



2012 Financial Highlights

<i>\$000s</i>	2012	2011	change	<i>\$ per share</i>	2012	2011	change
Revenue	274,930	220,349	25%	Basic earnings	3.49	2.70	29%
Fair value adjustments	59,103	41,696	42%	Fair value adjustments	1.96	1.39	41%
Earnings before tax	134,390	102,855	31%	Book value	22.89	19.94	15%
Funds from operations	66,933	54,014	24%	Average share price	14.81	13.91	6%
Assets	1,447,356	1,218,885	19%	Fund from operations	2.22	1.80	23%
Shareholders' equity	690,832	598,763	15%	Dividends paid	0.45	0.40	13%

About Melcor Developments Ltd.

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

Melcor's 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, Loyalty, Respect, Quality and Acting with Integrity 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.

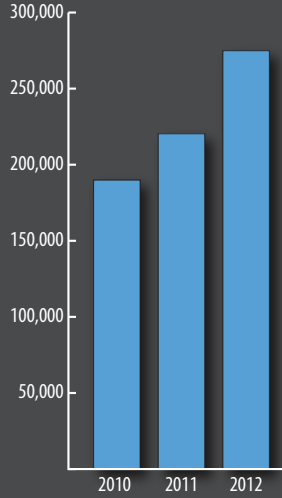
We have been trading on the Toronto Stock Exchange since 1968 (TSX:MRD).

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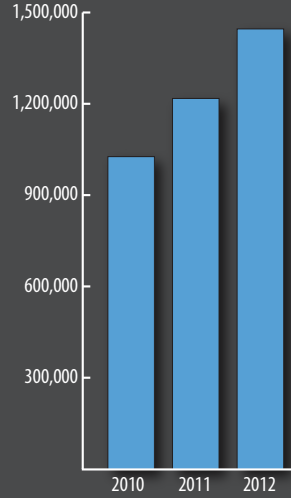
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Key Metrics

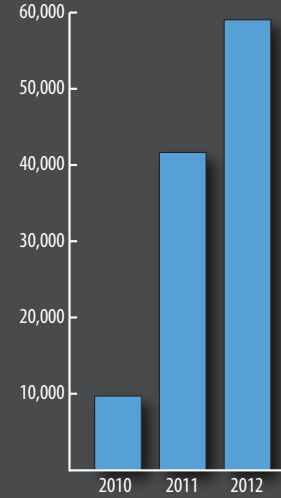
Revenue (\$000s)



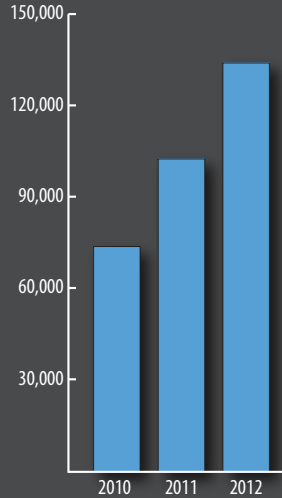
Assets (\$000s)



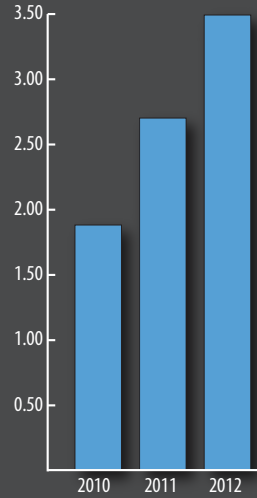
Fair value adjustments (\$000s)



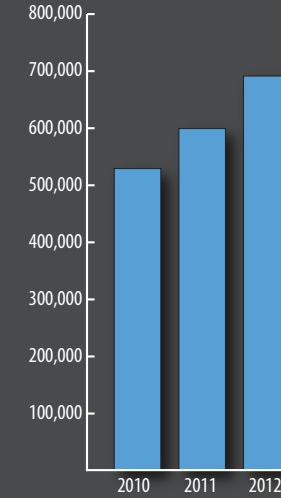
Earnings before tax (\$000s)



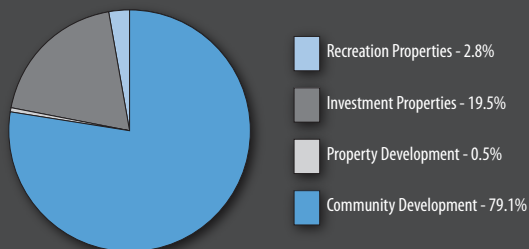
Basic earnings per share (\$)



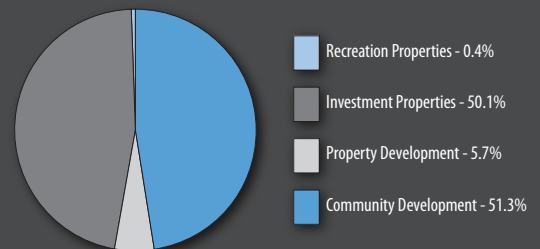
Shareholders' equity (\$000s)



Divisional revenue mix



Divisional earnings before tax mix



Record-Breaking Year and a Significant Strategic Event

It is my pleasure to report to you on behalf of Melcor's board of directors. Our 2012 results broke prior records for the second consecutive year. Revenue grew 25% to \$275 million and net income grew 29% to \$105 million which included fair value gains of \$59 million. Melcor's total assets grew 19% to \$1.45 billion.

Caution must be exercised in evaluating fair value gains as they are partially the result of market conditions outside of management's control and presently reflect capitalization rates at historic lows. As the North American economy strengthens and lending rates rise, cap rates may increase, resulting in fair value declines.

In January 2013, we initiated a strategic process to advance our business interests through the potential creation of a Real Estate Investment Trust. While the board has not established a deadline for completing the due diligence on this potential transaction, it would be a significant event in our strategic evolution.

Why a REIT?

For shareholder value creation, a REIT makes sense. It creates a vehicle that enables Melcor to raise capital to fund our plans for growth through various development projects. It also provides stable and regular distributions to unitholders and capitalizes on the tax advantages of a trust. With the impressive stable of investment properties that we have assembled over the past decade coupled with a historically low capitalization rate environment, the timing is right.

Building for the Future

Over the past several years, we have focused on developing the next generation of leadership for the company to ensure a seamless succession transition and to position the right leadership team to take the company forward. Against the backdrop of a record year and with eager anticipation for the future, we are now ready to make that transition. Effective July 2, 2013, Ralph Young will retire after 42 years of dedicated service to Melcor, most recently as CEO. He will continue in an advisory role and will remain an active member of Melcor's Board of Directors. Brian Baker, who is currently president and COO will assume the CEO role.

Brian, who became COO in 2011 and president in 2012, has had the benefit of mentorship by Ralph and other senior leaders at Melcor over the past 15 years. Brian has proven himself as a leader while serving the company in both our Community Development and Property Development divisions. He has consistently achieved excellent results and is passionate about continuing our company's proud tradition.



Building Caring Communities

While building a sustainable business, we also focus on building sustainable communities by sharing our time and resources to make them stronger. Our charitable donations focus on the organizations that provide good stewardship of funds to improve the communities in which we operate.

While our 2012 charitable giving included many worthwhile initiatives, we were honored to be involved in two projects in particular:

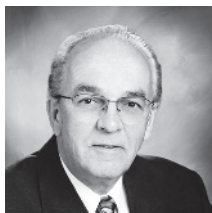
- Valour Place, a supportive temporary home for the families of injured personnel from the armed forces, police and emergency services while they receive medical treatment in Edmonton.
- Melcor YMCA Village, a 150-unit affordable transitional housing option. It is our hope that the Melcor YMCA Village will give many individuals and families a hand up when they need it so that they can achieve success.

In Appreciation

On behalf of the board and all shareholders, I would like to thank Melcor's staff and leadership team for delivering outstanding results and for their continued commitment to our growth and success.

In particular, I would like to express deep gratitude to Ralph Young for his tremendous stewardship and guidance of Melcor for over 4 decades.

I also thank our board of directors for their guidance and counsel, our customers and suppliers for sharing our commitment to quality and innovation, and our shareholders for your continued support and confidence.



William D. Grace, FCA - Lead Director
Corporate Director

Independent	Shareholdings: 16,000
Since: 1994	Compensation: \$48,600
Attendance: 100%	Committees: Audit, Governance



Ross A. Grieve
Chairman, PCL Construction Holdings Ltd.

Independent	Shareholdings: 78,000
Since: 2003	Compensation: \$39,800
Attendance: 91%	Committees: Governance



Catherine M. Roosen
Director & Secretary, Cathton Investments Ltd.

Independent	Shareholdings: 125,600
Since: 2007	Compensation: \$35,900
Attendance: 100%	Committees: Audit



Allan E. Scott
Corporate Director

Independent	Shareholdings: 3,000
Since: 2007	Compensation: \$46,300
Attendance: 100%	Committees: Governance (Chair)



Gordon J. Clanachan, FCA, ICD.D
Corporate Director

Independent	Shareholdings: 7,000
Since: 2009	Compensation: \$49,500
Attendance: 100%	Committees: Audit (Chair)



Timothy C. Melton, Executive Chairman
Executive Chairman, Melcor

Related	Shareholdings: 1,619,260
Since: 1973	Compensation*: \$nil
Attendance: 100%	Committees: -



Andrew J. Melton, Executive Vice Chairman
Executive Vice Chairman, Melcor

Related	Shareholdings: 53,600
Since: 1985	Compensation*: \$nil
Attendance: 100%	Committees: -



Ralph B. Young
President & CEO, Melcor

Related	Shareholdings: 1,381,900
Since: 1976	Compensation*: \$nil
Attendance: 100%	Committees: -

We are committed to effective corporate governance practices as a core component of our operating philosophy. Strong governance practices lay the foundation for a sustainable company and long-term value creation for our shareholders.

As governance practices evolve, we periodically review, evaluate and enhance our governance program. Here are a few highlights of our program.

Independence

The majority of our directors are independent. Board committees are comprised solely of independent directors. The independent directors meet *in camera* (without management and related directors) for a portion of each board meeting held in person. As our executive chairman is related to Melcor, we have appointed a lead director, William D. Grace, who is independent of the company. Mr. Grace chairs the *in camera* sessions of the board and ensures that the board conducts itself in accordance with good governance practices.

Integrity: the Heart of our Business

The highest standard of ethical conduct has always been at the heart of Melcor's operating philosophy. All employees, directors and officers follow our Code of Business Conduct and Ethics, which governs Melcor's work environment, regulatory compliance and the protection of our assets and reputation. The Code can be found on our website at www.melcor.ca.

Strategic Planning Process

The board ensures that Melcor establishes a solid strategy designed to optimize shareholder value. This process includes active consultation with management on the issues, business environment, assumptions, goals and financial budgets that underpin the strategy and ensures that risk levels are appropriate.

To ensure that the board is fully informed and engaged in the strategic issues and critical risks of our business, one meeting each year is dedicated to the review and approval of our strategic plan to manage risk, protect shareholder value and build a sustainable business.

Alignment with Shareholder Interests

Our compensation philosophy is to pay for superior performance. Thus a significant portion of executive compensation is "at risk": tied directly to results and thus linked to Melcor's success. This ensures alignment with shareholder interests and a focus on long-term value creation.

Additional information on our governance practices can be found in our 2012 Information Circular.

** Melcor employees do not receive additional director compensation.*



The Melton family, an outstanding Board, exceptional leaders and employees, together with valued long-term relationships will carry this great company to new heights. I have been extremely fortunate to have shared in this journey.

The Melcor Story: A Tribute and Reflection

As I write my final letter to shareholders, I pause to reflect on the Melton/Melcor story. For 90 years, Melcor Developments and its predecessor companies have continuously delivered exceptional value to stakeholders. Our constant goal has been to achieve success in real estate products and services by serving the needs and earning the respect of our customers, our suppliers, our communities, our employees and our financial partners and shareholders.

Over the years, our focus has shifted to meet changing circumstances. In 1968 responding to significant company growth as western Canada's leading real estate brokerage, Melton Real Estate consolidated several companies into a publicly traded corporation. Today, following ventures in several areas of real estate, we are a respected residential community developer and a successful commercial real estate developer and manager. From our Edmonton roots, we extended our reach throughout western Canada and reached across the border to several southwestern states. Our most recent initiative is to realign the company into two entities through the creation of the Melcor Real Estate Investment Trust. This new entity should provide a positive structure to grow our income-producing asset portfolio for the benefit of Melcor and new trust unitholders.

As new leadership moves Melcor forward, I am confident that they will continue to embody the Melton values, and retain the business focus and commitment to stakeholders that have led to success for 90 years. Brian Baker has spent 15 years learning the Melcor culture while building on new business strategies to provide an exciting future for the company. Brian and his talented team will continue to drive results while maintaining the proven discipline that built Melcor's 90-year legacy.

Louis T., Stan, Tim and Andy Melton have all attributed Melcor's success to achieving results through good people. The Melton family has had exceptional success in attracting, training, motivating and retaining good people through four generations and many business cycles. This same philosophy has also applied to its Board of Directors where high quality Board members have provided solid and meaningful governance to the company for 45 years.

Melcor has the values and culture, the business strategy, the new leadership, the management, the staff, the real estate and financial resources to continue to exceed its past successes. The Melton family, an outstanding Board, exceptional leaders and employees, together with valued long-term relationships will carry this great company to new heights. I have been extremely fortunate to have shared in this journey.

Dear fellow shareholders:

Every day at Melcor, I am inspired by both our rich tradition of excellence and our youthful energy. Our company is comprised of the most talented and hardest working team in the industry; a reality that is reflected in our record results for 2012.

This is no accident. We work hard to bring people with character, integrity and intelligence into our company. These are high quality people who we train and empower to do the right thing. They grow with our company and become part of our Melcor family; a family with remarkable employee longevity boasting 16 members with 25+ years of service, including three with more than 40 years of service.

Setting a Clear Strategy

We are very pleased with our 2012 results, but we remain focused on the future. We identify strategic initiatives in our three, five and ten year business plans. These initiatives include:

- How best to monetize the equity within our company to free up capital for growth and expansion;
- Strategic asset management;
- Growth and expansion of our US operations;
- How best to hedge our reliance on Alberta's commodity-based economy;
- Consideration of alternative business models;
- Succession planning and management training; and
- Leveraging the Melcor brand and strategic marketing.

Our objective is to build an exceptional company with a foundation that is rock solid and able to thrive regardless of what the future brings.

The Right Asset Mix for Stable Growth

Maintaining an appropriate inventory of development assets - while at the same time diversifying our asset classes - is part of our growth strategy and offers us stability in a cyclical industry.

Our acquisition strategy is focused on supplying a constant source of high quality, shovel-ready assets in active development corridors. This protects our future revenue and earnings streams.

We also continue to build our US portfolio and grow our US operations as a hedge to the economic cycles inherent in Alberta's commodity-based economy.

In looking at these and other expansion opportunities, we apply rigorous risk models and focus on disciplined budgeting and cash flow practices to ensure we are well prepared for uncertainty.



Growing Project Scale

Our asset pipeline is considerable and we continue to advance raw land assets through the municipal approval process and into active development. The size of these development projects continues to increase. Examples include:

- The Village at Blackmud Creek – a 725,000 square foot regional business park in South Edmonton;
- The District at North Deerfoot – a 2.25 million square foot business park in Northeast Calgary;
- West Calgary Marketplace – an 750,000 square foot regional power centre in West Calgary;
- Keystone Common – an 800,000 square foot regional power centre in Northeast Calgary.

The synergies between our Community Development and our Property Development divisions make projects of this size comfortably achievable and secure revenue streams for years to come. We currently have over 7.8 million square feet of planned development in our commercial pipeline.

Growing Financial Performance

Our long-term vision is to be Canada's leading real estate development and management company. As we work towards achieving this vision, we adhere to strategic priorities and guiding principles to ensure that all aspects of our business are balanced and aligned. These priorities and principles include consistent growth, asset diversification, financial health, risk management, shareholder returns and empowering our leadership teams.

Our outlook for 2013 and beyond remains strong, driven by continuing solid fundamentals in the Alberta economy and an improving real estate climate in the United States. As we enter our 90th year, we are eager to compete and win in each of our divisions. With a solid base of assets and a strong financial position, managed by effective leaders and dedicated employees, we are well positioned for continued growth and success.

8 Management's Discussion & Analysis

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March 6, 2013

The following discussion of Melcor's financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2012.

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

The balance sheet is presented without reference to current assets or current liabilities. The operating cycle of an entity involved in real estate investment and development is normally considered to be longer than one year. Thus, the concept of current assets and current liabilities is not considered relevant and there is no need to segregate the balance sheet to disclose assets or liabilities that are expected to be settled within the immediately following year.

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on March 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, please refer to the section "Non-standard Measures" on page 27.

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, page 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.

Core Business

Our history begins with L.T. (Timothy) Melton scanning Edmonton's west horizon in 1923: exploring opportunities to help young families purchase their own homes – a dream he held dear. The Melton family has operated Melcor and its predecessor companies ever since.

Shares of the company began trading in 1968 to provide employees with an opportunity to own a piece of the company they work for and to provide access to capital to finance continued growth.

Our rich real estate heritage and tradition of strong core values – honesty, loyalty, respect, quality and acting with integrity in all that we do – serve as the solid foundation for the company Melcor Developments Ltd. has evolved to today with over \$1.4 billion in assets.

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 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.

We believe that building sustainable communities is an important component to building a strong and sustainable business, so we share our time and resources to make them stronger.

Our headquarters are in Edmonton, 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).

89 years

CONSISTENT OWNERSHIP & CONTINUOUS REAL ESTATE FOCUS

\$1.45 billion

ASSETS UNDER MANAGEMENT

4 divisions

INTEGRATED AND COMPLEMENTARY OPERATING DIVISIONS EXTEND THE VALUE OF OUR ASSET BASE

24 consecutive years

OF DIVIDENDS TO SHAREHOLDERS

16 team members

IN OUR QUARTER CENTURY CLUB – 10 CURRENT EMPLOYEES ARE MEMBERS OF THIS CLUB

Community Development

What we do:	Acquire raw land for future development <ul style="list-style-type: none"> • Commercial: plan, service & market acquired land for large scale commercial centres • Residential: plan, service & market land for master-planned urban communities (single & multi-family dwellings)
Key Assets:	9,445 acres of raw land inventory in strategic growth corridors
Principal Markets:	<ul style="list-style-type: none"> • Revenue: Alberta 99.4%, BC 0.6% • Land Inventory: Alberta 78%, BC 5%, Saskatchewan 7%, US 10%
2012 Achievements:	<ul style="list-style-type: none"> • Record revenues of \$217.49 million • Commenced development on 4 new residential communities • Sold 1,554 single-family lots • Acquired strategic land parcels to maintain inventory levels
Strategy:	<ul style="list-style-type: none"> • Maintain diversified mix of inventory, available at the right time • Grow market share
2013 Objectives:	<ul style="list-style-type: none"> • Increase and diversify short term "shovel ready" assets • Maintain 3-5 year inventory of immediately developable land • Projecting 3-5 residential community project starts in 2013
Key Data:	<ul style="list-style-type: none"> • Revenue: \$217.49 million (growth of 24% over 2011) • Percentage of total revenue*: 79% • Gross Margin: 38% • Percentage of income before taxes*: 51%

Property Development

What we do:	Develop high-quality retail, office and industrial income-producing properties on serviced commercial sites.
Key Assets:	Prospects for 7.8+ million square feet of new development over five to 15 years based on existing plans
Principal Markets:	Alberta 100%
2012 Achievements:	<ul style="list-style-type: none"> • Completed eleven buildings (five fully leased and transferred to Investment Properties) • Commenced three new projects: Stoneycreek, West Henday Promenade and The Village at Blackmud Creek • Grew management fee revenue on joint venture projects
Strategy:	Create additional value by acquiring and developing commercial land from Community Development.
2013 Objectives:	<ul style="list-style-type: none"> • Develop strong relationships with national/multinational anchor tenants • Continue to advance land use approvals to support new projects • Complete 12 buildings and approximately 250,000 sq. ft.
Key Data:	<ul style="list-style-type: none"> • Fair Value Gains: \$9.03 million (6% growth over 2011) • Percentage of income before taxes*: 6%

Investment Properties

What we do:	Manage and lease high-quality commercial developments produced by the Property Development division and a purchased portfolio of commercial and residential assets
Key Assets:	Over 3,000,000 square feet under management, diversified across 4 asset classes in 3 provinces and 2 states
Principal Markets:	<ul style="list-style-type: none"> • Canada: Alberta, BC, Saskatchewan • US: Arizona, Texas
2012 Achievements:	<ul style="list-style-type: none"> • Invested in human capital (41% increase in team size) and infrastructure to support growth and property pipeline • 91% of customer service calls responded to within 30 minutes • Ongoing improvements to existing assets (Capilano & Birks buildings - complete renovation)
Strategy:	Provide and grow stream of reliable annuity income
2013 Objectives:	<ul style="list-style-type: none"> • Be the Landlord of Choice by providing consistent, high-quality service • Improve existing assets with value-added investments and enhanced quality to achieve higher occupancy rates and rent
Key Data:	<ul style="list-style-type: none"> • 2012 Revenue: \$53.68 million (growth of 13% over 2011) • Percentage of total revenue*: 20% • Gross Margin: 54% • Percentage of income before taxes*: 50% • Occupancy: 89% (2011: 88%) • NOI: \$29.08 million (growth of 13% over 2011)

Recreational Properties

What we do:	Own and operate championship golf courses associated with our residential communities.
Key Assets:	4 championship golf courses
Principal Markets:	<ul style="list-style-type: none"> • Alberta (3 courses) • BC (1 course)
2012 Achievements:	<ul style="list-style-type: none"> • Completed new clubhouse at The Links in Spruce Grove, contributing to 25% increase in concession sales • Increased number of rounds played by 3.4%
Strategy:	Maintain strong reputation through consistent course quality and player experience
2013 Objectives:	<ul style="list-style-type: none"> • Increase number of rounds played • Increase revenue from ancillary products (food & beverage/ special events)
Key Data:	<ul style="list-style-type: none"> • 2012 Revenue: \$7.65 million (growth of 7% over 2011) • Percentage of total revenue*: 3% • Gross Margin: 45% • Average Rounds Played (all courses): 25,004

* Percentage of company total; may not add up to 100% due to intersegment eliminations

Strategy

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

We protect and grow our shareholders' investments and pay consistent dividends, offering both growth potential and income to our shareholders.

Our long-term strategy is to balance our capacity to take advantage of market opportunities for growth with sustaining and improving our existing businesses:

Sustain & Improve

Execute our proven business model for sustainable results:

- Continue to develop and manage real estate assets for revenue, earnings and cash flow growth
- Continue to drive key performance measures to match or exceed prior 5-year results

Grow & Diversify

Build for future growth:

- Acquire strategic land and property assets
- Explore strategic opportunities to increase capital resources while maintaining a strong balance sheet

Sustain & Improve

Our raw and developed assets place Melcor in a strong position to achieve our growth strategy. We will continue to develop our real estate assets to support revenue, earnings and cash flow growth.

Division	Assets	Strategy
Community Development	9,445 acres of raw land inventory in strategic growth corridors	Maintain appropriate inventory mix, available at the right time Increase market share
Recreational Properties	4 championship golf courses	Maintain strong reputation through consistent course quality and player experience

Division	Assets	Strategy
Property Development	Prospects for 7.8+ million square feet of new development over 5-15 years based on existing plans	Develop strong relationships with regional, national and multinational anchor tenants Ongoing development of first class commercial centres
Investment Properties	Over 3,000,000 square feet under management, diversified across 4 asset classes in 3 provinces and 2 states New buildings coming online as Property Development completes projects	Improve existing assets with value-added investments and enhanced quality to achieve higher occupancy rates and increase rent Be the Landlord of Choice by providing consistent, high-quality service

Grow & Diversify

Our operating divisions diversify our revenue streams in a number of ways:

- The mix of land and property types held (residential, commercial)
- The regional profile of our assets (Alberta, Saskatchewan, BC & US)
- The type of revenue (lot and parcel sales, annuity income, value creation which feeds annuity income, green fees) each asset generates

Community Development is opportunistically investing in the US to build inventory for future development. This division holds a diverse mix of land for future residential or commercial development in strategic growth corridors. It is also diversified through the lifecycle phase of different parcels of lands: a balance is struck between lands that are immediately developable ('shovel ready') and those that will be ready for development in 3 to 5 years.

Property Development adds value to raw land by developing commercial properties. The division has developments in growth regions of Alberta.

The Property Development division supports Melcor's strategic objectives of asset diversification, income growth and value creation by constructing income-producing developments, primarily on land acquired from the Community Development division once it has been serviced. On completion, the properties are transferred to Investment Properties, thus creating a value chain from raw land to annuity income.

On January 8, 2013, Melcor announced that it had commenced a strategic process to advance its business interests through the creation of a Real Estate Investment Trust ("REIT"). Melcor is considering vending a substantial portion of its income-producing assets into this new vehicle, in which it will maintain a significant interest. This process would provide capital to the Company, and allow it to grow and continue to pursue numerous value-creating opportunities in strong western Canadian economies. A Special Committee of independent Directors of the Board, Chaired by Gordon Clanachan, was established to oversee the strategic process.

Melcor cautions that the Board of Directors has not set any deadline for completing any transaction, and that any such strategy may, or may not, be executed. Accordingly, there can be no assurance that Melcor will ultimately pursue, or complete, any transactions, and investors, or potential investors, should not trade based on this information.

Investment Properties provides consistent annuity income and cash flows and is well diversified across asset classes, property mix and regions. The regional asset mix is primarily commercial in Western Canada and residential in the US.

In all divisions, we expect our growth over the short-term to be primarily organic as we develop raw land assets to feed into our Property Development division and, once developed and leased, transferred to our Investment Properties division where the asset is managed. However, we continue to acquire undervalued assets to diversify our portfolio geographically and to diversify our business to insulate against the cyclical nature of our core business.

Key Performance Drivers

A High Performance Team

The 16 team members (10 active) in Melcor's Quarter Century Club and three employees with over 40 years of service are a reflection of the values at the heart of our business. Even as we've grown our team significantly over the past few years, the average service for our full-time permanent staff is eight years and almost 24 years for members of the executive team. We believe that this is a reflection of finding employees whose personal values are aligned with our corporate values, and thus contribute to our enduring success.

We continue to build our management team depth and emphasize succession planning and training and development to ensure today's young talent is ready to lead our company in the future.

We are focused on building capacity to help us achieve our business objective of efficient and effective growth. To do so, we hired 18 new staff in 2012 and increased our overall headcount by 21%.

Our culture is based on close to nine decades of strong corporate values. We offer rewarding career and development opportunities, competitive compensation and benefits, and an employer-matched group RRSP program.

Financial Resources

Given the capital-intensive nature of our business, we require access to sufficient capital in order to continue to grow, develop lands and take advantage of opportunities to acquire land and property that fits our growth strategy. Over the past few years, we have built our reserve capital sources to support this growth with an operating loan of \$120 million and a \$40 million convertible debenture.

We have developed strong relationships with our major lenders, which, combined with our capital structure and liquidity, provides the company access to financing on attractive terms in spite of fluctuating credit markets and ongoing changes in the economic environment.

Our operations are supported by a syndicated operating line of credit, which margins our land development assets (raw land inventory, land under development and agreements receivable).

We also use fixed rate, long-term mortgage financing on our income-producing assets to raise capital for acquisitions, development activities, and other business expenditures. As such, most of our borrowings are in the form of long-term, property specific financings such as mortgages or project financings secured by specific assets. In addition, in 2012 we took out project-specific financing to fund the development of two new residential communities.

For additional information on our financial resources, please refer to the Financing and Liquidity & Capital Resources sections on pages 20-22.

Real Estate Inventory

Our existing real estate inventory puts us in a good position to grow our business. We have:

- 9,445 acres of developable land in regions with above average growth forecasts.
- 3,000,000+ square feet of leasable property under management in 68 assets covering 4 asset classes in 3 provinces and 2 states.
- Potential to develop over 7.8 million square feet of new leasable property over the next five to 15 years (based on existing planned development).

We create shareholder value out of our land assets by developing them into revenue and income-producing properties.

2012 Highlights

Year ended December 31

(\$000s except as noted)	2012	2011	Change
Revenue	274,930	220,349	24.8%
Gross margin (%)	41.5%	42.9%	(3.3%)
Fair value adjustment	59,103	41,696	41.7%
Net income	105,019	81,394	29.0%
Margin on net income	38.2%	36.9%	3.4%
Funds from operations	66,933	54,014	23.9%
Shareholders' equity	690,832	598,763	15.4%
Total assets	1,447,356	1,218,885	18.7%
Cash from (used in) operations	35,089	5,458	542.9%
Per Share Data			
Basic earnings	3.49	2.70	29.3%
Diluted earnings	3.29	2.57	28.0%
Funds from operations	2.22	1.80	23.3%
Book value	22.89	19.94	14.8%

A Record Year

We set several records in 2012:

- Record consolidated revenues of \$274.93 million
- Record basic earnings per share of \$3.49
- Fair value gains of \$59.10 million or \$1.96 per share
- Asset growth of 19% to \$1.45 billion

Higher revenues across all divisions contributed to record revenues in 2012, resulting from increased activity and growth in all regions.

Investing in the Future

We continued to invest in land inventory, developing commercial properties and improving existing leasable properties.

- The Community Development division acquired several parcels of raw land for future development:
 - A 50% interest in 166 acres of land in St. Alberta in Q1-2012.
 - 233 acres of land in Q3-2012, strategically located near existing land holdings in St. Albert and Red Deer.
- The Property Development division had projects totaling over \$62 million under development in 2012, compared to projects under development of \$28 million in 2011. We completed development of 125,288 sq. ft. (11 buildings) in 2012 compared to 69,480 sq. ft. (9 buildings) in the same period last year.
- The Investment Properties division acquired a multi-tenant industrial warehouse in Lethbridge in the second quarter and assumed management of approximately 70,000 square feet (including four free-standing bank buildings) transferred from the Property Development division.
- Subsequent to year end, we announced the commencement of a strategic process to advance our business interests through the potential creation of a Real Estate Investment Trust (REIT).

Building Capacity

We appointed Brian Baker to President and Chief Operating Officer on June 1, 2012. Brian was previously Executive Vice President and Chief Operating Officer. Effective July 2, 2013, Brian will become President and CEO as Ralph Young retires from that position.

We increased our management team and expanded overall resource capacity with the hiring of 18 new staff in 2012 and increased overall headcount by 21%. This positions us well to execute on our growth strategies.

Other

We paid an annual dividend of \$0.45 per share to shareholders. We have been paying dividends since 1969 and have paid them for 24 consecutive years.

Revenue & Margins

We earned revenue of \$274.93 million in 2012 compared to \$220.35 million in 2011. The Community Development division was the primary contributor to the increase, closing 1,554 lot sales in 2012 compared to 1,307 in 2011.

Gross margin decreased from the prior year primarily due to lower Community Development margins, which were impacted by higher development costs in 2012. Margin is primarily affected by the lot type sold, development costs, the timing of the original land purchase and the relative real-estate market strength at the time of sale. Land that has been in inventory for many years typically generates higher margins on sale.

Margin on net income increased to 38.2% from 36.9% in the same period last year as a result of a 41.7% growth in fair value gains in the current year compared to the prior year. This is partially offset by additional financing activity and an increase in general and administrative expenses as we invest in additional staff (21% increase in staff over 2011), and infrastructure to support growth initiatives.

Fair value gains of \$59.10 million were recorded in 2012 (2011: \$41.70 million) as a result of:

- the transfer of land inventory (measured at cost) to the Property Development division where it is classified as investment properties on the balance sheet (measured at fair value), resulting in fair value gains of \$1.83 million (2011: \$6.42 million)
- leasing activity and completion of construction on Property Development projects resulting in fair value gains of \$9.03 million (2011: \$8.56 million)
- reduced capitalization rates on commercial assets and capital improvements on office properties in the Investment Properties division resulting in fair value gains of \$48.24 million (2011: \$26.73 million).

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 \$2.22 per share in 2012, an increase of \$0.42 per share, or 23.3% from 2011. This is primarily due to the increase in earnings resulting from higher lot sales reported in the Community Development division.

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 income-producing properties on serviced commercial sites developed by Community Development;
- Investment Properties, which manages the commercial developments produced by the Property Development division, as well as an externally purchased portfolio of assets; and
- Recreational Properties, which includes the operation of championship golf courses associated with Melcor residential communities.

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

The following table summarizes our divisional results (shown before inter-segment eliminations):

	Community Development		Property Development		Investment Properties		Recreational Properties		Corporate	
	Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31		Year ended December 31	
<i>(\$000s except as noted)</i>	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Revenue	217,487	175,896	1,353	367	53,678	47,602	7,649	7,135	-	-
Portion of total revenue	79.1%	76.1%	0%	0.2%	19.5%	20.6%	2.8%	3.1%	-	-
Cost of sales	(134,551)	(103,010)	-	-	(24,596)	(21,956)	(4,204)	(3,814)	-	-
Gross margin	82,936	72,886	1,353	367	29,082	25,646	3,445	3,321	-	-
Gross margin %	38.1%	41.4%	100.0%	100.0%	54.2%	53.9%	45.0%	46.5%	-	-
Portion of total margin	72.7%	71.3%	1.2%	0.4%	25.5%	25.1%	3.0%	3.2%	-	-
General and administrative expense	(7,370)	(6,057)	(1,814)	(1,091)	(1,445)	(1,704)	(1,774)	(1,701)	(11,334)	(9,245)
Depreciation expense	-	-	-	-	-	-	(1,007)	(968)	(231)	(152)
Gain (loss) on disposal	-	-	-	-	-	-	2	(24)	-	-
Net fair value adjustment	-	-	9,032	8,556	48,245	26,725	-	-	-	-
Interest income	2,161	2,406	-	-	55	50	-	-	102	58
Divisional income before tax	77,727	69,235	8,571	7,832	75,937	50,717	666	628	(11,463)	(9,339)

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 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, which in turn develops the land into commercial income-producing properties.

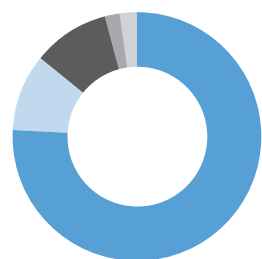
Master planned mixed-use residential communities comprise the majority of Community Development's portfolio. We create efficient and sustainable urban

communities by establishing an overall vision for each community and the amenities that will make it a desirable place to live. Residential lots and parcels are sold to homebuilders who share our passion for quality and with whom we have long-standing relationships.

Our focus is to grow market share and income levels by ensuring that we have an appropriate land mix and the right inventory in high demand areas in growing regions. We proactively manage our agreements receivable by maintaining an exclusive builder clientele and by working closely with those builders.

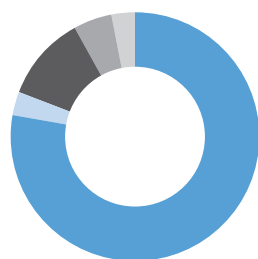
We currently hold 9,445 acres of raw land for future development which positions the division well for future growth. Our developed land inventory at December 31, 2012 includes 1,115 single-family lots, 93.0 acres for multi-family unit development, and 237.6 non-residential acres.

2012 Revenue by Type (\$000s)



- Management fees: \$4,370 - 2%
- Industrial/Other: \$5,244 - 2%
- Commercial: \$21,748 - 10%
- Multi-family: \$21,114 - 10%
- Single-family: \$165,011 - 76%

2011 Revenue by Type (\$000s)



- Management fees: \$4,455 - 3%
- Industrial/Other: \$9,107 - 5%
- Commercial: \$19,649 - 11%
- Multi-family: \$5,859 - 3%
- Single-family: \$136,826 - 78%

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

Our operations span several regions, with a primary focus on the Alberta real estate market. The following table summarizes our activity in 2012 and 2011:

Consolidated	2012	2011
Sales data:		
Single family sales (number of lots)	1,554	1,307
Gross average revenue per single family lot (\$)	138,700	142,800
Multi-family sales (acres)	45.56	9.73
Gross average revenue per multi-family acre (\$)	807,800	750,500
Commercial sales (acres)	30.59	52.62
Gross average revenue per commercial land acre (\$)	839,400	716,100
Other land sales - Industrial, Other (acres)	43.54	57.80
Gross average revenue per other land acre (\$)	162,800	218,500
Financial results:		
Revenue (\$000s)	217,487	175,896
Earnings (\$000s)	77,727	69,235

The division produced strong results in 2012, with 1,554 single-family lot sales, 45.56 acres sold for multi-family projects, and 74.13 acres sold for commercial or other uses. Our primary market is Alberta, Canada, where overall market conditions remain strong. This division has US operations which are not yet generating revenue but had expenses of \$0.23 million.

Regional Highlights

Edmonton & Region	2012	2011
Sales data:		
Single family sales (number of lots)	726	672
Multi-family sales (acres)	24.76	9.73
Commercial sales (acres)	19.93	17.86
Other land sales - Industrial & Other (acres)	2.25	0.99
Financial results:		
Revenue(\$000s)	103,987	82,965
Earnings (\$000s)	35,253	32,143

The Edmonton region showed growth in all product types in 2012. Two new residential communities were introduced in 2012: Aurora in southeast Edmonton and Rosenthal in west Edmonton. Development activity and strong sales continued in established neighbourhoods including Lewis Estates and Webber Greens (west Edmonton), Larch Park (southwest Edmonton), Jesperdale, McLaughlin and Stoneshire (Spruce Grove), and Bridgeport and Westhaven (Leduc).

Red Deer	2012	2011
Sales data:		
Single family sales (number of lots)	294	142
Multi-family sales (acres)	3.41	-
Commercial sales (acres)	1.84	17.85
Other land sales - Industrial & Other (acres)	30.56	46.00
Financial results:		
Revenue (\$000s)	47,469	30,596
Earnings (\$000s)	18,619	11,399

The Vanier Woods East community in Red Deer opened its first show home parade in 2012, contributing to strong single-family lot sales in the region. The Red Deer region also completed a strategic acquisition of 153.75 acres of land for residential development to replace developed inventory (net of joint arrangement interests, 76.88 acres).

Industrial sales and leasing activity increased in the Red Deer region in the last half of the year. Commercial sales in Red Deer include the sale of 1.84 acres to our Property Development division at a price of \$1.40 million for a gain of \$0.88 million (net of joint arrangement interest, \$0.47 million and \$0.29 million respectively.)

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Calgary & Region	2012	2011
Sales data:		
Single family sales (number of lots)	379	433
Multi-family sales (acres)	17.39	-
Commercial sales (acres)	8.82	16.91
Other land sales - Industrial & Other (acres)	2.45	11
Financial results:		
Revenue(\$000s)	50,154	55,126
Earnings (\$000s)	20,355	24,221

Sales in Sunset Ridge (Cochrane) were strong in 2012, and generated revenue of \$7.85 million (net of joint arrangement interests, \$4.71 million). Sales in Kinwood (northwest Calgary) were also strong, resulting in earnings of \$3.69 million (net of joint arrangement interest, \$1.82 million).

The subdivision plan for The District of North Deerfoot registered in late 2012 and several commercial parcels were sold. Commercial sales also include a 4.7-acre sale to our Property Development division in Kingsview Market at a price of \$3.82 million for a gain of \$1.53 million.

Lethbridge	2012	2011
Sales data:		
Single family sales (number of lots)	149	51
Other land sales - Industrial & Other (acres)	8.28	-
Financial results:		
Revenue (\$000s)	14,469	5,406
Earnings (\$000s)	4,328	1,830

Lethbridge was very active in 2012 with 149 lot sales and 8.28 acres sold. The Lethbridge region introduced a third community (Garry Station) to its portfolio, increasing market penetration and establishing a presence in a new quadrant of the city. Development activity continued in established communities of The Canyons and Legacy Ridge.

Kelowna	2012	2011
Sales data:		
Single family sales (number of lots)	6	9
Financial results:		
Revenue (\$000s)	1,408	1,803
Earnings/(loss) (\$000s)	(595)	(954)

Activity in Kelowna continues to be slow. The Black Mountain community is being re-positioned to account for market conditions and will re-launch in 2013 with three new products: new golf course view lots, duplex lots and a small townhouse project (joint venture with an established builder).

Inventory

Inventory management is a critical component to the Community Development division's future success. Land development is a capital-intensive process requiring long time horizons to obtain all the related permits and development agreements. As such, we closely monitor the fundamentals of the regions where we operate to ensure that we have the correct land mix to meet market demands and that the land is ready for sale when demand dictates.

Developed lot inventory

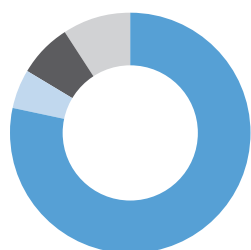
A summary of the movement in our developed lot inventory is as follows:

	December 31, 2012		
<i>including joint arrangements at 100%</i>	Single-family (lots)	Multi-family (acres)	Non-residential (acres)
Open	997	95.3	177.4
Purchases	-	-	-
New developments	1,672	43.3	110.0
Internal sales	-	-	(6.5)
Sales	(1,554)	(45.6)	(43.3)
	1,115	93.0	237.6
	December 31, 2011		
<i>including joint arrangements at 100%</i>	Single-family (lots)	Multi-family (acres)	Non-residential (acres)
Open	732	74.5	114.3
Purchases	143	-	-
New developments	1,429	30.5	161.1
Internal sales	-	-	(22.5)
Sales	(1,307)	(9.7)	(75.6)
	997	95.3	177.4

Raw land inventory

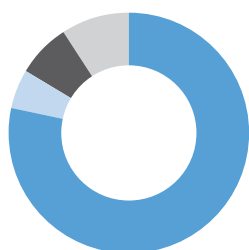
To support future growth, we acquire land in strategic growth corridors and maintain an inventory of land for future development in our primary markets. Land inventory acquisitions are based on management's anticipation of market demand and development potential. Our acquisition targets are high potential land that complements our existing holdings and land in new regions that is consistent with our overall strategy and management expertise.

2012 Raw Land Inventory (acres)



United States: 879 - 9%
 Saskatchewan: 686 - 7%
 British Columbia: 498 - 5%
 Alberta: 7,382 - 79%

2011 Raw Land Inventory (acres)



United States: 862 - 9%
 Saskatchewan: 686 - 7%
 British Columbia: 487 - 5%
 Alberta: 7,469 - 79%

(net of joint arrangement interests)

Summary of land acquisitions during the year:

Land Purchases (in acres, net of joint arrangement interests)	2012	2011
Edmonton & Region	299.64	-
Red Deer	76.87	-
Calgary & Region	-	28.50
British Columbia	11.17	15.98
United States	16.70	776.00
Total land purchases	404.38	820.48

Our land acquisitions in 2012 were primarily focused in Canada to continue securing land in strategic growth corridors. We entered into a new joint arrangement in the Edmonton area (St. Albert) with the purchase of 324.06 acres (net of joint arrangement interest, 162.03 acres) of residential lands to replenish inventory in this area.

We also entered into a new joint arrangement in the Red Deer region with the purchase of 153.76 acres (net of joint arrangement interest, 76.88 acres) to secure land inventory for future community development.

Property Development

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

The Property Development division increases the value of land assets and delivers long-term sustainable returns with high profile anchor tenants such as Canadian Tire, Canadian Western Bank, Home Depot, Rexall Drugs, Rona, Royal Bank, Save-on-Foods, Sobeys, Scotia Bank, Shoppers Drug Mart, Sport Chek, Staples, TD Canada Trust, Tim Hortons, Walmart and many others.

The Property Development division supports Melcor's strategic objectives of asset diversification, income growth and value creation by constructing income-producing developments, primarily on land acquired from the Community Development division at fair market value.

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

Division Highlights

	2012	2011
Square footage developed (sq. ft.)	125,288	69,480
Number of buildings constructed	11	9
Fair value adjustments (\$000s)	9,032	8,556

External valuers appraise all development projects each quarter. Any fair value gains in these projects are attributed to the Property Development division until the building(s) is determined to be complete, at which point the property is transferred to our Investment Properties division. These fair value gains are primarily a reflection of the value created through the development process and the leasing activities of the division. Changes in capitalization rates during the construction phase may also affect the fair value of a project.

The Property Development division was active in 2012, completing 11 buildings throughout Alberta. Construction was also advanced on several additional buildings, which are expected to be completed in 2013.

Regional Highlights

	2012	2011
Northern Alberta	500	6,585
Central Alberta	3,750	1,399
Southern Alberta	4,782	572
Fair value adjustments (\$000s)	9,032	8,556

Construction continues at Leduc Common, a 63-acre regional power center which we began to develop in 2001. In 2012, we completed construction on a 38,400 sq. ft. Commercial Retail Unit (CRU). Leduc Common now includes over 200,000 sq. ft. of leasable space that has transferred to our investment properties division with an occupancy rate of 94%.

Construction of Kingsview Market Phase 2 and 3 commenced in 2012, with three freestanding buildings and one CRU under construction. These buildings are expected to add approximately 24,100 sq. ft. to our commercial portfolio upon completion.

Clearview Market is Melcor's first commercial development in Red Deer. To date, we have completed and transferred three buildings (16,800 sq. ft.) to the Investment Properties portfolio. An additional 61,300 sq. ft. was substantively completed and will transfer in the first quarter.

Construction also commenced at The Village at Blackmud Creek, a 725,000 sq. ft. regional business park and West Henday Promenade, a 378,000 sq. ft. mixed-use commercial centre.

Construction commenced on Stoneycreek Village, a 209,000 sq. ft. mixed-used development in Fort McMurray. Leasing in the project has been very strong with 60% of space pre-leased. At the end of the year, construction was approximately 25% complete.

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Future Development Opportunities

We work closely with the Community Development division to identify parcels of land from their inventory that are well suited for commercial development in the near future. We also work together to obtain municipal approvals in order to initiate development. Future projects include:

Project	Location	Type	Square Feet*	Expected Start
The Village at Blackmud Creek	South Edmonton	Regional business park	725,000	ongoing
West Henday Promenade	West Edmonton	Regional power centre	378,000	ongoing
Kingsview Market	Airdire	Regional shopping centre	234,000	ongoing
Stoneycreek Shopping Centre	Fort McMurray	Neighbourhood shopping centre	209,000	ongoing
Chestermere Station	Chestermere	Regional power centre	160,000	ongoing
Clearview Market Phase 3	Red Deer	Regional shopping centre	73,000	ongoing
McKenzie Industrial	Red Deer	Industrial Park	300,000	ongoing
Telford Industrial	Leduc	Industrial Park	600,000	2013
The District at North Deerfoot	North Calgary	Regional business / industrial park	2,250,000	2014
The Shops at Jagare Ridge	Southeast Edmonton	Neighbourhood shopping centre	105,000	2014
Leduc Common Phase 4	Leduc	Regional shopping centre	38,000	2014
Greenwich	West Calgary	Regional shopping centre	395,000	2015
The Shoppes at Canyons	Lethbridge	Neighbourhood shopping centre	105,000	2015
Keystone Common	North Calgary	Regional power centre	775,000	2016
West Pointe Marketplace	Lethbridge	Regional power centre	750,000	2016
West Calgary Marketplace	West Calgary	Regional power centre	800,000	2017

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

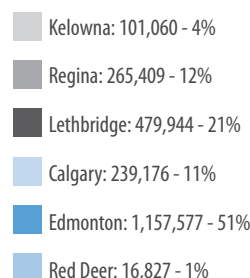
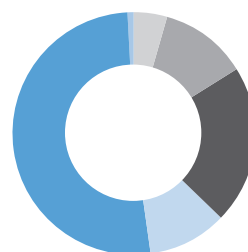
Investment Properties

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

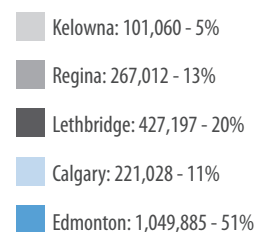
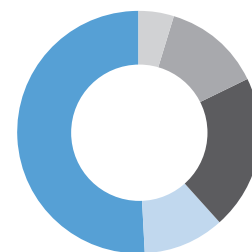
Our goal is to improve the operating efficiency of each property for stable and growing cash flows, and to grow our portfolio through acquisition and development. We focus on client retention through continuous customer contact and ongoing service evaluations. We also enhance our portfolio by upgrading the appearance, functionality and desirability of our properties, thereby increasing their rental potential.

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

2012 Commercial Square Feet



2011 Commercial Square Feet



(at December 31, ownership at 100%)

Operating Results

(\$000s except as noted)	2012	2011
Revenue	53,678	47,602
Net operating income (NOI)	29,082	25,646
Same asset NOI	29,348	26,673
Occupancy	89%	87%
Fair value of portfolio	554,661	479,681
Funds from operations	31,187	27,487
Funds from operations per share	1.03	0.92

Division growth is primarily a result of properties transferred from the Property Development division in 2012, which contributed to a 12.8% increase in revenue over last year. Occupancy rates have also increased compared to the prior year as a result of improved leasing activity in all regions.

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

(\$000s except as noted)	2012	2011	Change
Same asset NOI	29,348	26,673	10%
2011 acquisitions	2,267	951	
2011 dispositions	-	1,517	
2012 acquisitions	575	-	
NOI before adjustments	32,190	29,141	10%
Amortization of operating lease incentives	(3,108)	(3,495)	
NOI	29,082	25,646	13%

NOI from continuing operations is defined as rentals from investment properties less property operating costs. Our same properties NOI improved due to higher rental rates realized on lease renewals and consistent occupancy rates in the period. Overall NOI increased as a result of additions to leasable commercial square footage and residential units.

Fair Value of Investment Portfolio

	2012	2011
Number of commercial properties	68	62
Total commercial area (sq. ft.)	2,250,000	2,066,000
Total area (Melcor owned %)	1,924,000	1,766,000
Total residential units	1,251	1,240
Total parking stalls	516	516
Fair value of portfolio (\$000s)	554,661	479,681
Value per square foot	\$288.29	\$271.62
Weighted average discount rate	6.43%	6.88%
Weighted average terminal cap rate	6.69%	7.14%

Our investment properties were valued by independent valuation professionals as at December 31, 2011 and December 31, 2012. This resulted in fair value gains to the Investment Properties division of \$48.25 million in 2012 and \$26.73 million in 2011 being recognized in the statement of income. Fair values are determined by discounting the expected future cash flows over ten years plus a terminal value determined by applying a capitalization rate to estimated year eleven cash flows.

Fair value gains in the current year were primarily the result of a decrease in capitalization rates on several of our retail development sites, combined with an increase in the value of existing properties as we continue to make capital improvements to our assets.

A 50 basis point decrease in capitalization rates would positively impact the fair value of investment properties by \$41.08 million. A 50 basis point increase in capitalization rates would negatively impact the fair value of investment properties by \$51.65 million.

A breakdown of our fair value gains in Investment Properties by region is as follows:

(\$000s)	2012	2011
Nothern Alberta	27,219	16,327
Southern Alberta	10,547	4,842
Saskatchewan	1,864	4,289
British Columbia	(15)	629
United States	8,630	638
	48,245	26,725

Portfolio Transactions

Acquisitions

We added 184,000 sq. ft. of leasable space to our portfolio in 2012 through the transfer of five completed commercial properties from Property Development, as discussed in the "Property Development" section above as well as the purchase of a 49,000 sq. ft. industrial building in the Lethbridge region. The total value of these properties was \$27.86 million (net of joint arrangements, \$18.46 million).

Recreational Properties

Our Recreational Properties division owns and manages championship golf courses built to add value to Melcor residential communities.

The division's goal is to provide a high standard of service to our customers so as to maximize their enjoyment at our golf courses and to enhance divisional performance through revenue growth and cost savings.

Our golf courses aspire to achieve consistent course conditions and quality, and to be recognized as championship public golf courses with state of the art clubhouses that contribute to our ability to attract tournaments and events. Achieving these goals enables us to find the appropriate balance between the revenue levers of course fees, number of rounds played and customer satisfaction and enjoyment.

Operating Results

(\$000s except as noted)	2012	2011
Revenue	7,649	7,135
Gross margin	3,445	3,321
Gross margin %	45%	47%
Earnings	666	628

The financial performance of our golf courses is greatly influenced by the weather conditions during the golf season. Through effective and efficient operations management, our golf courses increased revenue and earnings in the 2012 season. Our golf courses continue to focus on increasing rounds of golf played and have also begun to focus on food and beverage initiatives. Average rounds of golf on the courses showed an increase of 3.4% from 2011.

The Links at Spruce Grove opened a new clubhouse during the 2012 golf season, contributing to a 25% increase in food and beverage revenue.

	2012			
	Ownership interest	Season Opened	Season closed	Rounds of golf*
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	Apr. 12	Oct. 19	26,559
The Links (Spruce Grove)	100%	Apr. 20	Oct. 19	24,422
Black Mountain (Kelowna)	100%	Mar. 30	Nov. 9	26,306
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	Apr. 25	Oct. 14	22,729
	2011			
	Ownership interest	Season Opened	Season closed	Rounds of golf*
Managed by Melcor:				
Lewis Estates	60%	April 28	Nov. 12	24,940
The Links	100%	April 29	Nov. 12	21,665
Black Mountain	100%	April 1	Nov. 12	26,833
Managed by a Third Party:				
Jagare Ridge	50%	May 6	Oct. 16	23,256

*Rounds of golf are at 100%, including joint arrangement interests.

Financing

As at December 31, 2012, our total general debt outstanding was \$490.53 million compared to \$429.69 million in 2011. The financing function is managed by our corporate division and decisions on how to deploy operating and acquisitions funds is a centrally managed corporate decision. We use various forms of financing to fund our development and acquisition activities. We are often able to leverage the assets in one division to fund development opportunities in others.

A summary of our debt is as follows:

(\$000s)		2012	2011
Bank operating loan	a	93,232	91,094
Debt on land inventory	b	96,971	66,378
Debt on investment properties and golf course assets	c	261,191	233,268
Convertible debenture	d	39,138	38,949
		490,532	429,689

a) Bank operating loan

One of our primary sources of funding for development projects is an operating line of credit with a syndicate of major chartered banks. This line of credit margins the Community Development assets of the company.

Due to the low interest rates experienced in 2012, we have benefited by being able to borrow at rates fluctuating with prime. Our current cost of borrowing on a floating basis is low when compared to historical cost of funds.

Under the terms of this facility, Melcor pledges specific agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral. This facility has a two year term, renewable one year in advance of expiry and may be modified to meet our needs.

A summary of the credit facility is as follows:

(\$000s)		2012	2011
Credit limit approved	i)	160,500	161,900
Supportable credit limit	ii)	157,610	153,960
Credit used		93,232	91,094
Credit available		64,378	62,866

- i) The portion of these loan limits that pertain solely to Melcor Developments Ltd. is \$120.00 million (2011 - \$120.00 million) with the remaining balance pertaining to specific joint arrangements.
- ii) Our supportable credit limit is calculated based on a formula and tests as required by the bank. The supportable credit limit is calculated based on agreements receivable balances and land inventory. As such, the supportable limit fluctuates in response to increases or decreases in these balance sheet accounts. Management monitors the supportable credit limit and keeps the bank informed at all times of its current collections and inventory production plans.

In the normal course of development operations, we are also required to issue letters of credit as collateral for the completion of obligations pursuant to development agreements signed with municipalities. The credit facility described above also includes a letter of credit facility. Melcor's letter of credit balances, net of joint arrangement interests are:

(\$000s)	2012	2011
Total letter of credit facility	64,316	60,494
Letters of credit issued	41,609	35,118
Available for issue	22,707	25,376

b) Debt on land inventory

This debt is primarily comprised of loans on the acquisition of land that are held by the land vendor (fixed rate financing with repayments over 3 to 10 years) or from financial institutions (variable rate financing with repayments over 3 to 5 years). Current debts mature from 2013 to 2018. In addition, we may obtain financing from a financial institution in order to commence major infrastructure in a new community or obtain project financing when the borrowing requirement falls outside the normal parameters of our line of credit. This type of loan usually has floating rates of interest tied to prime.

In 2012 we took out project specific financings on two residential community development projects. At December 31, 2012 this debt totaled \$24.79 million.

The composition of our debt on land inventory is as follows:

(\$000s)	2012	2011
Agreements payable (Fixed rates of 0.0% to 6.0%)	67,745	57,686
Variable rate financing (3.28% to 5.00%)	29,226	8,692
	96,971	66,378
Weighted average effective interest rate	4.6%	4.2%

As at December 31, 2012, \$9.10 million of debt was payable in US dollars (2011: \$9.86 million).

c) Debt on investment properties and golf course assets

We use fixed rate, long-term mortgage financing on our investment property assets to raise capital. We are able to finance increased loan amounts from our existing portfolio of buildings as old mortgages renew and there is increased equity in our investment properties.

Debt on investment properties and golf course assets in the amount of \$261.19 million reflects financing placed on investment properties that have a carrying value of \$526.87 million.

These mortgages are normally fixed rate and long-term in nature. Rates are negotiated at a pre-agreed benchmark bond rate plus a spread and are negotiated with different lenders to ensure competitive terms and multiple sources. New mortgage rates from Canadian lending institutions ranged from 3.02% to 4.00% in 2012.

The composition of our debt on investment properties and golf course assets is as follows:

(\$000s)	2012	2011
Canadian mortgages at fixed rates (2012: 2.90% to 7.46%, 2011: 2.90% to 7.53%)	189,274	184,167
Canadian mortgages at variable rates (2012: 3.50% to 4.60%, 2011: 4.10% to 4.25%)	19,585	3,547
Project loan (Prime + 2.00%)	5,000	5,000
US mortgages at fixed rates (2012: 3.74% to 6.06%, 2011: 5.00% to 6.06%)	40,478	40,554
US mortgages at variable rates (2012: 3.02 to 3.25%)	6,854	-
	261,191	233,268
Weighted average effective interest rate	4.7%	5.1%

Loan maturity dates are spread out so as to reduce associated loan renewal risks. The following table represents cumulative loan amounts due for renewal over the next ten years:

Year	Loan renewal amount (\$000s)	Weighted average interest rate	Number of loans
2013	66,856	4.74%	18
2014	23,939	4.23%	3
2015	39,620	4.76%	6
2016	35,513	4.83%	5
2017	8,641	3.17%	3
2018	9,344	5.31%	2
2019	6,509	3.32%	1
2020	13,184	5.23%	4
2021	-	-	-
2022	7,768	3.74%	1

d) Convertible debenture

In 2011, we successfully completed the issue and sale of \$40.00 million, 6.25% convertible unsecured subordinated debentures. The issued closed on February 8, 2011 with a maturity date of February 8, 2017. The debentures are convertible at the option of the holder at any time before maturity at a conversion price of \$18.51 per share. From the period of February 1, 2014 until January 31, 2016, Melcor has the option to redeem the debentures at a price equal to their principal amount, plus any accrued and unpaid interest, provided the weighted average trading price of the common shares is 125% of the conversion price for a specified period of time. Commencing February 1, 2016, Melcor has the option of redeeming the debentures at a price equal to their principal amount plus any accrued and unpaid interest.

Of the \$40.00 million issued, \$22.00 million of the convertible debenture was issued to companies controlled by two Directors of Melcor, which constitutes a related party transaction. The transaction occurred in the normal course of operations and was measured at its exchange amount, which approximates its carrying value.

Assuming the debentures are not converted until maturity, a \$2.50 million annual cash interest payment will be required for the next six years.

The debenture is a source of financing for all of the company's current operations, and not allocated to one specific purpose.

Liquidity & Capital Resources

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

(\$000s except as noted)	2012	2011
Cash & cash equivalents	11,628	10,703
Accounts receivable	21,966	14,205
Agreements receivable	173,950	139,840
Operating loan	93,232	91,094
Accounts payable	57,728	41,749
Total assets	1,447,356	1,218,885
Total liabilities	752,599	616,141
Debt to equity ratio	1.08	1.02

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

- Fund recurring expenses;
- Meet debt service requirements;
- Make dividend payments;
- Fund land development; and
- Fund investing activities such as the discretionary purchase 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.

On January 8, 2013, Melcor announced that it had commenced a strategic process to advance its business interests through the creation of a REIT. This event, if it occurs, will have a material impact on our cash position.

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

Cash Requirements

The following information about our contractual obligations and other commitments summarizes certain of our liquidity and capital resource requirements. The information presented includes legally committed capital expenditures.

Contractual obligations include:

(\$000s)	Total	Payments due by period			
		<1 year	1-3 years	4-5 years	5+ years
Debt on investment properties and golf course assets	261,191	197,884	10,104	33,139	20,064
Debt on land inventory	96,971	65,778	19,199	9,929	2,065
Debenture interest	7,767	2,500	5,000	267	-
Operating leases	791	221	570	-	-
Contractual commitments	-	-	-	-	-
Total contractual commitments	366,720	266,383	34,873	43,335	22,129

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)	2012	2011
Cash flows from (used in) operating activities	35,089	5,458
Cash flows from (used in) investing activities	(66,274)	(56,234)
Cash flows from (used in) financing activities	32,176	55,070

Cash from operations was higher in the current year as a result of our increase in net income for the period. This increase was slightly offset by cash spent on development activities to prepare land inventory for sale.

Cash used in investing activities primarily relates to purchases of land and investment properties. Of the \$47.44 million in additions to investment properties, \$28.95 million was used by our Property Development division to develop new commercial properties in Alberta. We also used cash for tenant improvements on several investment properties, as well as to construct a new clubhouse at The Links golf course and renovate some of our capital assets.

Cash from financing in 2012 is proceeds from new mortgaged properties in our investment properties division as well as project specific financing obtained on two of our land development projects. These positive inflows were partially offset by dividend payments.

Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at December 31, 2012 there were 30,181,624 common shares issued and outstanding and 1,434,440 options, each convertible to one common share upon exercise or exchange. There is only one class of common shares issued.

Please refer to Note 15 to the consolidated financial statements for information pertaining to our outstanding shares and options.

Off Balance Sheet Arrangements

In the normal course of operations, Melcor engages in a variety of transactions that, under IFRS, are either not recorded on our consolidated Statements of Financial Position or are in amounts that differ from the full contract amounts. The main off-balance sheet arrangements we make include the issuance of guarantees and letters of credit.

A discussion of our letter of credit facility arrangement can be found on page 20. Refer to Note 18 to the consolidated financial statements for information pertaining to our guarantees and letters of credit.

Joint Arrangement Activity

We record only our proportionate share of the assets, liabilities, revenue and expenses of our joint arrangements. Refer to Note 23 to the consolidated financial statements for a listing of our current joint arrangements. The following table illustrates selected financial data related to joint arrangements at 100% as well as the net portion relevant to Melcor.

Joint arrangement activity at 100% (\$000s)	2012	2011
Revenue	175,109	188,893
Earnings	80,838	68,072
Assets	782,664	648,853
Liabilities	251,153	209,473

Joint arrangement activity at Melcor's ownership %* (\$000s)	2012	2011
Revenue	94,387	102,889
Earnings	40,298	40,811
Assets	373,233	334,175
Liabilities	125,245	114,363

(*Ownership in joint arrangements varies from 6% - 60%)

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 year-end financial statements, notes to the financial statements and management's discussion and analysis.

(\$000s)	2012			
	Q4	Q3	Q2	Q1
Revenue	141,962	64,674	34,973	33,321
Net income	55,468	24,832	18,871	5,848

(Per Share)				
Basic earnings	1.84	0.83	0.63	0.19
Diluted earnings	1.72	0.78	0.60	0.19
Book value	22.88	21.28	20.59	20.09

(\$000s)	2011			
	Q4	Q3	Q2	Q1
Revenue	129,429	41,446	24,615	24,859
Net income	51,820	21,140	4,494	3,940

(Per Share)				
Basic earnings	1.72	0.70	0.15	0.13
Diluted earnings	1.62	0.67	0.15	0.13
Book value	19.94	18.54	17.77	17.84

We have historically experienced variability in our results of operations from quarter to quarter 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 takes place during the spring and summer months.

Fourth Quarter

Three Months Ended December 31 (\$000s)	2012	2011
Revenue	141,962	129,429
Cost of sales	(87,387)	(77,898)
	54,575	51,531
General & administrative expense	(7,332)	(6,806)
Depreciation expense	(267)	(204)
	46,976	44,521
Fair value adjustment on investment properties	29,802	24,913
Loss on sale of assets	2	(29)
	76,780	69,405
Interest income	667	835
Interest expense	(4,385)	(4,323)
Net finance costs	(3,718)	(3,488)
	73,062	65,917
Income before income taxes	73,062	65,917
Income tax expense	(17,594)	(14,097)
Net income for the period	55,468	51,820
Earnings per share		
Basic earnings per share	1.84	1.72
Diluted earnings per share	1.72	1.62

24 Management's Discussion & Analysis

Segmented information for the fourth quarter is as follows:

Three Months Ended December 31, 2012	<i>Community Development</i>	<i>Property Development</i>	<i>Investment Properties</i>	<i>Recreational Properties</i>	<i>Corporate</i>	<i>Intersegment Elimination</i>	<i>Total</i>
Segment revenue	127,210	780	14,979	575	-	(1,582)	141,962
Cost of sales	(79,896)	-	(7,365)	(807)	-	681	(87,387)
	47,314	780	7,614	(232)	-	(901)	54,575
General and administrative	(2,445)	(452)	(167)	(241)	(4,409)	382	(7,332)
Depreciation expense	-	-	-	(180)	(87)	-	(267)
	44,869	328	7,447	(653)	(4,496)	(519)	46,976
Fair value adjustment	-	4,276	25,007	-	-	519	29,802
Gain on sale of assets	-	-	-	2	-	-	2
Interest income	642	-	19	-	6	-	667
	45,511	4,604	32,473	(651)	(4,490)	-	77,447
Interest expense							(4,385)
Income before tax							73,062
Income tax							(17,594)
Net income							55,468

Three Months Ended December 31, 2011	<i>Community Development</i>	<i>Property Development</i>	<i>Investment Properties</i>	<i>Recreational Properties</i>	<i>Corporate</i>	<i>Intersegment Elimination</i>	<i>Total</i>
Segment revenue	120,965	327	12,768	586	-	(5,217)	129,429
Cost of sales	(72,189)	-	(6,249)	(705)	-	1,245	(77,898)
	48,776	327	6,519	(119)	-	(3,972)	51,531
General and administrative	(2,115)	(216)	(740)	(247)	(3,805)	317	(6,806)
Depreciation expense	-	-	-	(161)	(43)	-	(204)
	46,661	111	5,779	(527)	(3,848)	(3,655)	44,521
Fair value adjustment on investment	-	281	20,977	-	-	3,655	24,913
Gain on sale of assets	-	-	-	(29)	-	-	(29)
Interest income	801	-	14	-	20	-	835
	47,462	392	26,770	(556)	(3,828)	-	70,240
Interest expense							(4,323)
Income before tax							65,917
Income tax							(14,097)
Net income							51,820

Outlook

The majority of our assets are in Alberta, with a growing inventory of residential units in the US. We believe the economic indicators in these regions continue to provide a strong outlook for our business over the next several years.

- Alberta fundamentals remain strong, with low unemployment rates, net in-migration, higher than the national average weekly earnings, strong capital investment, stabilizing inflation and relative stability in the price of oil. These fundamentals create a favorable environment for both residential and commercial property development.
- The US continues its slow economic recovery with lingering uncertainty and volatility, limited access to capital and continued distress in the speculative and investment real estate markets. These fundamentals create an environment that favors rentals over home ownership.

Our key differentiators are our financial strength, proven track record and the experience and integrity of our personnel.

Business Environment & Risks

A discussion of credit risk, liquidity risk and market risk can be found in Note 26 to the consolidated financial statements.

The following is an overview of certain risks factors that could adversely impact our financial condition, results of operations, and the value of our common shares.

General Risks

We are exposed to the micro- and macro-economic conditions that affect the markets in which we operate and own assets. In general, a decline in economic conditions will result in downward pressure on Melcor's margins and asset values as a result of lower demand for the services and products we offer. Specifically, general inflation and interest rate fluctuations; population growth and migration; job creation and employment patterns; consumer confidence; government policies, regulations and taxation; and availability of credit and financing could pose a threat to our ongoing business operations.

International economic forces and conditions will impact our business as our investment into the US grows. We adapt our business plan to reflect current conditions and we believe that we have sufficient resources to carry our operations through uncertain times.

We participate in joint arrangements under the normal course of business that may have an effect on certain assets and businesses. These joint arrangements may involve risks that would not otherwise be present if the third parties were not involved, including the possibility that the partners have different economic or business interests or goals. Also, within these arrangements, Melcor may not have sole control of major decisions relating to these assets and businesses, such as: decisions relating to the sale of the assets and businesses; timing and amount of distributions of cash from such entities to Melcor and its joint arrangement partners; and capital expenditures.

Industry Risk

Real estate investments are generally subject to varying levels of risk. These risks include changes to general economic conditions, government and environmental regulations, local supply/demand, and competition from other real estate companies. Real estate assets are relatively illiquid in down markets, particularly raw land. As a result, Melcor may not be able to quickly rebalance its portfolio in response to changing economic or investment conditions.

Financing Risk

We use debt and other forms of leverage in the ordinary course of business to enhance returns to shareholders. Most leveraged debt within the business has recourse only to the assets being financed or margined and has no recourse to Melcor.

We are subject to general risks associated with debt financing. The following risks may adversely affect our financial condition and results of operations:

- Cash flow may be insufficient to meet required payments of principal and interest;
- Payments of principal and interest on borrowings may leave us with insufficient cash resources to pay operating expenses;
- We may not be able to refinance indebtedness on our assets at maturity due to company and market factors;
- The fair market value of our assets;
- Liquidity in the debt markets;
- Financial, competitive, business and other factors, including factors beyond our control;
- Refinancing terms that are not as favourable as the original terms of the related financing.

We attempt to mitigate these risks through the use of long-term debt and diversifying terms and maturity dates.

The terms of various credit agreements and other financing documents require that we comply with a number of financial and other covenants, such as maintaining debt service coverage and leverage ratios, and minimum insurance coverage. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we had satisfied our payment obligations.

If we are unable to refinance assets/indebtedness on acceptable terms, or at all, we may need to utilize available liquidity, which would reduce our ability to pursue new investment opportunities, or require that we dispose of one or more of our assets on disadvantageous terms. In addition, unfavourable interest rates or other factors at the time of refinancing could increase interest expense.

A large proportion of our capital is invested in physical, long-lived assets, which can be difficult to liquidate, especially if local market conditions are poor. This circumstance could limit our ability to diversify our portfolio of assets promptly in response to changing economic or investment conditions.

We may enter into financing commitments in the normal course of business and, as a result, may be required to fund these, particularly through joint arrangements. If we are unable to fulfill any of these commitments, damages could be pursued against Melcor.

Community Development

The Community Development division is subject to risks influenced by the demand for new housing in the regions where we operate. Demand is primarily impacted by interest rates, growth in employment, migration, new family formations and the size of these families. The division's ability to bring new communities to the market is impacted by municipal regulatory requirements and environmental considerations that affect the planning, subdivision and use of land. The planning and approval process can take up to eighteen months. During this period, the market conditions in general and / or the market for lots in the size and price range in our developments may change dramatically.

The division manages our assets to ensure that we have adequate future land assets to develop by ensuring appropriate approvals are in place and by balancing our inventory of land between long, medium and short-term development horizons against the cost of acquiring and holding these lands.

Property Development

The Property Development division is subject to risks that would normally be associated with the construction industry (such as fluctuating labour, material and consulting costs), combined with the normal leasing risks that the Investment Properties division faces (see below).

The division manages the overall costs of projects, project financing requirements, construction quality, and the suitability of projects in relation to the needs of the tenants who will occupy the completed building. The division is also subject to additional holding costs if an asset is not leased out on a timely basis.

Investment Properties

The Investment Properties division is subject to the market conditions in the geographic areas where we own and manage properties. Where strong market conditions prevail, we are able to achieve higher occupancy rates. Market conditions are influenced by outside factors such as government policies, demographics and employment patterns, the affordability of rental properties, competitive leasing rates and long-term interest and inflation rates.

Recreational Properties

The results of golf course operations may be adversely affected by weather, which limits the number of playing days; competition from other courses; the level of disposable income available to customers to spend on recreational activities; the popularity of the sport; and the cost of providing desirable playing conditions of the course.

While weather is outside our control, we manage our golf courses to provide consistent playing conditions to support the popularity of our courses.

Other Financial Information

Related Party Transactions

Please refer to Note 22 to the consolidated financial statements for information pertaining to transactions with related parties.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with IFRS. In applying IFRS, we make estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent liabilities and the reported amount of income for the period. Actual results could differ from estimates previously reported. We have discussed the development, selection and application of our key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee and the Board of Directors.

Our significant accounting policies and accounting estimates are contained in the consolidated financial statements. Please refer to Note 3 to the consolidated financial statements for a description of our accounting policies and Note 5 for a discussion of accounting estimates.

Changes in Accounting Policies and Adoption of IFRS

Refer to Note 4 to the consolidated financial statements for information pertaining to accounting pronouncements that will be effective in future years.

Internal Control over Financial Reporting and Disclosure Controls

Melcor's management, including the President & Chief Executive Officer and the Vice-President Finance & Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in National Instrument 52-109 of the Canadian Securities Administrators) as of December 31, 2012.

Management has concluded that, as of December 31, 2012, the disclosure controls and procedures were effective to provide reasonable assurance that material information relating to Melcor and its consolidated subsidiaries and joint arrangements would be made known to them by others within those entities, particularly during the period in which this report was being prepared. Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

During the year ended December 31, 2012, there has been no change in Melcor's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, Melcor's internal control over financial reporting.

In accordance with NI 52-109, management designed and assessed the effectiveness of internal controls over financial reporting as of December 31, 2012, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that, as of December 31, 2012, internal control over financial reporting was effective.

Notwithstanding the foregoing, no assurance can be made that Melcor's controls over disclosure and financial reporting and related procedures will detect or prevent all failures of people within the Company to disclose material information otherwise required to be set forth in the Melcor's reports.

Non-Standard Measures

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

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

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

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

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

Funds from operations (FFO): This measure is commonly used to measure the performance of real estate operations and is used in our Investment Properties division.

Calculations

We use the following calculations in measuring our performance.

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

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

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

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

Net operating income (NOI) = (revenue) – (direct operating expenses)

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

FFO per share = (FFO) / (number of common shares outstanding)

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

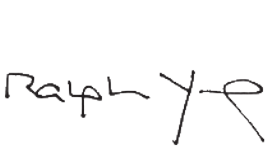
Management's Responsibility for Financial Reporting

The consolidated financial statements, management's discussion and analysis (MD&A) and all financial information contained in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, have incorporated estimates based on the best judgment of management.

To discharge its responsibility for financial reporting, management is responsible for implementing and maintaining adequate internal controls to provide reasonable assurance that the Company's assets are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and available on a timely basis.

The consolidated financial statements have been examined by PricewaterhouseCoopers LLP, the Company's external auditors. The external auditors are responsible for examining the consolidated financial statements and expressing their opinion on the fairness of the financial statements in accordance with International Financial Reporting Standards. The auditor's report outlines the scope of their audit examination and states their opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring management fulfils its responsibilities for financial reporting and internal controls. The Audit Committee is comprised of three financially literate and independent directors. This committee meets at least four times per year with management and the external auditors to review significant accounting, financial reporting and internal control matters. PricewaterhouseCoopers LLP have unrestricted access to the Audit Committee with and without the presence of management. The Audit Committee reviews the financial statements, the auditor's report, and MD&A and submits its report to the board of directors for formal approval. The Audit Committee is also responsible for reviewing and recommending the annual appointment of external auditors and approving the external audit plan.



Ralph B. Young
President & Chief Executive Officer



Jonathan Chia
Vice President, Finance & Chief Financial Officer

Edmonton, Alberta
March 6, 2013

Auditors' Report to Shareholders

To the Shareholders of Melcor Developments Ltd.

We have audited the accompanying consolidated financial statements of Melcor Developments Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Melcor Developments Ltd. and its subsidiaries as at December 31, 2012 and December 31, 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Edmonton, Alberta
March 6, 2013

Consolidated Statements of Income

For the years ended December 31 (\$000s)	2012	2011
Revenue (note 20)	274,930	220,349
Cost of sales (note 20)	(160,891)	(125,792)
	114,039	94,557
General and administrative expense (note 20)	(22,786)	(18,550)
Depreciation expense (note 10)	(1,238)	(1,120)
	90,015	74,887
Fair value adjustment on investment properties (note 9,20)	59,103	41,696
Gain (loss) on sale of assets	2	(24)
	149,120	116,559
Interest income	2,318	2,514
Interest expense (note 19,22)	(17,048)	(16,218)
Net finance costs	(14,730)	(13,704)
Income before income taxes	134,390	102,855
Income tax expense (note 21)	(29,371)	(21,461)
Net income for the year	105,019	81,394
Net income (loss) attributable to:		
Melcor's shareholders	105,034	81,394
Non-controlling interest (NCI)	(15)	-
Net income for the year	105,019	81,394
Earnings per share attributable to Melcor's shareholders (note 16):		
Basic earnings per share	3.49	2.70
Diluted earnings per share	3.29	2.57

Consolidated Statements of Comprehensive Income

For the years ended December 31 (\$000s)	2012	2011
Net income for the year	105,019	81,394
Other comprehensive income (loss)		
Currency translation differences (note 17)	(2,408)	387
Comprehensive income for the year	102,611	81,781
Comprehensive income (loss) attributable to:		
Melcor's shareholders	102,842	81,781
Non-controlling interest (NCI)	(231)	-
Comprehensive income for the year	102,611	81,781

Approved on behalf of the board:



Gordon J. Clanachan, FCA
Chair, Audit Committee



Timothy C. Melton
Executive Chairman

Consolidated Statements of Financial Position

(\$000s)	2012	2011
ASSETS		
Cash and cash equivalents	11,628	10,703
Accounts receivable	21,966	14,205
Income taxes recoverable	1,069	1,208
Agreements receivable (note 7)	173,950	139,840
Land inventory (note 8)	603,576	529,803
Investment properties (note 9)	599,228	493,520
Property and equipment (note 10)	15,269	12,942
Other assets (note 11)	20,670	16,664
	1,447,356	1,218,885
LIABILITIES		
Accounts payable and accrued liabilities (note 12)	57,728	41,749
Provision for land development costs (note 13)	138,551	92,946
General debt (note 14)	490,532	429,689
Deferred income tax liabilities (note 21)	65,788	51,757
	752,599	616,141
SHAREHOLDERS' EQUITY		
Equity attributable to Melcor's Shareholders		
Share capital (note 15)	15,580	14,446
Contributed surplus	4,460	2,810
Convertible debenture	639	639
Accumulated other comprehensive income (AOCI) (note 17)	(2,130)	47
Retained earnings	672,283	580,821
	690,832	598,763
Non-controlling interest (NCI)	3,925	3,981
	694,757	602,744
	1,447,356	1,218,885

Consolidated Statements of Cash Flows

For the years ended December 31 (\$000s)	2012	2011
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	105,019	81,394
Non cash items:		
Amortization of operating lease incentives (note 11)	3,108	3,495
Depreciation of property and equipment (note 10)	1,238	1,120
Stock based compensation expense	1,755	1,885
Non cash interest	887	899
Fair value adjustment on investment properties (note 9)	(59,103)	(41,696)
Gain on disposal of assets	(2)	24
Deferred income taxes (note 21)	14,031	6,893
	66,933	54,014
Agreements receivable	(34,110)	(42,366)
Development activities (note 2s)	(6,991)	(4,420)
Operating assets and liabilities (note 2s)	9,257	(1,770)
	35,089	5,458
INVESTING ACTIVITIES		
Purchase of land inventory (note 8)	(7,633)	(11,462)
Payment of tenant lease incentives (note 11)	(5,735)	(5,453)
Proceeds from disposal of investment properties	-	19,515
Additions to investment properties (note 9)	(49,341)	(57,768)
Proceeds from disposal of assets	14	14
Purchase of property and equipment (note 10)	(3,579)	(1,080)
	(66,274)	(56,234)
FINANCING ACTIVITIES		
Bank operating loan	2,138	37,297
Proceeds from debt on land inventory	29,128	3,135
Repayment of debt on land inventory	(15,525)	(26,173)
Proceeds from debt on investment properties and golf course assets	53,239	26,123
Repayment of debt on investment properties and golf course assets	(24,436)	(10,592)
Proceeds from convertible debenture (note 14d)	-	39,642
Contributions from non-controlling interest	175	-
Dividends paid	(13,572)	(12,052)
Share capital issued	1,029	1,144
Common shares purchased (note 15a)	-	(3,454)
	32,176	55,070
FOREIGN EXCHANGE LOSS ON CASH HELD IN A FOREIGN CURRENCY	(66)	18
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	925	4,312
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	10,703	6,391
CASH AND CASH EQUIVALENTS, END OF THE YEAR	11,628	10,703

1. DESCRIPTION OF THE BUSINESS

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

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

2. BASIS OF PRESENTATION

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as set out in Part I of the Handbook of the Canadian Institute of Chartered Accountants ("CICA").

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 6, 2013, the date the Board of Directors approved the statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

a. Basis of measurement

Our consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of investment properties which are measured at fair value.

We prepare our financial statements in conformity with IFRS which requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions change. We believe that the underlying assumptions are appropriate. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in notes 6 and 5 respectively.

b. Basis of consolidation

These consolidated financial statements include:

- i. The accounts of Melcor Developments Ltd. and its wholly-owned subsidiary companies:
 - Melcor Developments Arizona, Inc.
 - Melcor Lakeside Inc.
 - Stanley Investments Inc.
- ii. The accounts of Melcor T/C Aurora, LLC, 75% owned by Melcor Developments Arizona, Inc. Non-controlling interest has been recorded to reflect the equity interest held by outside parties.

- iii. Investments in 25 joint arrangements (2011 – 24) with interests ranging from 6% to 75%. These arrangements are undivided interests of the assets, liabilities, revenue and expenses and we record our proportionate share in accordance with the agreements. Refer to note 23 for details on joint arrangements.

All intercompany transactions and balances are eliminated on consolidation.

c. Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term deposits with maturity dates of less than three months from the date they were acquired.

d. Land inventory

Land inventory is recorded at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less costs to complete the development and selling costs. Cost includes all costs incurred to purchase development land, capitalized carrying costs related to holding the land under development, and development costs to build infrastructure. The estimated unexpended portion of costs to complete building the infrastructure, which are classified as "provision for land development costs" (refer to 3i), are recorded as a liability upon the approval of the development plan with the municipality.

The cost of land and carrying costs is allocated to each phase of development based on a prorated acreage of the total land parcel at the time a plan is registered with a municipality. The cost of sale of a lot is allocated on the basis of the estimated total cost of the project prorated by the anticipated selling price of the lot over the anticipated selling price of the entire project at the date of plan registration.

Where we acquire land subject to deferred payments greater than one year, it is initially recognized at the fair value of the future estimated contractual obligations.

e. Investment properties

Investment properties include commercial and residential properties, and a manufactured home community held for the long term to earn rental income or for capital appreciation, or both. It also includes properties under development for future use as investment properties.

Acquired investment properties are measured initially at cost, including related transaction costs where the acquisition is considered an asset purchase. Costs capitalized to properties under development include direct development and construction costs, borrowing costs, and property taxes.

After initial recognition, investment properties are recorded at their fair value, which is determined by discounting projected future cash flows based on property specific capitalization rates. Valuations are performed as of the period end date by professional valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases based on current market conditions. The value also reflects any cash outflows that could be expected in respect of the property. Changes in fair value are recognized in the consolidated statement of income.

Fair value measurement of an investment property under development is only applied if the fair value is considered to be reliably measurable. In rare circumstances, investment property under development is carried at cost until its fair value becomes reliably measurable. It may sometimes be difficult to determine reliably the fair value of an investment property under development. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers the following factors, among others:

- the provisions of the construction contract;
- the stage of completion;
- whether the project or property is standard (typical for the market) or non-standard;
- the level of reliability of cash inflows after completion;
- the development risk specific to the property;
- past experience with similar construction; and
- status of construction permits.

Subsequent expenditures are capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to Melcor and the cost of the item can be measured reliably. All repairs and maintenance costs are expensed when incurred.

Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of investment properties.

f. Property and equipment

Property and equipment is initially measured at cost, which includes expenditures that are directly attributable to the acquisition of the asset. Subsequent to its initial recognition, property and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses.

The major categories of property and equipment are depreciated using the declining balance method of depreciation as follows:

Buildings	4%
Golf course greens and tees	6%
Golf course equipment.....	20-30%
Corporate assets.....	10-30%

Property and equipment is tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. The recoverable amount is the higher of an asset's fair value less costs to sell and the discounted expected future cash flows of the relevant asset or group of assets. An impairment loss is recognized for the amount by which the asset or group of assets' carrying amount exceeds its recoverable amount.

We evaluate impairment losses for potential reversals when events or circumstances warrant such consideration.

g. Other assets

Other assets include prepaid expenses, straight-line rent adjustments, inventory, deposits and operating lease incentives incurred in respect of new or renewed leases. Operating lease incentives and straight-line rent adjustments are amortized on a straight line basis over the lease term and are recorded as a reduction of revenue.

h. Borrowing costs

General and specific borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets. Borrowing costs are capitalized while acquisition or construction is actively underway and ceases once the asset is substantially complete, or suspended if the development of the asset is suspended. The amount of borrowing cost capitalized is determined by applying a weighted average cost of borrowings to qualifying assets. Qualifying assets include our land under development and investment property under development assets. All other borrowing costs are recognized as interest expense in the consolidated statement of income in the period in which they are incurred.

i. Provision for land development

We recognize a provision for land development related to the construction, installation and servicing of municipal improvements related to subdivisions under development once we have an approved development agreement with the municipality, as this is the point in time when an obligation arises. The provision is recognized as a liability with an equal amount capitalized to land inventory. Provisions for land development are measured at management's best estimate of the expenditure required to complete the approved development plan at the end of the reporting period. Adjustments are made to the liability with a corresponding adjustment to cost of sales as actual costs are incurred. Provisions are discounted, where material, by discounting the expected future cash flows at a rate that reflects risk specific to the provision and the time value of money.

j. Provision for decommissioning obligations

Decommissioning obligations are measured at the present value of the expected cost to settle the obligation. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows as well as any changes in the discount rate. Increases or decreases in the provision are recognized as an expense or income. Actual costs incurred upon settlement of the decommissioning obligation are recorded against the provision.

k. Recognition of revenue

Revenue is generated from the sale of developed land, rental of investment properties and the operation of golf courses.

Revenue from the sale of developed land is recognized when a minimum of 15% of the sale price has been received, the sale is unconditional and possession has been granted.

Rental revenue from investment properties is recognized on a straight-line basis over the term of the related lease agreement. When incentives are provided to our tenants, the cost of these incentives is recognized over the lease term, on a straight-line basis, as a reduction to rental revenue.

Revenue from golf courses is recognized in the accounting period in which the services are provided.

l. Income taxes

Current income tax is the expected amount of tax payable to the taxation authorities, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the liability method based on the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets are the result of recognizing the benefit associated with deductible temporary differences, unused tax credits, and tax loss carryforwards. The carrying amount of the deferred tax liabilities and assets is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the reporting period date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

We presume that investment property measured at fair value will be recovered entirely through sale. Measurement of the related deferred taxes reflects the tax consequences of recovering the carrying amount through sale.

m. Stock based compensation

We use the Black-Scholes option pricing model to fair value stock options granted to our employees. The estimated fair value of options on the date of grant is recognized as compensation expense on a graded vesting basis over the period in which the employee services are rendered. We estimate the number of expected forfeitures at the grant date and make adjustments for actual forfeitures as they occur.

n. Earnings per share

Basic earnings per share ("EPS") is calculated by dividing our net income for the period by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants, and similar instruments is computed using the treasury stock method. Our potentially dilutive common shares comprise stock options granted to employees as well as the dilutive impact of the convertible debentures issued and outstanding.

o. Foreign currency

The consolidated financial statements are presented in Canadian dollars, which is the functional currency for our Canadian operations and our presentation currency.

Assets and liabilities of our US operations, for which the functional currency is the US dollar, are translated into our presentation currency at the exchange rates in effect at the reporting period end date and revenues and expenses are translated at average exchange rates for the period. Gains or losses on translation of foreign operations are recognized as other comprehensive income or loss.

p. Financial instruments

At initial recognition, we classify our financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to third parties and receivables are initially recognized at fair value plus transaction costs. Subsequently, loans and receivables are measured at amortized

cost using the effective interest method less a provision for impairment, if necessary. Loans and receivables are comprised of accounts receivable, agreements receivable and cash and cash equivalents.

At each reporting date, we assess whether there is objective evidence that a financial asset is impaired, considering delinquencies in payments and financial difficulty of the debtor. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of any losses is recognized in income.

Other liabilities

Other liabilities include accounts payable and accrued liabilities and general debt. Other liabilities are initially recognized at fair value, net of any transaction costs incurred. Subsequently, other liabilities are measured at amortized cost using the effective interest method.

q. Convertible debenture

Our compound financial instrument is comprised of a convertible debenture that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. We also have the ability to convert the debenture into share capital; however the number of shares to be issued at conversion varies with the market price of the shares.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

r. Operating segments

Our operating segments are strategic business units that offer different products and services, and are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. They are managed separately because each business unit requires different management skills and marketing strategies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

s. Statement of cash flows

Development activities is defined as the net change of land inventory and the provision for land development costs and excludes the purchase of land inventory. Purchase of land inventory is the cost of land net of vendor financing received (see note 8 – Land Inventory).

Operating assets and liabilities is defined as the net change of accounts receivable, and other assets, income taxes payable or recoverable, and accounts

payable and accrued liabilities. Excluded from operating assets and liabilities are investment property additions that are unpaid and in accounts payable at year end.

4. ACCOUNTING STANDARDS CHANGES

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

- a. IFRS 9, Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The standards also results in one impairment method replacing the numerous impairment methods in IAS 39 that arise from the different classification categories.

This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted.
- b. IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and the ability to affect them through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation – Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.
- c. IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interest in Joint Ventures, and SIC-13, Jointly Controlled Entities – Non-monetary Contributions by Venturers.
- d. IFRS 12, Disclosures of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associates with an entity's interest in other entities.
- e. IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an

asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

- f. IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

We are currently assessing the impact of adopting the above standards on our consolidated financial statements.

5. CRITICAL ACCOUNTING ESTIMATES

We make estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent liabilities and the reported amount of income for the period. Actual results could differ from estimates previously reported. The estimates and assumptions that are critical to the determination of the amounts reported in the financial statements relate to the following:

a. Valuation of agreements receivable

We review our agreements receivable on a regular basis to estimate the risk of default on outstanding balances. Factors such as the related builder's reputation and financial status, the geographic location of the lot, and length of time the agreement receivable has been outstanding are all considered when estimating any impairment on agreements receivable. Refer to note 26a for further information related to credit risk associated with agreements receivable.

b. Valuation of land inventory

We review our land inventory on a regular basis to estimate the net realizable value. Factors such as current market conditions and recent sales activity are considered when estimating the net realizable value of land. Refer to note 8 for further information related to land inventory.

c. Fair value of investment properties

Investment properties are valued using a discounted cash flow approach, as completed by qualified valuers. Key estimates and assumptions regarding the discounted cash flows include expected occupancy rates and lease payments, as well as expenditures for operating costs and capital expenditures. Refer to note 9 for further information about methods and assumptions used in determining fair value.

d. Determination of the provision for land development costs

We estimate the future costs of completing the development of land by preparing internal budgets of costs and reviewing these estimates regularly to determine if adjustments to increase or decrease the provision for land development costs are required. This estimate impacts the measurement of cost of sales reported given that land inventory is sold prior to all costs being committed or known as the nature of land development considers a long-term time frame to complete all municipal requirements.

e. Income taxes

Significant estimates are required in determining our provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provision.

The deferred tax assets recognized at December 31, 2012 are supported by future profitability assumptions over a five-year horizon. In the event of changes in these profitability assumptions the tax assets recognized may be adjusted.

6. SIGNIFICANT JUDGMENTS

In the process of applying our accounting policies, we make various judgments, apart from those involving estimations, that can significantly impact the amounts recognized in the financial statements. These include:

a. Capitalization of borrowing costs

IAS 23, Borrowing Costs, requires the capitalization of borrowing costs to qualifying assets. IAS 23 also requires the determination of whether the borrowings are specific to a project or general in calculating the capitalized borrowing costs. Judgment is involved in this determination. Capitalization to land inventory occurs when the land is classified to land under development and ceases when the land is considered developed and ready for sale. Borrowing costs are capitalized to investment properties when under active development.

b. Transfer of land to investment properties

We typically acquire raw land with the intent of developing it in our Community Development division over a period of time. Once development plans are ultimately formulated, it is sometimes decided that specific land holdings will be developed into investment properties. Once appropriate evidence of a change in use is established, typically in the form an operating lease of the investment property, the land is transferred to investment properties. At that time, the land is recognized at fair value in accordance with our accounting policy for investment properties, and any gain or loss is reflected in earnings in the period the transfer occurs.

c. Classification of tenant payments

Payments are often made to tenants of our commercial properties when new leases are signed. When the payments add future value to the space independent of the lease in place, such costs are capitalized to the investment property. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight line basis to revenue over the lease term in accordance with SIC 15, Operating leases – Incentives.

d. Investment properties

Our accounting policies related to investment properties are described in note 3e. In applying this policy, judgment is required in determining whether certain costs are additions to the carrying amount of an investment property and, for properties under development, identifying the point at which substantial completion of the property occurs.

7. AGREEMENTS RECEIVABLE

Agreements receivable are due within one year except for \$39,966 which is due in 2014 (2011 - \$33,122 due in 2013). Subsequent to the interest adjustment date, which provides an interest relief period to qualifying registered builders; these receivables earn interest at prime plus two percent (5.00% at December 31, 2012 and December 31, 2011) and are collateralized by the specific real estate sold. A provision for impairment was not recorded at December 31, 2012 (2011 - \$nil).

The fair value of agreements receivable is estimated based on the interest bearing nature of these instruments, which are at rates consistent with market rates for debt instruments with similar terms to maturity. The fair value of agreements receivable approximate their carrying value.

8. Land Inventory

<i>As at December 31</i>	2012	2011
Raw land held	266,487	263,029
Land under development	106,090	96,694
Developed land	230,999	170,080
	603,576	529,803

A breakdown of our land purchases are as follows:

<i>As at December 31</i>	2012	2011
Land purchases *	405 acres	44 acres
Finished lots *	-	208 lots
Land cost	24,137	2,959
Vendor financing	16,504	1,800
Net land cost	7,633	1,159

*Included in 2011 are 2 acres of land and 208 finished lots purchased in the US for \$4,263; no financing was obtained for these purchases.

In 2011, we formed a 75% owned subsidiary with an unrelated party holding the remaining 25%. This resulted in the recognition of land inventory of \$19,576, debt of \$9,593 and non-controlling interest of \$3,981.

During the year, certain land inventories were reclassified to investment properties, and fair value gains of \$1,826 (2011 - \$6,415) were recognized in the consolidated financial statements. For the purposes of segment reporting, this is disclosed as revenue of \$4,286 (2011 - \$9,403) and cost of sales of \$2,460 (2011 - \$2,988) for the Community Development division.

The weighted average interest rate used for capitalization of borrowing costs to land under development is 4.64% for the year ended December 31, 2012 (2011 - 5.23%). Borrowing costs capitalized to land inventory during the year were \$3,672 (2011 - \$3,304).

Land inventory expensed to cost of sales during the year was \$131,448 (2011 - \$103,010).

The net realizable value exceeds the carrying cost of all land inventories at December 31, 2012 and 2011, such that no provisions for impairment are required.

9. Investment Properties

	2012	2011
Balance - beginning of year	493,520	401,429
Additions		
Direct acquisition	10,616	21,645
Transfer from land inventory	2,460	2,988
Acquisition through business combination	-	40,838
Property improvements	7,348	7,009
Property development	30,856	12,149
Capitalized borrowing costs	789	225
Disposals	(268)	(36,695)
Net fair value adjustment on investment properties	59,103	41,696
Change in provision (note 12)	(3,317)	-
Foreign currency translation	(1,879)	2,236
Balance - end of year	599,228	493,520

A breakdown of our investment properties by type are as follows:

	2012	2011
Commercial properties	434,374	371,907
Residential properties	102,983	93,861
Properties under development	61,871	27,752
Balance - end of year	599,228	493,520

The cost of investment properties as at December 31, 2012 totaled \$339,904 (2011 - \$289,982)

Investment properties were valued by qualified independent external valuation professionals as at December 31, 2012 and December 31, 2011. This resulted in fair value gains in 2012 and 2011 of \$59,103 and \$41,696, respectively, being recognized in the statement of income. Fair values are primarily determined by discounting the expected future cash flows over ten years plus a terminal value determined by applying a capitalization rate to estimated year eleven cash flows. Properties under development are measured using a discounted cash flow model net of costs to complete.

Properties transferred from property under development to commercial properties during the year totaled \$17,846 (2011 - \$13,348).

Presented separately from investment properties is \$16,627 (2011 - \$14,000) in tenant incentives and \$677 (2011 - \$nil) in straight line rent adjustments (included in note 11). The fair value of investment properties has been reduced by these amounts.

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

	December 31, 2012			December 31, 2011		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	7.75%	6.43%	5.75%	8.00%	6.88%
Terminal capitalization rate	5.75%	8.00%	6.69%	6.00%	8.50%	7.14%

A change in capitalization rates by a 50 basis points increase or decrease would change the carrying amount of investment properties by \$51,645 or \$41,077 (2011 - \$31,074 or \$36,946) respectively.

The weighted average interest rate used for capitalization of borrowing costs to properties under development is 4.64 % for the year ended December 31, 2012 (2011 - 5.23%).

Our investment properties are leased to tenants primarily under long term operating leases. Rentals are receivable from tenants monthly. Minimum lease payments under non-cancellable operating leases of investment properties are receivable as follows:

	2012	2011
Within one year	25,236	26,585
Later than one year but not later than 5 years	70,719	58,345
Later than 5 years	57,136	12,790
Total	153,091	97,720

10. Property & Equipment

	Golf course assets				Corporate	Total
	Land	Buildings	Equipment	Greens & tees		
January 1, 2012						
Cost	1,293	5,493	6,774	6,177	2,427	22,164
Accumulated depreciation	-	(1,313)	(4,633)	(1,713)	(1,563)	(9,222)
Opening net book value	1,293	4,180	2,141	4,464	864	12,942
Additions	-	2,064	414	-	1,101	3,579
Disposals	-	-	(7)	-	(7)	(14)
Depreciation	-	(237)	(505)	(265)	(231)	(1,238)
Net Book Value - December 31, 2012	1,293	6,007	2,043	4,199	1,727	15,269

	Golf course assets				Corporate	Total
	Land	Buildings	Equipment	Greens & tees		
January 1, 2011						
Cost	1,293	5,207	6,447	5,946	2,375	21,268
Accumulated depreciation	-	(1,033)	(4,076)	(1,358)	(1,590)	(8,057)
Opening net book value	1,293	4,174	2,371	4,588	785	13,211
Additions	-	378	375	95	232	1,080
Disposals	-	(181)	(48)	-	-	(229)
Depreciation	-	(191)	(557)	(219)	(153)	(1,120)
Net Book Value - December 31, 2011	1,293	4,180	2,141	4,464	864	12,942

11. Other Assets

	2012	2011
Tenant Leasing Costs	16,627	14,000
Deposits	2,325	1,510
Prepays and straight line rent adjustments	1,255	769
Inventory	463	385
	20,670	16,664

During the year we provided tenant incentives of \$5,735 (2011 - \$5,453), recorded \$3,108 (2011 - \$3,495) of amortization expense and disposed of \$nil (2011 - \$1,785) on sale of an investment property. In accordance with SIC 15, Operating Leases - Incentives, amortization of tenant incentives is recorded on a straight line basis over the term of the lease against rental revenue.

12. Accounts Payable and Accrued Liabilities

As at December 31	2012	2011
Trade accounts payable	29,764	23,899
Other payables	26,164	12,690
Decommissioning obligation	1,800	5,160
	57,728	41,749

We have determined that a decommissioning obligation exists for one of our commercial properties. We used a discount rate based on our current borrowings to estimate the present value of the decommissioning liability.

We also obtained an estimate from a remediation provider to estimate the financial impact of this obligation; however, due to uncertainty surrounding the nature and timing of this obligation, amounts are subject to change. During the year, a change in estimate of \$3,317 related to the decommissioning obligation (2011 - \$nil) was recorded as an adjustment to investment properties.

13. Provision for Land Development

for the year ended December 31	2012	2011
Balance - beginning of period	92,946	72,255
Additional provisions	114,226	52,623
Changes to estimate	301	3,113
Cost incurred	(68,922)	(35,045)
Balance - end of year	138,551	92,946

14. General Debt

General debt consists of the following:

		2012	2011
Bank operating loan	a	93,232	91,094
Debt on land inventory	b	96,971	66,378
Debt on investment properties and golf course assets	c	261,191	233,268
Convertible debenture	d	39,138	38,949
		490,532	429,689

a. Bank operating loan

We have an available credit facility with approved loan limits of \$160,500 (2011 - \$161,900) with a syndicate of major chartered banks. The portion of these loan limits that pertain solely to Melcor Developments Ltd. is \$120,000 (2011 - \$120,000) with the remaining balance pertaining to specific joint arrangements.

The amount of the total credit facilities currently used is \$93,232 (2011 - \$91,094). We have pledged agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral for our credit facility. The carrying value of assets pledged as collateral is \$345,050 (2011 - \$312,512). The facility has a two year term, renewable one year in advance of expiry. Depending on the form under which the credit facility is accessed, rates of interest will vary between prime plus 1.5% to prime plus 2.25% or banker's acceptance rate plus a 3.00% (2011 - 2.75%) stamping fee resulting in interest rates ranging from 4.50% to 5.25% at December 31, 2012 (2011 - 4.50% to 5.25%).

b. Debt on land inventory

	2012	2011
Agreements payable with interest at the following contractual rates:		
Fixed rates of 0.00% - 6.0%	67,745	57,686
Variable rates of prime plus 1.50% - 2.00% (4.50% - 5.00% at 31-Dec-12 and 31-Dec-11)	4,439	8,692
Project specific debt, with interest between 3.28% - 3.75%	24,787	-
	96,971	66,378

As at December 31, 2012 \$9,100 (2011 - \$9,858) of debt was payable in US dollars (US\$9,149) (2011 - US\$9,693). The debts mature from 2013 to 2017.

Land inventory with a December 31, 2012 carrying value of \$214,829 (2011 - \$166,464), has been pledged as collateral for the above debt. The weighted average effective interest rate for the above debts, based on year end balances, is 4.61% (2011 - 4.24%).

The minimum contractual principal payments due within each of the next five years are as follows:

2013	65,778
2014	7,147
2015	12,052
2016	3,658
2017	6,271
Thereafter	2,065
	96,971

c. Debt on investment properties and golf course assets

	2012	2011
Project loan, maturing October 2013, with interest at prime plus 2.00% (5.00% at 31-Dec-12 and 31-Dec-11)	5,000	5,000
Variable rate mortgages amortized over 10 to 30 years at variable rates ranging from 3.02% to 4.60% (4.10% to 4.25% at 31-Dec-2011)	27,084	3,547
Mortgages amortized over 15 to 30 years at fixed rates varying from 2.90-7.46% (2011: 2.90-7.53%)	229,107	224,721
	261,191	233,268

As at December 31, 2012 \$47,332 (2011 - \$40,554) of debt was payable in US dollars (US\$47,568) (2011 - \$39,876). The debts mature from 2016 to 2022.

The fair value of debt on investment properties at December 31, 2012 is \$281,670 (2011 - \$246,456). Fair values are determined by discounting the future cash flows associated with the debt at market interest rates.

Specific investment properties and golf courses with a carrying value of \$526,867 (2011 - \$434,586) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above debt. The weighted average effective interest rate for the above debts, based on year end balances, is 4.68% (2011 - 5.1%).

The minimum contractual principal payments due within each of the next five years are as follows:

2013	197,884
2014	2,671
2015	7,433
2016	24,779
2017	8,360
Thereafter	20,064
	261,191

d. CONVERTIBLE DEBENTURE

We issued a 6.25% \$40,000 unsecured subordinated convertible debenture on February 8, 2011. The debenture matures six years from the issue date at its nominal value or can be converted into shares at the holders' option at the maturity date at the conversion rate of \$18.51 per share. The values of the liability component and the equity conversion component were determined at issuance of the debenture. For the period from February 1, 2014 until January 31, 2016, we will have the option to redeem the debenture at a price equal to the principal amount, plus any accrued and unpaid interest, provided the weighted average trading price of the common shares is 125% of the conversion price for a specified period of time. Commencing February 1, 2016, we will have the option of redeeming the debenture at a price equal to the principal amount plus any accrued and unpaid interest. We can convert the outstanding debenture to common shares at a rate of 95% of the weighted average trading price of the common shares for 20 consecutive trading days ending five trading days preceding the date fixed for redemption.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity net of income taxes.

The convertible debenture originally recognized is calculated as follows:

Fair value of liability component	39,141
Transaction costs	(350)
	38,791
Fair value of equity component	859
Transaction costs	(7)
Deferred tax impact	(213)
	639
Total	39,430

During the year ended December 31, 2012, we recognized \$58 (2011 - \$54) of expense related to amortization of transaction costs and \$2,688 (2011 - \$2,305) of interest expense.

15. SHARE CAPITAL**a. Common Shares**

	2012	
	Number of Shares Issued	Amount (\$000s)
(# of shares)		
Common shares, beginning of the year	30,033,297	14,446
Share options exercised	148,327	1,134
Shares purchased and cancelled	-	-
Common shares, end of the year	30,181,624	15,580

	2011	
	Number of Shares Issued	Amount (\$000s)
(# of shares)		
Common shares, beginning of the year	30,109,630	13,354
Share options exercised	227,967	1,234
Shares purchased and cancelled	(304,300)	(142)
Common shares, end of the year	30,033,297	14,446

Authorized:

- Unlimited common shares
- Unlimited common shares, non-voting
- Unlimited first preferred shares
- Unlimited first preferred shares, non-voting

In 2011, 304,300 shares were repurchased pursuant to a Normal Course Issuer Bid at a cost of \$3,454. Share capital was reduced by \$142 and retained earnings by \$3,312.

b. Stock-Based Compensation Plans

On September 28, 2000, the Company's Board of Directors approved a stock-based compensation plan (the "2000 Plan"). Under the 2000 Plan, the Company may grant options to full-time, salaried employees and designated contractors after one year of service. The 2000 Plan requires that the option price shall not be less than the weighted average trading price for the 20 consecutive days during which shares traded on the TSX immediately prior to the granting of the stock option. The options vest at 20% per year and expire seven (7) years from the date of issuance. The 2000

Plan was approved by the Company's shareholders at the Shareholders Annual Meeting in May 2001. The Company has 118,400 shares reserved for issuance under the 2000 Plan (2011 – 203,800).

On February 23, 2007 the Company's Board of Directors approved a stock-based compensation plan (the "2007 Plan"). Under the 2007 Plan, the Company may grant options to full-time, salaried employees and designated contractors after one year of service. The 2007 Plan requires that the option price shall not be less than the weighted average trading price for the 20 consecutive days during which shares traded on the TSX immediately prior to the granting of the stock option. At the discretion of the board, the options vest over a period of three years and expire no longer than seven (7) years from the date of issuance. The 2007 Plan was approved by the Company's shareholders at the Shareholders Annual Meeting in April 2007. The Company has 2,663,506 shares reserved for issuance under the 2007 Plan (2011 – 2,726,433).

c. Stock Options Available for Granting

	2012	2011
2000 Plan		
Stock options available, beginning of the year	79,400	77,400
Stock options forfeited	4,000	2,000
Stock options available, end of the year	83,400	79,400
2007 Plan		
Stock options available, beginning of the year	1,247,066	1,657,733
Stock options granted	-	(463,000)
Stock options forfeited	17,000	52,333
Stock options available, end of the year	1,264,066	1,247,066

d. Stock Options Outstanding Under the 2000 & 2007 Plans

	2012	
	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of the year	1,603,767	12.550
Stock options exercised	(148,327)	6.940
Stock options forfeited	(21,000)	14.310
Stock options outstanding, end of the year	1,434,440	13.070
	2011	
	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of the year	1,423,067	11.089
Stock options granted	463,000	13.398
Stock options exercised	(227,967)	5.020
Stock options forfeited	(54,333)	13.244
Stock options outstanding, end of the year	1,603,767	12.550

The weighted average share price at the date of exercise was \$14.97 (2011 – \$14.36). During the year, no stock options (2011 – 463,000) were issued to employees of the company.

e. Stock Options Outstanding and Exercisable Under the 2000 & 2007 Plans

	Outstanding Stock Options (#)	Exercise Price Per Share (\$)	Stock Options Exercisable at Dec. 31, 2012
December 17, 2012 *	144,500	19.34	144,500
July 27, 2013	35,000	16.60	35,000
December 15, 2013	100,300	3.71	100,300
December 17, 2014	233,100	10.94	233,100
November 4, 2015	100,000	13.10	66,667
December 13, 2015	363,540	13.74	243,042
February 2, 2016	30,000	14.38	10,000
June 3, 2016	75,000	16.05	25,000
December 20, 2016	353,000	12.76	119,332
	1,434,440		976,941

* Stocks options with an expiry date of December 17, 2012 have been extended due to a blackout period which prevented employees from exercising their options prior to expiration date. Options are extended to 10 days after the blackout period ends.

f. Stock Based Compensation Expense

The following assumptions were used in the Black-Scholes option pricing model for options granted. Expected volatility was based on historical volatility.

	2012	2011
Expected volatility	-	49%
Risk-free interest rate	-	1.24%
Annual dividend rate	-	4.28%
Expected life of options in years	-	3.8

The weighted average grant date fair value of stock options granted during 2011 was \$3.73 per stock option. No stock options were granted in 2012. Current year recognition of compensation expense over the vesting period of options resulted in a \$1,755 (2011 – \$1,885) charge to stock-based compensation expense and corresponding credit to contributed surplus.

16. PER SHARE AMOUNTS

(# of shares)	2012	2011
Basic weighted average common shares outstanding during the year	30,121,543	30,125,641
Dilutive effect of options	276,100	325,189
Dilutive effect of convertible debenture	2,160,994	1,930,093
Diluted weighted average common shares	32,558,637	32,380,923

Stock options expiring on December 17, 2012, July 27, 2013 and June 3, 2016, totaling 254,500 options (2011 – 268,000 options), have been excluded from the calculation of 2012 diluted earnings per share due to their anti-dilutive effect.

Diluted earnings per share was calculated based on the following:

	2012	2011
Profit attributable to shareholders	105,019	81,394
Interest expense on convertible debenture, net of tax	2,017	1,706
Profit for computation of diluted earnings per share	107,036	83,100

17. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2012	2011
Balance, beginning of the year	47	(467)
Other comprehensive gain (loss)	(2,177)	514
Balance, end of the year	(2,130)	47

This adjustment represents the net unrealized foreign currency translation gain (loss) on our net investment in our foreign operations.

18. CONTINGENT LIABILITIES

In the normal course of operations, we issue letters of credit as collateral for the completion of obligations pursuant to development agreements signed with municipalities. As at December 31, 2012 we had \$41,609 (December 31, 2011 - \$35,118) in letters of credit outstanding and recorded a net liability of \$138,551 (December 31, 2011 - \$92,946) in provision for land development costs in respect of these development agreements.

Normally, obligations collateralized by the letters of credit diminish as the developments proceed, through a series of staged reductions over a period of years (average of three to four years) and are ultimately extinguished when the municipality has issued final completion certificates.

We enter into joint arrangements and, in doing so, may take on risk beyond our proportionate interest in the joint arrangement. These situations generally arise where preferred financing terms can be arranged on the condition that the strength of our company's covenant will backstop that of the other joint arrangement participant(s) who also provide similar guarantees. We will have to perform on our guarantee only if a joint arrangement participant was in default of their guarantee. At December 31, 2012 we had guaranteed \$2,803 (December 31, 2011 - \$3,481) in loans and \$5,362 (December 31, 2011 - \$5,605) in letters of credit in support of other participants' interests.

The loan guarantees include those which are ongoing, as they relate to the relevant lines of credit, and those which have staged reductions as they relate to the financing of specific assets or projects such as infrastructure loans, short-term land loans or mortgages.

To mitigate the possibility of financial loss, we are diligent in our selection of joint arrangement participants. As well, we have remedies available within the joint arrangement agreement, to address the application of the guarantees. In certain instances there are reciprocal guarantees amongst joint arrangement participants.

19. INTEREST EXPENSE

	2012	2011
Interest on bank operating loan	3,737	1,712
Interest on convertible debenture	2,689	2,305
Interest on other debt	15,083	15,731
	21,509	19,748
Less: capitalized interest	(4,461)	(3,530)
	17,048	16,218

Cumulative interest capitalized on land inventory at the end of the year is \$23,120 (2011 - \$21,366). Interest paid during the year was \$19,927 (2011 - \$20,923).

20. REVENUE AND EXPENSE BY NATURE

a. Revenue

The components of revenue are as follows:

	2012	2011
Sale of land	213,201	165,245
Rental income	52,727	47,602
Development revenue	1,353	367
Golf course revenue	7,649	7,135
Total revenue	274,930	220,349

b. Cost of Sales:

The components of cost of sales are as follows:

	2012	2011
Cost of land sold	132,091	100,022
Investment property direct operating expenses	24,596	21,956
Direct golf course expenses	4,204	3,814
Total cost of sales	160,891	125,792

c. General and Administrative expenses:

The components of general and administrative expenses are as follows:

	2012	2011
Employee salary & benefits		
Salaries and wages	12,153	9,505
Employee benefits	1,241	1,225
Stock based compensation	1,755	1,885
Finance fees	1,361	1,543
Management fees	3,456	3,100
Other	2,820	1,292
Total	22,786	18,550

Included in employee salary and benefits is the compensation of key management. Key management includes our directors and members of the executive management team. Compensation awarded to key management includes:

	2012	2011
Salaries and wages	4,824	5,214
Employee benefits	58	68
Stock based compensation	1,083	992
Total	5,965	6,274

d. Fair value adjustment on investment properties

The components of the fair value adjustment are as follows:

	2012	2011
Land transferred to investment properties	1,826	6,415
Property under development	9,032	8,556
Commercial and residential properties	48,245	26,725
Total	59,103	41,696

21. INCOME TAX

Current tax expense:

	2012	2011
Current tax expense		
Current year	15,428	13,504
Adjustment to prior years	(88)	1,064
	15,340	14,568
Deferred tax expense		
Origination and reversal of temporary differences	14,046	7,601
Reduction in tax rate	(15)	(708)
	14,031	6,893
Total tax expense	29,371	21,461

Reconciliation of effective tax rate:

	2012	2011
Income before taxes	134,390	102,855
Statutory rate	25.0%	26.5%
	33,598	27,257
Impact of higher tax rates in subsidiary	674	(51)
Non-deductible expenses	442	520
Non-taxable portion of capital gains and fair value adjustment	(4,795)	(5,750)
Impact of substantively enacted tax rates	(548)	(515)
	29,371	21,461

The statutory rate was 25.0% (2011 – 26.5%). The decrease in rate is due to a previously legislated decrease in the federal statutory corporate income tax rate from 2011 to 2012.

Tax recognized directly in equity:

	December 31, 2012		
	Before Tax	Tax	Net of tax
Convertible debenture	-	-	-
Total tax recognized directly in equity	-	-	-

	December 31, 2011		
	Before Tax	Tax	Net of tax
Convertible debenture	852	213	639
Total tax recognized directly in equity	852	213	639

Movement in deferred tax balances during the year:

	December 31, 2012			
	Opening	Recognized in profit or loss	Recognized in equity	Closing
Investment property and capital assets	40,432	14,357	-	54,789
Reserves for tax purposes	14,817	1,334	-	16,151
Interest deducted for tax purposes	(453)	(453)	-	(906)
Provision for decommissioning obligation	(1,275)	825	-	(450)
Convertible debenture	191	(29)	-	162
Tax loss carry-forwards	(1,955)	(2,003)	-	(3,958)
Deferred tax liability	51,757	14,031	-	65,788

	December 31, 2011			
	Opening	Recognized in profit or loss	Recognized in equity	Closing
Investment property and capital assets	34,405	6,027	-	40,432
Reserves for tax purposes	11,400	3,417	-	14,817
Interest deducted for tax purposes	300	(753)	-	(453)
Provision for decommissioning obligation	(1,275)	-	-	(1,275)
Convertible debenture	-	(22)	213	191
Tax loss carry-forwards	(179)	(1,776)	-	(1,955)
Deferred tax liability	44,651	6,893	213	51,757

The above table includes a net deferred income tax liability of \$2,137 (2011 – deferred income tax asset of \$231) recorded by a wholly owned US subsidiary. Income tax paid during the year was \$15,197 (2011 - \$20,458).

22. RELATED PARTY TRANSACTIONS

During the ended December 31, 2012, there were debenture coupon payments of \$1,376 (2011 - \$882) paid to companies controlled by two members of our executive management team who are also directors of our company. At December 31, 2012 there was \$nil due to the individuals (2011 - \$346).

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

23. JOINT ARRANGEMENTS

The table below discloses our proportionate share of the assets, liabilities, revenue, and earnings of 25 arrangements (2011 – 24) that are recorded in these financial statements as follows:

Joint Venture	Interest	Principal activity
Anders East Developments	33%	Active land development with investment property
Anders East Two Communities	50%	Non-active land development
Blackmud Communities	50%	Non-active land development
Capilano Investments	50%	Investment property
Chestermere Communities	50%	Active land development with investment property
Highview Communities	60%	Active land development activities
HV Nine	6%	Non-active land development
Jagare Ridge Communities	50%	Active land development and recreational property
Jesperdale Communities	50%	Active land development activities
Kinwood Communities	50%	Active land development activities
Lakeside Communities	50%	Non-active land development
Larix Communities	50%	Active land development activities
Lethcentre	50%	Investment property
Lewis Estates Communities	60%	Active land development and recreational property
MLS Industrial Developments	50%	Active land development activities
Rosenthal Communities	50%	Active land development activities
Stonecreek Shopping Centre	30%	Investment property under development
Sunset Properties	60%	Active land development activities
Terwillegar Pointe Communities	50%	Non-active land development
Watergrove Developments	50%	Manufactured home community
West 33 Developments	50%	Non-active land development
Whitecap Communities	50%	Non-active land development
Windermere	50%	Active land development activities
Winterburn Developments	50%	Non-active land development
Villeneuve Communities	50%	Non-active land development

The following summarizes financial information about our share of assets, liabilities, revenue and earnings of our interest in joint arrangements that are recorded in our accounts for the year ended December 31, 2012.

	2012	2011
Assets	373,233	334,175
Liabilities	125,245	114,363
Revenue	94,387	102,889
Earnings	40,298	40,811

24. SEGMENTED INFORMATION

In the following schedules, earnings from operations before income tax expense has been calculated for each segment by deducting from revenues of the segment all direct costs and administrative expenses which can be specifically attributed to the segment, as this is the basis for measurement of segment performance. Common costs, which have not been allocated, are the costs of corporate debt and general corporate expenses. The allocation of these costs on an arbitrary basis to the segments would not assist in the evaluation of the segments' contributions.

Inter-segment transactions are entered into under terms and conditions similar to those with unrelated third parties.

Community Development

This division is responsible for purchasing and developing land to be sold as residential and commercial lots.

Property Development

This division develops high-quality retail, office and industrial income-producing properties on serviced commercial sites developed primarily from our community development division. Once substantial completion of construction and leasing are complete, these properties are transferred to our Investment Properties division at fair value (refer to note 9).

Investment Properties

This division owns 68 leasable commercial buildings (2011 – 62 buildings) and other rental income-producing assets such as residential property, parking lots and land leases.

Recreational Properties

This division owns and manages three 18-hole golf course operations (one of which is 60% owned), and has a 50% ownership interest in one 18-hole golf course.

US OPERATIONS

The Company has a wholly owned subsidiary with operations in the US, which includes a Community Development division and an Investment Properties division. The subsidiary's related balances are below.

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

External Revenue (in Canadian dollars)	2012	2011
United States	10,031	5,878
Canada	264,899	214,471
	274,930	220,349
Total Assets:		
As at December 31 (in Canadian dollars)		
United States	122,735	111,428
Canada	1,324,621	1,107,457
	1,447,356	1,218,885

Our divisions reported the following results:

2012	<i>Community Development</i>	<i>Property Development</i>	<i>Investment Properties</i>	<i>Recreational Properties</i>	<i>Corporate</i>	<i>Intersegment Elimination</i>	<i>Total</i>
Segment revenue	217,487	1,353	53,678	7,649	-	(5,237)	274,930
Cost of sales	(134,551)	-	(24,596)	(4,204)	-	2,460	(160,891)
	82,936	1,353	29,082	3,445	-	(2,777)	114,039
General and administrative	(7,370)	(1,814)	(1,445)	(1,774)	(11,334)	951	(22,786)
Depreciation expense	-	-	-	(1,007)	(231)	-	(1,238)
	75,566	(461)	27,637	664	(11,565)	(1,826)	90,015
Fair value adjustment on investment properties	-	9,032	48,245	-	-	1,826	59,103
Gain on sale of assets	-	-	-	2	-	-	2
Interest income	2,161	-	55	-	102	-	2,318
	77,727	8,571	75,937	666	(11,463)	-	151,438
Interest expense							(17,048)
Income before tax							134,390
Income tax							(29,371)
Net income							105,019
<hr/>							
2011	<i>Community Development</i>	<i>Property Development</i>	<i>Investment Properties</i>	<i>Recreational Properties</i>	<i>Corporate</i>	<i>Intersegment Elimination</i>	<i>Total</i>
Segment revenue	175,896	367	47,602	7,135	-	(10,651)	220,349
Cost of sales	(103,010)	-	(21,956)	(3,814)	-	2,988	(125,792)
	72,886	367	25,646	3,321	-	(7,663)	94,557
General and administrative	(6,057)	(1,091)	(1,704)	(1,701)	(9,245)	1,248	(18,550)
Depreciation expense	-	-	-	(968)	(152)	-	(1,120)
	66,829	(724)	23,942	652	(9,397)	(6,415)	74,887
Fair value adjustment on investment properties	-	8,556	26,725	-	-	6,415	41,696
Gain on sale of asset	-	-	-	(24)	-	-	(24)
Interest income	2,406	-	50	-	58	-	2,514
	69,235	7,832	50,717	628	(9,339)	-	119,073
Interest expense							(16,218)
Income before tax							102,855
Income tax							(21,461)
Net income							81,394

25. MANAGEMENT OF CAPITAL RESOURCES

We define capital as share capital, contributed surplus, accumulated other comprehensive income and retained earnings. Our objective when managing capital is to utilize debt to improve our performance, support the growth of our assets, and finance capital requirements arising from the cyclical nature of our business. Specifically, we plan to utilize shorter term debt for financing infrastructure, land inventory, receivables and development activities and to utilize longer term debt and equity for the purchase of property and land assets.

We manage the capital structure through adjusting the amount of long-term debt, credit facilities, the amount of dividends paid, and through normal course issuer bids.

There were no changes to the way we define capital, our objectives, and our policies and processes for managing capital from the prior fiscal period.

We are subject to financial covenants on our \$120,000 (2011 - \$120,000) credit facility. The covenants include a maximum debt to total capital ratio, a minimum interest coverage ratio, and a minimum net book value of shareholder's equity. We also have financial covenants on certain mortgages for investment properties. At December 31, 2012, and throughout the year, we were in compliance with our financial covenants. We prepare financial forecasts to monitor the changes in our debt and capital levels and ability to meet our financial covenants.

26. RISK MANAGEMENT

We are exposed to the following risks as a result of holding financial instruments:

a. Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Our financial assets that are exposed to credit risk consist of cash and cash equivalents, accounts receivable, and agreements receivable. Our maximum exposure to credit risk is the carrying amount of cash and cash equivalents, accounts receivable and agreements receivable.

We invest our cash in bank accounts and short-term deposits with a major Canadian chartered bank. Accounts receivable balances include amounts due from other joint arrangement participants for their portion of management fees due to us as well as other various smaller balances due from municipal governments, other developers and tenants. There have been no impairment adjustments made to these accounts.

We manage our credit risk in the Investment Properties division through careful selection of tenants and look to obtain national tenants or tenants in businesses with a long standing history, or perform financial background checks including business plan review for smaller tenants. We manage our concentration risk in the Investment Properties division by renting to an expansive tenant base, with no dependency on rents from any one specific tenant.

Agreements receivable are collateralized by specific real estate sold. Agreements receivable relate primarily to land sales in Alberta and, accordingly, collection risk is related to the economic conditions of that region. We manage credit risk by selling to certain qualified registered builders. Concentration risk is low as we sell to a large builder base, and no receivables are concentrated to one specific builder.

Management has reviewed all agreements receivable balances as at December 31, 2012 and considered the following in assessing credit risk:

- i. The credit quality of agreements receivable that are neither past due nor impaired is determined based on whether balances are due from builders on our approved builder list, and based on geographic location. The approved builder list contains those builders which have a long standing track record, good volumes, positive perception in the industry, and a strong history of repayment. At December 31, 2012, 92% of agreements receivable are due from approved builders (2011 - 97%)
- ii. At December 31, 2012, we have identified \$6,711 (2011 - \$2,201) in agreements receivable which have indications of possible impairment. The factors that we considered in determining that these assets may be impaired was primarily the geographic location in which the receivables were associated and agreements receivable in arrears. We have determined on a loan by loan basis that there is no impairment provision required as balances are expected to be collected in full (2011 - \$nil).

Agreements receivable which are past due but were not considered impaired:

	2012	2011
0-6 months past due	6,538	1,983
Greater than 6 months past due	173	218

We have reviewed these agreements and expect full repayment in respect of these balances.

- iii. Total loans included in agreements receivable that would have otherwise been past due or impaired at December 31, 2012, but whose terms have been renegotiated is \$6,815 (2011 - \$3,056).

b. Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We manage liquidity risk to ensure that we have sufficient liquid financial resources to finance operations and meet long-term debt repayments. We monitor rolling forecasts of our liquidity, which includes cash and cash equivalents and the undrawn portion of the operating loan, on the basis of expected cash flows. In addition, we monitor balance sheet liquidity ratios against loan covenant requirements and maintain on going debt financing plans. We believe that we have access to sufficient capital through internally generated cash flows, external sources and undrawn committed borrowing facilities to meet current spending forecasts.

Refer to note 14 for the maturity analysis of general debt and details on the bank indebtedness. Accounts payable and accrued liabilities are expected to be repaid in the next twelve months.

c. Market Risk

We are subject to interest rate cash flow risk as our operating credit facilities and certain of our general debt bear interest at rates that vary in accordance with prime borrowing rates in Canada. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately \$1,130 (2011 - \$639) based upon applicable year-end debt balances. We are not subject to other significant market risks pertaining to our financial instruments.

	2012 (IFRS)	% change	2011 (IFRS)	% change	2010 (IFRS)	% change	2009 (GAAP)	% change	2008 (GAAP)	% change
Assets (\$000s)	1,447,356	18.7%	1,218,885	18.6%	1,027,754		708,203	0.0%	707,982	(2.6%)
Shareholders Equity (\$000s)	690,832	15.4%	598,763	13.3%	528,693		326,520	5.3%	310,159	8.3%
Revenue (\$000s)	274,930	24.8%	220,349	16.0%	189,911		136,608	26.0%	108,436	(47.6%)
Gross Margin	41.5%		42.9%		47.9%		43.5%		48.7%	
Administrative Expenses/Revenue	8.3%		8.4%	6.3%	7.9%		8.1%	(25.0%)	10.8%	62.4%
Earnings Before Taxes (\$000s)	134,390	30.7%	102,855	38.8%	74,080		31,196	(39.5%)	51,547	(42.3%)
Basic Earnings Per Share (\$)	3.49	29.3%	2.70	43.6%	1.88		0.78	(40.9%)	1.32	(35.6%)
Average Share Price (\$)	14.81	6.5%	13.91	15.1%	12.09	61.4%	7.49	(20.6%)	9.43	(61.0%)
Dividend Per Share (\$)	0.45	12.5%	0.40	14.3%	0.35	41.4%	0.25	(40.9%)	0.42	5.0%
Dividend Yield	3.0%		2.9%		2.9%		3.3%		4.5%	
Book Value Per Share (\$)	22.89	14.8%	19.94	13.6%	17.56		10.78	3.5%	10.42	(13.4%)
Average Book Value Per Share (\$)	21.42	14.2%	18.75	11.7%	16.79		10.60	8.1%	9.80	(16.8%)
Average Market/Average Book	0.67		0.74		0.72		0.71		0.96	
Price/Earnings Ratio	4.2		5.1		6.4		9.6		7.1	
Return on Equity (before tax)	19.5%		18.2%		14.6%		9.8%		17.3%	
Return on Assets (before tax)	9.3%		9.2%		7.6%		4.4%		7.2%	
Debt/Equity Ratio	1.10		1.03		0.94		1.17		1.28	
Asset Turnover	19.0%		18.1%		18.5%		19.3%		15.3%	

Calculations

Price Earnings Ratio is the average share price for the year divided by the basic earnings per share for that year.

Return on Equity is the net earnings before taxes for the year divided by the average equity during the year.

Return on Assets is the net earnings before taxes for the year divided by the average assets during the year.

Asset Turnover is revenue for the year divided by the total assets.

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Toronto Stock Exchange: MRD

Auditors

PricewaterhouseCoopers LLP

Legal Counsel

Bryan & Company LLP

Key Dates

2012 Annual General Meeting April 25 | 13
 Q1 Earnings Announcement..... May 9 | 13
 Q2 Earnings Announcement..... August 13 | 13
 Q3 Earnings Announcement..... November 6 | 13
 Q4 Earnings Announcement..... March 14 | 14

Executive Officers

Timothy C. Melton
Executive Chairman

Andrew J. Melton
Executive Vice-Chairman

Ralph B. Young
Chief Executive Officer

Brian Baker
President & Chief Operating Officer

Jonathan Chia, CA
Chief Financial Officer

W. Peter Daly
Executive Vice-President, Community
Development

Darin Rayburn
Executive Vice-President, Investment Properties

Brett A. Halford
Vice-President, Administration

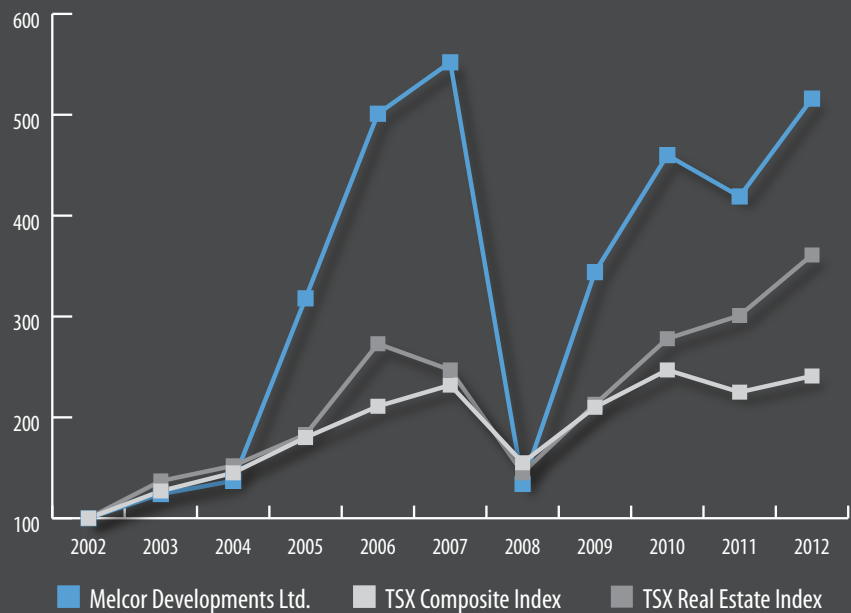
Annual Shareholder Meeting

Please join us at our annual shareholder meeting. We look forward to seeing you there.

April 25, 2013 | 11 am MDT
Fairmont Hotel Macdonald
Wedgewood Room

You are welcome to join us for a
light lunch following the meeting.

10 Year Performance Graph



For Shareholder Services

- dividend information
- account status for registered shareholders
- change of address service
- lost certificates

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