traded on the Toronto Stock Exchange under the symbol "MRD".

On May 1, 2013, we completed an initial public offering (the "Offering") of trust units of Melcor REIT (the "REIT" or the "Trust"). On closing of the Offering, we sold interests in a portfolio of 27 income-producing properties to the REIT. We retain a controlling 51.1% interest in the REIT and continue to manage, administer and operate the REIT and its properties under an asset management agreement and property management agreement. We reflect the public's 48.9% interest in the REIT as a liability in our financial statements (see note 5). Trust units of Melcor REIT are traded on the Toronto Stock Exchange under the symbol "MR.UN".

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

2. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim financial statements were approved for issue by the Board of Directors on November 6, 2013.

3. ACCOUNTING POLICIES

The accounting policies followed in these condensed interim consolidated financial statements are consistent with those of the previous financial year, except as described below.

New and amended accounting policies

We have adopted the following significant accounting policies as necessitated by transactions which occurred during the nine-month period.

a) Restricted cash

Restricted cash can only be used for specified purposes. Our restricted cash represents subsidies funded by Melcor as part of the Offering to reduce the effective interest rate on debt assumed by the REIT, and to fund capital expenditures, environmental expenditures, tenant incentives and lease costs in the REIT. As at September 30, 2013 we had a restricted cash balance of $6,780.

b) Financial instruments: non-controlling interest in Melcor REIT

We hold an effective 51.1% interest in the REIT through ownership of all Class B LP Units. A non-controlling interest, REIT units, has been recognized on the statement of financial position to reflect the 48.9% interest held by the public through ownership of all trust units. The trust units are redeemable at the option of the holder and, therefore, are considered a puttable instrument in accordance with International Accounting Standards ("IAS") 32, Financial Instruments – Presentation ("IAS 32"). Certain conditions under IAS 32 allow the REIT to present the trust units as equity; however, on consolidation we do not meet these conditions and therefore must present the non-controlling interest as a financial liability.

As a financial liability designated as fair value through profit or loss ("FVTPL") we recorded the REIT units at fair value on initial recognition. Subsequent to initial recognition we remeasure the liability each period at FVTPL based upon the trust unit's closing trading price. Fair value gains and losses are recorded through income in the period they are incurred.

3. ACCOUNTING POLICIES (continued)

Distributions on trust units are recognized in the period in which they are approved and are recorded as an expense in income. For presentation purposes we aggregate the distribution expense with the fair value adjustment on the trust units under the caption ‘adjustments related to REIT units’.

c) Income taxes

The REIT qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada) (“Tax Act”) and as a real estate investment trust eligible for the ‘REIT Exception’, as defined in the rules applicable to Specified Investment Flow-Through (“SIFT”) trusts and partnerships in the Tax Act. We expect to allocate all of the REIT’s taxable income and to continue to qualify for the REIT Exception. As the REIT is a flow-through entity, we record current and deferred taxes on our 51.1% interest in the REIT.

Changes in accounting policies

We have adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

a) IFRS 10, Consolidated Financial Statements, replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

We assessed our consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of our subsidiaries and investees.

b) IFRS 11, Joint Arrangements, supersedes IAS 31, Interests in Joint Ventures, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, Investments in Associates and Joint Ventures (amended in 2011). The amendments to IAS 28 did not affect our accounting policies.

We have concluded that the adoption of IFRS 11 did not result in any changes in the accounting for our joint arrangements.

c) IFRS 13, Fair Value Measurement, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. We adopted IFRS 13 on January 1, 2013 on a prospective basis.

The adoption of IFRS 13 did not require any adjustments to the valuation techniques we used to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

d) IAS 1, Presentation of Financial Statements, has been amended effective January 1, 2013 and requires other comprehensive income items to be grouped by those that will be reclassified subsequently to profit or loss and those that will not be reclassified.

We have amended our presentation of comprehensive income reported in the comparative period to state that it may be reclassified subsequently to net income. This change did not result in any adjustments to comprehensive income.

Accounting standards changes

Forthcoming accounting standards changes are consistent with those of the previous financial year, with the following addition.

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

We are currently assessing the impact of adoption of this standard on our consolidated financial statements.

4. SIGNIFICANT JUDGMENTS AND CRITICAL ACCOUNTING ESTIMATES

The significant judgments and critical accounting estimates included in the determination of reported amounts in these condensed interim consolidated financial statements are consistent with those of the previous financial year, with the following additions to significant judgements.

a) *Business combinations under common control*

Business combinations under common control ("BCUCC") are business combinations involving entities or businesses under common control, in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination. BCUCC are not within the scope of IFRS 3, Business Combinations.

As the REIT is a newly formed entity and Melcor will retain control over the REIT, the Offering and sale of the Initial Properties is accounted for as a reorganization and recapitalization using the continuity of interests method. Under this method, the REIT records the assets acquired and liabilities assumed at their carrying amounts on the closing date of the transaction. The difference between the consideration given and the aggregate value of the net assets acquired by the REIT is recorded as an adjustment to the REIT's unitholders' equity. As we retain control over the REIT, we consolidate the REIT and record revenues, expenses, assets and liabilities of the REIT. We reflect the 48.9% non-controlling interest in the REIT as a financial liability.

b) *Compliance with REIT legislation*

Under current tax legislation, a real estate investment trust is not liable for Canadian income taxes provided that its taxable income is fully allocated to unitholders during the year. In order for the Trust to continue to be taxed as a mutual fund trust, we need to maintain its REIT status. At inception, the Trust qualifies as a REIT under the specified investment flow-through ("SIFT") rules in the Canadian Income Tax Act. The Trust's current and continuing qualification as a REIT depends on the Trust's ability to meet the various requirements imposed under the SIFT rules, which relate to matters such as its organizational structure and the nature of its assets and revenues. We apply judgment in determining whether it continues to qualify as a REIT under the SIFT rules. Should the Trust cease to qualify, it would be subject to income tax on its earnings.

5. FORMATION OF MELCOR REIT

On May 1, 2013, we completed an initial public offering (the "Offering") of trust units of Melcor Real Estate Investment Trust (the "REIT"). The Offering raised gross proceeds of $83,000 through the issuance of 8,300,000 trust units at a price of $10.00 per trust unit. The total proceeds received by the REIT, net of underwriters' fee, was $78,020. On closing of the Offering, we sold to a subsidiary of the REIT (the "Partnership"), interest in a portfolio of 27 income-producing properties located in Western Canada, comprised primarily of retail, office and industrial properties (the "Initial Properties"). As part of the acquisition of the Initial Properties, the REIT also assumed mortgages on certain properties totaling $92,360 at April 30, 2013. Deferred financing fees of $97 are netted against the assumed mortgages. In addition, the working capital, which is comprised of cash balances, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, and other liabilities were transferred on closing. The purchase price was satisfied with cash consideration of $65,919 and issuance of 10,360,798 Class B LP Units. We retained the debt on certain properties (the "Retained Debt") with a fair value of $96,506 at April 30, 2013. In consideration of the Retained Debt, Melcor received Class C LP Units of the Partnership on which we receive priority distributions.

The carrying value of the assets and liabilities sold and the fair value of consideration received is detailed as follows:

($000s)		
Net assets sold:		
Real estate properties	$	397,896
Working capital, net		(2,680)
Mortgages on properties, net		(92,263)
		302,953
Consideration received:		
Class C LP Units	$	96,506
Class B LP Units		103,608
Cash paid out by the REIT		65,919
		266,033
Net contribution by Melcor	$	36,920

On May 10, 2013, the underwriters exercised, in full, their over-allotment option to purchase an additional 830,000 trust units from Melcor, at a price of $10.00 per unit, for gross proceeds of $8,300 ($7,823 net of underwriters' fee).

Following closing of the over-allotment option, we, through an affiliate, hold an effective 51.1% interest in the REIT through ownership of all remaining 9,530,798 Class B LP Units of the Partnership.

We have assessed and concluded that Melcor retains control over the REIT in accordance with IFRS 10, Consolidated Financial Statements, through ownership interest of 51.1%. Business combinations which do not result in a change of control are classified as Business Combinations Under Common Control and not within the scope of IFRS 3, Business Combinations. As described in note 4 (a), the transaction is accounted for as a reorganization and recapitalization, applying the continuity of interests method, with Melcor consolidating the REIT and recording 100% of its revenues, expenses, assets and liabilities. The remaining 48.9% publicly held interest in the REIT is presented as a liability in our consolidated financial statements. Refer to note 14 for summary financial information of the REIT at September 30, 2013.

Transaction costs directly related to the Offering and acquisition of the Initial Properties were $9,361. Under IAS 39 Financial instruments: recognition and measurement, transaction costs related to financial liabilities classified as fair value through profit or loss must be expensed in the current period. As we have concluded that the non-controlling interest in the REIT is a financial liability measured at fair value through profit or loss we expensed these costs through current period income as part of adjustments related to REIT units (refer to note 14).

6. LAND INVENTORY

($000s)	September 30, 2013	December 31, 2012
Raw land held	269,769	266,487
Land under development	153,926	106,090
Developed land	248,397	230,999
	672,092	603,576

During the nine month period ended September 30, 2013 we purchased an aggregate of 212 acres of land at a total cost of $20,633 and received vendor financing of $14,208. In addition, we amended one of our joint arrangement agreements in the third quarter which resulted in Melcor acquiring and contributing an additional 3 acres of land at a cost of $630. Year to date, we also entered into a land swap by purchasing 29 acres of land at a cost of $1,325 in exchange for 16 acres of land and $506 in cash. Exchange amounts approximate fair market value.

During the same period in the prior year, we entered into a joint arrangement of which we have a 50% interest and acquired 83 acres of land at a cost of $6,623 with $4,636 in vendor financing. We also purchased 261 acres of land at a cost of $17,265 and received vendor financing of 10,369.

7. INVESTMENT PROPERTIES

($000s)	Nine months ended September 30, 2013	Year ended December 31, 2012
Balance - beginning of period	599,228	493,520
Additions		
Direct acquisition	35,501	10,616
Transfer from land inventory	1,949	2,460
Property improvements	5,105	7,348
Property development	44,195	30,856
Capitalized borrowing costs	733	789
Disposals	—	(268)
Net fair value adjustment on investment properties	26,475	59,103
Change in provision	—	(3,317)
Foreign currency translation	3,228	(1,879)
Balance - end of period	716,414	599,228

On July 31, 2013 we completed the purchase of our joint venture partner's 50% interest in LethCentre Inc. ("LethCentre"), one of our commercial properties, for a total purchase price of $29,450. The purchase price was partially settled through the assumption of $11,041 in debt. The net assets recognized on closing included $20,699 of investment properties and $4,687 of other assets and working capital.

On September 12, 2013, the REIT completed the purchase of Coast Home Centre ("Coast") for total consideration of $12,324. The acquisition was funded through the REIT's line of credit and available cash.

Year to date we also purchased 28 condo units in Arizona at a cost of $2,478.

These purchases have been accounted for as asset purchases, in accordance with our policy, as detailed in the 2012 annual financial statements.

Investment properties were valued by qualified independent external valuation professionals as at December 31, 2012. We obtained updated market data and considered whether changes to any important valuation model variables resulted in significant changes to any of the property fair values at September 30, 2013. Fair values of investment properties were revised based on the updated data and model variables.

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

	September 30, 2013			December 31, 2012		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	9.00%	6.41%	5.50%	7.75%	6.43%

8. GENERAL DEBT

($000s)	September 30, 2013	December 31, 2012
Bank operating loan	60,671	93,232
Revolving credit facility	9,761	—
Debt on land inventory	77,694	96,971
Debt on investment properties and golf course assets	312,712	261,191
Convertible debenture	39,285	39,138
	500,123	490,532

The revolving credit facility was entered into subsequent to the formation of the REIT with two major Canadian chartered banks. Under the terms of the agreement the REIT has an available credit limit based upon the carrying values of specific investment properties, as calculated quarterly, up to a maximum of $25,000 for general purposes. The agreement also provides the REIT with $5,000 in available letters of credit which bear interest at 2.25%. The facility matures on May 1, 2015, with a one year extension period at the discretion of the lenders. The lenders hold demand debentures, a first priority general security and a general assignment of leases and rents over specific investment properties as security for the facility. We capitalized $252 in transaction costs associated with the facility which are presented net of the outstanding balance. During the third quarter the REIT drew $10,000 from the facility, which is presented net of unamortized transaction costs.

9. SHARE CAPITAL

Issued and outstanding common shares at September 30, 2013 are 30,671,774 (December 31, 2012 – 30,181,624). During the three and nine months ended September 30, 2013, there were 13,500 and 490,150 options exercised respectively (Q3-2012 – 34,000 and 142,000). There were no stock options issued to employees of Melcor during the nine month ended September 30, 2013 (Q3-2012 – nil).

10. INCOME TAX EXPENSE

Income tax expense is recognized based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the period is 25.3% (2012 – 25.8%) for income except items for which a capital gains rate of 12.5% (2012 – 12.5%) is applicable.

Income tax for the nine month period ended September 30, 2013 also includes the following tax adjustments resulting from the closing of the Offering (as detailed in note 5):

- The REIT, under the Specified Investment Flow-Through ("SIFT") rules in the Canadian Income Tax Act, does not expect to pay income tax. As such, upon closing of the Offering and transfer of certain properties to the REIT, Melcor is no longer subject to tax on the public's 48.9% interest in the REIT. This resulted in a deferred income tax recovery of $16,989 being recorded in the Melcor statements on closing of the IPO.
- On closing of the Offering, certain properties were transferred to the REIT on a rollover basis with an elected step-up in cost bases. This resulted in $5,317 in current taxes payable with an offsetting decrease in the related deferred income tax liability being recognized by Melcor.
- As described in note 5, Melcor received Class C LP Units as consideration for the Retained Debt. These Class C LP Units are redeemed as distributions paid on the units are applied against the Retained Debt principal. An initial deferred tax liability of $11,818 was recognized related to the Class C LP Units. Distributions paid during the period on the Class C LP Units resulted in current tax expense of $176 being recognized.

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

11. FAIR VALUE ESTIMATION

Melcor's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, and general debt which are measured at amortized cost; and REIT units which are measured at fair value through profit or loss ("FVTPL"). The fair value of cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short term nature. General debt has a carrying value of $500,123 (December 31, 2012 - $490,532) and a fair value of $504,588 (December 31, 2012 - $511,211).

In accordance with our policy, as detailed in note 3(b), we account for the remaining 48.9% publicly held interest in the REIT as a financial liability measured at FVTPL. The REIT units are remeasured to fair value on a recurring basis and categorized as Level 1 in the fair value hierarchy. We defined Level 1 as fair value measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. The REIT units are fair valued based on the trading price of the trust units at the period end date. At September 30, 2013 the fair value of the REIT units was $91,300 based on 9,130,000 trust units outstanding and a closing trading price of $10.00.

12. RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 2013, there were debenture coupon payments of $347 and $1,028 (Q3-2012 - $346 and $1,030) paid to companies controlled by two members of our executive management team who are also directors of Melcor.

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

13. SEGMENTED INFORMATION

Geographic Analysis

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

External Revenues	**For the three months ended**		**For the nine months ended**	
(in Canadian dollars)	**September 30, 2013**	September 30, 2012	**September 30, 2013**	September 30, 2012
United States	**2,926**	2,561	**12,063**	7,451
Canada	**56,269**	62,113	**139,486**	125,517
	59,195	64,674	**151,549**	132,968

Total Assets		
As at (in Canadian dollars)	**September 30, 2013**	December 31, 2012
United States	**152,455**	122,735
Canada	**1,452,465**	1,324,621
	1,604,920	1,447,356

Divisional Analysis

The following segment analysis has been amended from prior periods to include the results of the newly formed REIT. Results for the REIT's nine months ended September 30, 2013 and the comparative three and nine months ended September 30, 2012 include the pre-acquisition results previously reported under the Investment Properties division.

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

13. SEGMENTED INFORMATION (continued)

Our divisions reported the following results:

For the three months ended September 30, 2013	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	42,865	1,019	6,444	9,794	4,243	—	(5,170)	59,195
Cost of sales	(24,949)	—	(2,969)	(3,874)	(1,927)	—	2,022	(31,697)
	17,916	1,019	3,475	5,920	2,316	—	(3,148)	27,498
General and administrative expense	(2,672)	(443)	(848)	(458)	(558)	(6,012)	776	(10,215)
Depreciation expense	—	—	—	—	(398)	(139)	(2)	(539)
	15,244	576	2,627	5,462	1,360	(6,151)	(2,374)	16,744
Fair value adjustment on investment properties	—	10,206	(1,045)	3,079	—	—	1,727	13,967
Adjustments related to REIT units	—	—	—	—	—	—	(685)	(685)
Gain on sale of assets	—	—	—	—	—	—	—	—
Interest income	555	3	24	23	—	8	—	613
	15,799	10,785	1,606	8,564	1,360	(6,143)	(1,332)	30,639
Interest expense								(3,964)
Income before tax								26,675
Income tax expense								(4,793)
Net income								21,882

For the three months ended September 30, 2012	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	47,572	100	4,158	9,195	3,803	—	(154)	64,674
Cost of sales	(28,487)	—	(2,222)	(3,770)	(1,866)	—	—	(36,345)
	19,085	100	1,936	5,425	1,937	—	(154)	28,329
General and administrative expense	(1,917)	(565)	184	(438)	(478)	(2,178)	154	(5,238)
Depreciation expense	—	—	—	—	(393)	(57)	—	(450)
	17,168	(465)	2,120	4,987	1,066	(2,235)	—	22,641
Fair value adjustment on investment properties	—	3,803	3,331	5,290	—	—	(150)	12,274
Adjustments related to REIT units	—	—	—	—	—	—	—	—
Gain on sale of assets	—	—	—	—	—	—	—	—
Interest income	599	—	6	6	—	10	—	621
	17,767	3,338	5,457	10,283	1,066	(2,225)	(150)	35,536
Interest expense								(4,331)
Income before tax								31,205
Income tax expense								(6,373)
Net income								24,832

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

13. SEGMENTED INFORMATION (continued)

For the nine months ended September 30, 2013	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	101,780	2,415	16,567	29,255	7,751	—	(6,219)	151,549
Cost of sales	(59,334)	—	(7,624)	(11,556)	(3,855)	—	2,022	(80,347)
	42,446	2,415	8,943	17,699	3,896	—	(4,197)	71,202
General and administrative expense	(7,679)	(1,272)	(1,417)	(1,269)	(1,531)	(11,238)	1,826	(22,580)
Depreciation expense	—	—	—	—	(843)	(331)	(4)	(1,178)
	34,767	1,143	7,526	16,430	1,522	(11,569)	(2,375)	47,444
Fair value adjustment on investment properties	—	13,813	3,470	7,465	—	—	1,727	26,475
Adjustments related to REIT units	—	—	—	—	—	—	(11,929)	(11,929)
Gain on sale of assets	—	—	—	—	9	3,156	(3,156)	9
Interest income	1,587	5	38	46	—	14	—	1,690
	36,354	14,961	11,034	23,941	1,531	(8,399)	(15,733)	63,689
Interest expense								(11,886)
Income before tax								51,803
Income tax expense								(7,089)
Net income								44,714

For the nine months ended September 30, 2012	Community Development	Property Development	Investment Properties	REIT	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	90,277	573	11,780	26,919	7,074	—	(3,655)	132,968
Cost of sales	(54,655)	—	(6,354)	(10,877)	(3,397)	—	1,779	(73,504)
	35,622	573	5,426	16,042	3,677	—	(1,876)	59,464
General and administrative expense	(4,925)	(1,362)	(13)	(1,265)	(1,533)	(6,925)	569	(15,454)
Depreciation expense	—	—	—	—	(827)	(144)	—	(971)
	30,697	(789)	5,413	14,777	1,317	(7,069)	(1,307)	43,039
Fair value adjustment on investment properties	—	4,756	4,596	18,792	—	—	1,157	29,301
Adjustments related to REIT units	—	—	—	—	—	—	—	—
Gain on sale of assets	—	—	—	—	—	—	—	—
Interest income	1,519	—	19	17	—	96	—	1,651
	32,216	3,967	10,028	33,586	1,317	(6,973)	(150)	73,991
Interest expense								(12,663)
Income before tax								61,328
Income tax expense								(11,777)
Net income								49,551

14. NON-CONTROLLING INTEREST IN MELCOR REIT

In accordance with our policy, as detailed in notes 3(b) and 11, we account for the remaining 48.9% publicly held interest in the REIT as a financial liability measured at fair value through profit or loss ("FVTPL"). As at September 30, 2013 the REIT units had a fair value of $91,300. We recorded adjustments related to REIT units for the three-months ended September 30, 2013 of $685. As illustrated in the table below, the adjustment is comprised of a fair value adjustment of $913, an expense of $1,541 in distributions on trust units, and $57 in transaction costs.

	Three Months Ended September 30, 2013	**Nine months ended September 30, 2013**
Fair value adjustment on REIT units	**(913)**	—
Transaction costs on REIT IPO	**57**	**9,361**
Distributions to REIT unitholders	**1,541**	**2,568**
Adjustments related to REIT units	**685**	**11,929**

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

($000s)	**September 30, 2013**	December 31, 2012
Assets	**425,320**	396,845
Liabilities	**205,225**	228,514
Net assets	**220,095**	168,331
Cost of NCI	**81,939**	—
Fair value of NCI	**91,300**	—

	For the three months ended		**For the nine months ended**	
($000s)	**September 30, 2013**	September 30, 2012	**September 30, 2013**	September 30, 2012
Revenue	**9,794**	9,195	**29,255**	26,919
Net income and comprehensive income	**5,945**	6,731	**55,253**	22,668
Cash flows from (used in) operating activities	**(189)**	4,416	**8,952**	10,154
Cash flows used in investing activities	**(13,255)**	(3,806)	**(20,632)**	(10,422)
Cash flows from (used in) financing activities, before distributions to REIT Unitholders	**10,222**	(682)	**13,559**	176
Cash flows used in financing activities - cash distributions to REIT Unitholders	**(1,541)**	—	**(2,568)**	—
Net decrease in cash and cash equivalents	**(4,763)**	**(72)**	**(689)**	**(92)**

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

15. EVENTS AFTER THE REPORTING PERIOD

On October 16, 2013 Melcor REIT declared a distribution of $0.05625 per unit for the months of October, November and December 2013. The distributions will be payable as follows:

Month	**Record Date**	**Distribution Date**	**Distribution Amount**
October 2013	October 31, 2013	November 15, 2013	$0.05625 per unit
November 2013	November 29, 2013	December 16, 2013	$0.05625 per unit
December 2013	December 31, 2013	January 15, 2014	$0.05625 per unit

On October 17, 2013 we completed the purchase of our minority partner's interest in our Aurora, Colorado Joint Venture for $6,353.

On November 6, 2013, our board of directors declared a semi-annual dividend of $0.25 per share, payable on December 31, 2013 to shareholders of record on December 17, 2013.