MELCOR DEVELOPMENTS LTD.

News Release
Thursday, November 4, 2010

For Immediate Release - Melcor Developments Ltd., (TSX:MRD) Reports Increased Earnings Year to Date Over Prior Year

Melcor Developments Ltd., an Alberta-based real estate development company, reported net earnings of $17,862,000 or $ 0.59 per share (basic) on revenue of $107,774,000 for the nine months ended September 30, 2010 compared to net earnings of $13,306,000 or $0.45 per share (basic) on revenue of $87,736,000 for the same period in 2009.

Earnings for the three months ended September 30, 2010 were $7,724,000 or $0.26 per share (basic) on revenue of $41,757,000 compared to earnings of $9,377,000 or $0.32 per share (basic) on revenue of $44,374,000 during the same period in 2009. Earnings for the third quarter were less than management's expectation due to delayed land sale closings which will be completed in the fourth quarter.

The Board of Directors declared a semi-annual dividend of $0.20 per share payable on December 30, 2010 to Shareholders of record on December 16, 2010 which compares to $0.15 for the same period in 2009. Dividends for 2010 will total $0.35 per share compared to $0.25 in 2009.

The third quarter was particularly active for the Community Development division, with the writing of significant new business, most of which is expected to close in the fourth quarter. The third quarter also saw the finalization of the purchase of 379 acres (227 acres net of joint venture interests) in the Town of Cochrane and 155 acres (77 acres net of joint venture interests) in west Edmonton.

The Property Development Division activities continue to add value to the Company by successfully completing projects under construction and advancing plans for future projects. During the quarter, one property was completed and transferred to the Investment Property Division.

The Investment Property Division's retail, commercial and office portfolio continues to grow in size and operating profitability. During the quarter, the Company refinanced and funded one of its larger office buildings for $29,000,000 ($20,520,000 net of previous mortgage payout) for a fixed term of 5 years at 4.77% and negotiated a 10 year fixed rate loan at 4.91% for $8,200,000 ($4,100,000 net of joint venture interest), on a revenue property in Chestermere, Alberta.

Following the resignation of Melcor's CFO, Michael Shabada, on October 31, 2010, Naomi Stefura has assumed the role of Acting Chief Financial Officer and Brett Halford has assumed the position of Acting VP Finance. Both Naomi and Brett will remain in these positions until the CFO position is permanently filled.

The Company believes that the Alberta residential real estate markets will continue to experience modest volatility but also expects to see moderate growth for the foreseeable future. The Company remains confident that it has the appropriate assets, capital resources and experienced management team to continue to create value for the shareholders.

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CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Unaudited – ($000's)	For the nine months ended September 30, 2010	September 30, 2009	For the three months ended September 30, 2010	September 30, 2009
Revenue	**107,774**	87,736	**41,757**	44,374
Cost of sales	**(58,433)**	(49,576)	**(22,079)**	(24,572)
	49,341	38,160	**19,678**	19,802
Interest income	**1,598**	1,752	**537**	699
Interest expense	**(9,055)**	(8,522)	**(3,118)**	(2,936)
General and administrative expenses	**(9,918)**	(7,561)	**(3,793)**	(2,566)
Amortization expense	**(7,187)**	(5,692)	**(2,593)**	(2,011)
Gain on sale of investment properties	**14**	352	**7**	(6)
Foreign exchange gain	**-**	246	**-**	246
Earnings before income taxes	**24,793**	18,735	**10,718**	13,228
Income tax expense	**(6,931)**	(5,429)	**(2,994)**	(3,851)
Net earnings for the period	**17,862**	13,306	**7,724**	9,377
Retained earnings, beginning of the period	**314,457**	298,754	**320,044**	299,705
Dividends paid	**(4,551)**	(2,978)	**-**	-
Cost of common shares purchased in excess of stated capital (Note 2)	**(3,113)**	-	**(3,113)**	-
Retained earnings, end of the period	**324,655**	309,082	**324,655**	309,082
Basic earnings per share	**0.59**	0.45	**0.26**	0.32
Diluted earnings per share	**0.59**	0.44	**0.26**	0.31

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Unaudited – ($000's)	For the nine months ended September 30, 2010	September 30, 2009	For the three months ended September 30, 2010	September 30, 2009
Net earnings for the period	**17,862**	13,306	**7,724**	9,377
Other comprehensive income				
Unrealized gains (losses) on translation of financial statements of self sustaining foreign operation	**(165)**	(1,116)	**(69)**	(705)
Comprehensive income	**17,697**	12,190	**7,655**	8,672

CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE LOSS

Unaudited – ($000's)	For the nine months ended September 30, 2010	September 30, 2009	For the three months ended September 30, 2010	September 30, 2009
Balance, beginning of period	**(1,512)**	(230)	**(1,608)**	(641)
Other comprehensive loss	**(165)**	(1,116)	**(69)**	(705)
Balance, end of period	**(1,677)**	(1,346)	**(1,677)**	(1,346)

CONSOLIDATED BALANCE SHEET

($000s)	September 30, 2010	December 31, 2009
ASSETS	**(Unaudited)**	(Audited)
Cash and cash equivalents	**4,868**	3,947
Accounts receivable	**16,250**	10,306
Income taxes recoverable	**-**	1,450
Agreements receivable	**60,190**	81,316
Land inventory (Note 3)	**466,270**	413,667
Investment properties	**209,303**	180,123
Capital assets	**425**	439
Deferred costs and other assets	**20,059**	16,955
	777,365	708,203
LIABILITIES		
Bank operating loan	**50,426**	68,026
Accounts payable and accrued liabilities	**27,602**	17,707
Income taxes payable	**2,123**	-
Provision for land development costs	**51,108**	43,154
Debt on land inventory	**82,790**	65,556
Debt on investment properties	**206,326**	165,110
Future income taxes	**19,930**	22,130
	440,305	381,683
SHAREHOLDERS' EQUITY		
Share capital (Note 2)	**13,178**	13,003
Contributed surplus	**904**	572
Retained earnings	**324,655**	314,457
Accumulated other comprehensive loss	**(1,677)**	(1,512)
	337,060	326,520
	777,365	708,203

CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited – ($000's)	*For the nine months ended* September 30, 2010	September 30, 2009	*For the three months ended* September 30, 2010	September 30, 2009
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Net earnings for the period	**17,862**	13,306	**7,724**	9,377
Non cash items:				
Amortization of investment properties	**4,645**	3,832	**1,726**	1,379
Amortization of tenant leasing costs	**2,451**	1,760	**836**	600
Amortization of capital assets	**91**	100	**31**	32
Stock based compensation expense	**332**	102	**111**	34
(Gain)/loss on sale of investment properties	**(14)**	(352)	**(7)**	6
Future income tax expense/(recovery)	**(2,200)**	(1,900)	**-**	(100)
	23,167	16,848	**10,421**	11,328
Agreements receivable	**21,126**	16,397	**(260)**	627
Development activities	**4,483**	12,537	**(817)**	12,024
Operating assets and liabilities	**1,969**	(15,654)	**(232)**	(6,382)
	50,745	30,128	**9,112**	17,597
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Purchase of land inventory	**(15,222)**	(425)	**(9,300)**	(425)
Proceeds from sale of investment properties	**22**	651	**12**	-
Investment property additions	**(14,533)**	(21,600)	**(6,825)**	(3,387)
Capital asset additions	**(77)**	(8)	**(38)**	(4)
	(29,810)	(21,382)	**(16,151)**	(3,816)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Bank operating loan	**(17,594)**	4,766	**(1,595)**	(6,882)
Proceeds from land development financing	**-**	1,511	**-**	-
Repayment of debt on land inventory	**(18,930)**	(12,647)	**(9,903)**	(7,454)
Proceeds from investment property financing	**39,250**	3,482	**33,100**	762
Repayment of debt on investment properties	**(15,245)**	(2,832)	**(11,655)**	(918)
Dividends paid	**(4,551)**	(2,978)	**-**	-
Share capital issued	**296**	38	**49**	15
Common shares purchased	**(3,234)**	-	**(3,234)**	-
	(20,008)	(8,660)	**6,762**	(14,477)
FOREIGN EXCHANGE GAIN/(LOSS) ON CASH HELD IN FOREIGN CURRENCY	**(6)**	(328)	**(37)**	(200)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**921**	(242)	**(314)**	(896)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**3,947**	1,788	**5,182**	2,442
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**4,868**	1,546	**4,868**	1,546

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited interim financial statements, except as explained in Note 5, have been prepared by the Company, following the same accounting policies and methods as those disclosed in the audited financial statements for the year ended December 31, 2009. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in Canada have been omitted. These interim financial statements should be read in conjunction with the December 31, 2009 audited financial statements and the notes thereto. In the opinion of management, all adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the balance sheet, results of operations, and cash flows of these interim periods, have been included.

Earnings will fluctuate from one quarter to another due to the timing of plan registrations and the cyclical nature of the real estate markets.

2. SHARE CAPITAL

Issued and outstanding common shares at September 30, 2010 are 30,074,130 (December 31, 2009 – 30,283,730). During the nine months ended September 30, 2010, 67,900 share options were exercised (12,400 during the third quarter) compared to the same nine month period in the prior year when 10,000 options were exercised (4,000 during the third quarter.)

During the first nine months of 2010, there were 277,500 common shares purchased for cancellation by the Company pursuant to the Normal Course Issuer Bid (2009 – nil) at a cost of $3,234,000. Share capital was reduced by $121,000 and retained earnings by $3,113,000. Under the current bid, an additional 1,238,500 shares may be purchased by the Company, expiring on August 2, 2011.

3. LAND INVENTORY

($000s)	September 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
Undeveloped land and carrying costs	**296,755**	245,409
Pre development costs	**61,926**	54,701
Developed land inventory cost	**107,589**	113,557
	466,270	413,667

During the three months ended September 30, 2010, the Company purchased 305 acres of land (653 year to date) at a cost of $31,550,000 ($51,386,000 year to date) and received vendor financing of $22,250,000 ($36,164,000 year to date). During the prior year, the Company purchased 26 acres of land at a cost of $700,000 and received vendor financing of $275,000, all of which was purchased in the third quarter.

Land inventory expensed to cost of sales during the quarter was $18,434,000 ($44,541,000 year to date). This compares to the same period in 2009 where $20,035,000 was expensed to cost of sales ($34,263,000 year to date).

4. FINANCIAL GUARANTEES

In the normal course of operations, the Company issues letters of credit as security for the completion of obligations pursuant to development agreements signed with municipalities. At September 30, 2010 the Company had $33,474,000 (December 31, 2009 - $30,437,000) in letters of credit outstanding. A substantial portion of the costs for which the letters of credit have been provided as security, have been recorded in the provision for land development costs in respect of these development agreements.

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

The Company enters into joint venture agreements and, in doing so, may take on risk beyond its proportionate interest in the joint venture. These situations generally arise where preferred financing terms can be arranged on the condition that the strength of the Company's covenant will backstop that of the other joint venture participant(s) who also provide similar guarantees. The Company will have to perform on its guarantee only if a joint venture participant was in default of their guarantee. At September 30, 2010 the Company had guaranteed $3,096,000 (December 31, 2009 - $6,268,000) in loans and $10,049,000 (December 31, 2009 - $6,597,000) 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, Melcor is diligent in its selection of joint venture participants. As well, Melcor has various remedies available to it within the joint venture agreements.

5. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2010 the Company adopted CICA Handbook Section 1582 - *Business Combinations*, which applies prospectively for business combinations for which the acquisition date is on or after January 1, 2010. The standard requires use of the acquisition method which results in, among other things, all assets and obligations of an acquired business recorded at fair value at acquisition, and all transaction costs associated with the acquisition recorded as expenses as incurred.

As a result of the adoption of Section 1582, the Company also adopted CICA Handbook Sections 1601 - *Consolidations* and 1602 - *Non-Controlling Interests* effective January 1, 2010. All three sections must be adopted concurrently. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The adoption of Sections 1601 and 1602 did not impact the Company's financial statements.

6. SEGMENTED INFORMATION

A summary of the Company's wholly owned subsidiary, with operations in the United States, is as follows:

	For the nine months ended		*For the three months ended*	
($000s)	**September 30, 2010**	September 30, 2009	**September 30, 2010**	September 30, 2009
External revenue	**1,278**	8	**801**	-
Gain/(loss)	**(90)**	(217)	**(102)**	(192)
Interest income	**-**	-	**-**	-
Interest expense	**343**	-	**259**	-
Assets	**29,970**	8,679	**29,970**	8,679
Equity	**7,770**	8,656	**7,770**	8,656

On June 1, 2010, the Company acquired a 240 unit residential complex near Houston, Texas, which has been accounted for using the acquisition method. The acquisition resulted in an increase to investment properties of $21,965,000 (US$ 20,632,000) and was financed with the assumption of a mortgage in the amount of $17,211,000 (US$ 16,167,000), with the remainder being a cash outlay to the Company.

The amounts of revenue and net loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period are $884,000 and $9,500 respectively.

The Company is unable to present pro forma revenue and earnings as though the acquisition date had been January 1, 2010, as the information necessary to determine these amounts is not available to the Company.

6. SEGMENTED INFORMATION (continued)

The business units of the Company report the following activities:

($000's) REVENUE	For the nine months ended September 30, 2010 Segment Revenue	Inter-segment Eliminations	External Revenue	For the nine months ended September 30, 2009 Segment Revenue	Inter-segment Eliminations	External Revenue
Community development	72,349	(3,248)	**69,101**	54,120	(62)	54,058
Property development	10,636	(10,600)	**36**	32,104	(32,030)	74
Investment property	33,123	(714)	**32,409**	28,457	(728)	27,729
Recreation property	6,290	(62)	**6,228**	5,948	(73)	5,875
	122,398	(14,624)	**107,774**	120,629	(32,893)	87,736

($000's) EARNINGS	Segment Earnings	Inter-segment Eliminations	External Earnings	Segment Earnings	Inter-segment Eliminations	External Earnings
Community development	25,297	(934)	**24,363**	16,138	-	16,138
Property development	2,526	(3,105)	**(579)**	10,135	(10,627)	(492)
Investment property	5,902	-	**5,902**	6,565	-	6,565
Recreation property	731	-	**731**	1,036	-	1,036
	34,456	(4,039)	**30,417**	33,874	(10,627)	23,247
Non-allocated items:						
Interest income			**75**			157
Interest expense			**(1,431)**			(2,093)
General and administrative expenses			**(4,268)**			(2,822)
Foreign exchange gain			**-**			246
Earnings before income tax expense			**24,793**			18,735
Income tax expense			**(6,931)**			(5,429)
Net earnings for the period			**17,862**			13,306

($000's) INTEREST	Per Segment	Inter-segment Eliminations	Per Financial Statement	Per Segment	Inter-segment Eliminations	Per Financial Statement
Interest Income:						
Community development	1,495	-	**1,495**	1,581	-	1,581
Property development	-	-	**-**	-	-	-
Investment property	28	-	**28**	14	-	14
Recreation property	-	-	**-**	-	-	-
Non-allocated	75	-	**75**	157	-	157
	1,598	-	**1,598**	1,752	-	1,752
Interest Expense:						
Community development	(358)	-	**(358)**	(637)	-	(637)
Property development	-	-	**-**	-	-	-
Investment property	(7,057)	-	**(7,057)**	(5,615)	-	(5,615)
Recreation property	(209)	-	**(209)**	(177)	-	(177)
Non-allocated	(1,431)	-	**(1,431)**	(2,093)	-	(2,093)
	(9,055)	-	**(9,055)**	(8,522)	-	(8,522)

6. SEGMENTED INFORMATION (continued)

($000's) REVENUE	For the three months ended September 30, 2010 Segment Revenue	Inter-segment Eliminations	External Revenue	For the three months ended September 30, 2009 Segment Revenue	Inter-segment Eliminations	External Revenue
Community development	30,463	(3,220)	**27,243**	31,151	(37)	31,114
Property development	3,581	(3,550)	**31**	836	(820)	16
Investment property	11,306	(238)	**11,068**	9,826	(243)	9,583
Recreation property	3,455	(40)	**3,415**	3,706	(45)	3,661
	48,805	(7,048)	**41,757**	45,519	(1,145)	44,374

($000's) EARNINGS						
Community development	11,165	(934)	**10,231**	10,475	-	10,475
Property development	1,063	(1,250)	**(187)**	(22)	(140)	(162)
Investment property	1,803	-	**1,803**	2,777	-	2,777
Recreation property	999	-	**999**	1,445	-	1,445
	15,030	(2,184)	**12,846**	14,675	(140)	14,535
Non-allocated items:						
Interest income			**-**			80
Interest expense			**(401)**			(710)
General and administrative expenses			**(1,727)**			(923)
Foreign exchange gain			**-**			246
Earnings before income tax expense			**10,718**			13,228
Income tax expense			**(2,994)**			(3,851)
Net earnings for the period			**7,724**			9,377

($000's) INTEREST	Per Segment	Inter-segment Eliminations	Per Financial Statement	Per Segment	Inter-segment Eliminations	Per Financial Statement
Interest Income:						
Community development	528	-	**528**	616	-	616
Property development	-	-	**-**	-	-	-
Investment property	9	-	**9**	3	-	3
Recreation property	-	-	**-**	-	-	-
Non-allocated	-	-	**-**	80	-	80
	537	-	**537**	699	-	699
Interest Expense:						
Community development	(51)	-	**(51)**	(200)	-	(200)
Property development	-	-	**-**	-	-	-
Investment property	(2,575)	-	**(2,575)**	(1,967)	-	(1,967)
Recreation property	(91)	-	**(91)**	(59)	-	(59)
Non-allocated	(401)	-	**(401)**	(710)	-	(710)
	(3,118)	-	**(3,118)**	(2,936)	-	(2,936)

MELCOR DEVELOPMENTS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
November 4, 2010

The following discussion and analysis of the interim operating results and financial position of Melcor Developments Ltd. as at September 30, 2010 should be read in conjunction with the unaudited interim financial statements for the nine months ended September 30, 2010 and the audited financial statements and notes to those statements for the years ended December 31, 2009 and 2008 and the 2009 annual MD&A. Certain statements in this discussion can be considered forward looking, and readers are cautioned that such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contained in these forward looking statements. These risks and uncertainties are described elsewhere in this discussion and in other regulatory filings.

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 which are expected to be settled within the immediately following year.

DIVISIONAL ACTIVITIES

A. COMMUNITY DEVELOPMENT OPERATIONS

Operating Review ($000)	Nine Months ended September 30th **2010**	Nine Months ended September 30th 2009	Three Months ended September 30th **2010**	Three Months ended September 30th 2009
Revenue	**72,349**	54,120	**30,463**	31,151
Cost of sales	**(44,541)**	(34,263)	**(18,434)**	(20,035)
Allowance adjustments	**-**	(760)	**-**	-
Option deposit forfeited	**-**	(709)	**-**	-
	27,808	18,388	**12,029**	11,116
Interest revenue	**1,495**	1,581	**528**	616
Interest expense	**(358)**	(637)	**(51)**	(200)
	28,945	19,332	**12,506**	11,532
Administrative expenses	**(3,648)**	(3,194)	**(1,341)**	(1,057)
Divisional earnings	**25,297**	16,138	**11,165**	10,475

	Nine months ended September 30, 2010			Nine months ended September 30, 2009		
Revenue analysis ($)	(1) External Revenue	(2) Units/Acres @ 100 %	(3) Gross Average Revenue Per Unit/Acre	(1) External Revenue	(2) Units/Acres @ 100 %	(3) Gross Average Revenue Per Unit/Acre
Single family lots	61,258,000	636	130,300	51,970,000	502	126,700
Multiple family lots	4,611,000	7.1	730,700	-	-	-
Commercial	-	-	-	-	-	-
Industrial	820,000	6.1	270,200	-	-	-
Non-strategic parcels	48,000	0.2	219,800	127,000	3.1	53,600
Other land	1,067,000	26.7	40,000	1,175,000	122.2	19,200
Management fees & other	1,297,000			786,000		
	69,101,000			54,058,000		

(1) External Revenue excludes inter- divisional sales. (See Segmented Information note to Consolidated Interim Financial Statements).

(2) Units/Acres are not prorated for joint venture interests.

(3) Gross average revenue per unit/acre is based on the inclusion of the joint venture participant's interests in both revenue and in the unit/acres sold.

Nine months ended September 30, 2010						
			(Acres)			
Regional sales analysis	Single Family Lots	Gross Average Revenue Per Unit	Multi-Family	Commercial	Industrial	Raw Land
Edmonton	378	143,000	7.1	-	-	0.2
Calgary	91	126,200	-	-	-	-
Red Deer	104	98,700	-	-	6.1	-
Lethbridge	53	93,500	-	-	-	26.7
Kelowna	10	208,300	-	-	-	-
	636	130,300	7.1	-	6.1	26.9

Nine months ended September 30, 2009						
			(Acres)			
Regional sales analysis	Single Family Lots	Gross Average Revenue Per Unit	Multi-Family	Commercial	Industrial	Raw Land
Edmonton	313	138,800	-	-	-	2.0
Calgary	91	113,600	-	-	-	-
Red Deer	62	104,900	-	-	-	123.3
Lethbridge	33	79,900	-	-	-	-
Kelowna	3	233,000	-	-	-	-
	502	126,700	-	-	-	125.3

Residential Lot Sale Inventory *(including joint ventures at 100%)*	Nine Months ended September 30th **2010**	Nine Months ended September 30th 2009	Three Months ended September 30th **2010**	Three Months ended September 30th 2009
Opening Balance	561	1,112	420	871
New Developments	520	8	325	3
Sales	(636)	(502)	(300)	(256)
Ending Balance	445	618	445	618

Multi-Family/Commercial/Industrial Site Inventory *(including joint ventures at 100%)*	Nine Months ended September 30th **2010**	Nine Months ended September 30th 2009	Three Months ended September 30th **2010**	Three Months ended September 30th 2009
Opening Balance	164	161	189	170
New Developments	40	9	2	-
External Sales	(14)	-	(1)	-
Internal Transfers	(5)	-	(5)	-
Ending Balance	185	170	185	170

Earnings can fluctuate significantly from one quarter to another due to the timing of plan registrations, the cyclical nature of real estate markets, the mix of lot sizes and product types, and the mix of joint venture sales activity.

The third quarter was particularly active for the Community Development division, with significant presale activity in many new phases. Most of these sales are expected to close in the fourth quarter, subject to plan registrations. Although the Division is currently behind their expectations at the end of the third quarter, they are well positioned to meet all targets by the end of the year. This sentiment is consistent among all regions, and there are no particular regions that are slower than expected. Margins continue to remain consistent with the prior quarter, and are higher than the prior year at this time due to discount programs that were in effect in 2009. Margins are expected to remain consistent to the end of the year.

During the quarter, the division formed a new joint venture and purchased land comprising 77 acres (net of joint venture interest) in Edmonton, Alberta. Development is expected to commence within the next two years.

The Division also purchased 228 acres (net of joint venture interest) in Cochrane, Alberta. These lands are going to be developed in a new joint venture and are expected to generate revenue as early as 2011. The formation of joint ventures is considered a consistent practice of the Company to diversify its development and investment risk. Melcor has a 60% participating interest in this joint venture and the remaining 40% is held by seven other investors. Of these seven investors, two participating companies holding a 5% interest each, are related to directors of the Company.

B. PROPERTY DEVELOPMENT OPERATIONS

Operating Review ($000)	Nine Months ended September 30th 2010	2009	Three Months ended September 30th 2010	2009
Revenue	**10,636**	32,104	**3,581**	836
Cost of sales	**(7,495)**	(21,402)	**(2,301)**	(679)
Net operating income	**3,141**	10,702	**1,280**	157
Administrative expenses	**(615)**	(567)	**(217)**	(179)
Divisional earnings	**2,526**	10,135	**1,063**	(22)

A 6,400 sq. ft. bank building was transferred to the Investment Properties Division during the current quarter at a transfer price of $3,550,000 for an intersegment gain of $1,250,000 to the Division.

Leduc Common
Active interest remains for this site. The Division plans to commence construction of an additional CRU building in Leduc Common Phase 3 in 2011. The remaining development of Leduc Common will be completed within the next five years.

Miller Commercial
Construction of two CRU buildings commenced this year with anticipated available space for tenant possession next year. The addition of the two CRU buildings will complete this 3.3 acre development located in Edmonton's northeast.

Westgrove Common
This development, located in Spruce Grove, continues to grow. Future development of 18,000 sq. ft. of retail space will complete the current phase. Additional commercial sites adjacent to the Westgrove Common could be developed in 2 to 5 years.

Chestermere Station
Activity in Chestermere Station remains strong. The Division is nearing completion on the construction of three separate buildings, which will add just over 10,000 sq. ft. of retail space to the overall development. The Division also has a development permit to construct a 53,000 sq. ft. professional building. Construction is pending leasing activity.

Kingsview Market
The Division has initiated construction at the Kingsview Market, a 38 acre development in Airdrie. Phase one will include the construction of three buildings totaling approximately 36,000 sq. ft. Leasing interest has been very strong with all but 1,300 sq. ft. conditionally or unconditionally leased.

Other Projects
Currently the division is engaged in obtaining planning approvals, design and pre-leasing of a number of projects in multiple regions including Red Deer, Airdrie, Lethbridge, Calgary, and South Edmonton and West Edmonton.

C. INVESTMENT PROPERTY OPERATIONS

Operating Review ($000)	Nine Months ended September 30th **2010**	2009	Three Months ended September 30th **2010**	2009
Rental revenue	**33,123**	28,457	**11,306**	9,826
Operating expenses	**(13,470)**	(11,358)	**(4,606)**	(3,319)
Net operating income	**19,653**	17,099	**6,700**	6,507
Interest income	**28**	14	**9**	3
Interest expense	**(7,057)**	(5,615)	**(2,575)**	(1,967)
Amortization of investment properties	**(3,547)**	(2,925)	**(1,219)**	(965)
Amortization of tenant leasing costs	**(2,451)**	(1,760)	**(836)**	(600)
Administrative expenses	**(724)**	(587)	**(276)**	(201)
Earnings from operations	**5,902**	6,226	**1,803**	2,777
Gain on sale of investment property	**-**	339	**-**	-
Divisional earnings	**5,902**	6,565	**1,803**	2,777

The Investment Property Division recorded earnings from operations of $5,902,000 during the first nine months of 2010 compared to $6,226,000 during the same period in 2009. Net operating income (NOI) as a percentage of revenue for the year to date (59.3%) is down in comparison to the same period in 2009 (60.1%). This decrease is mainly attributable to the timing of recoveries and timing of leasing activity.

Comparison of same asset NOI from portfolio assets held during both periods year to date is $17,033,000 for the first nine months of 2010 which compares to $16,522,000 during the same period in 2009 - an increase of 3.1% or $511,000. Comparison of same asset NOI from portfolio assets held during the same quarter is $6,228,000 for the third quarter of 2010 which compares to $6,507,000 during the third quarter 2009 - a decrease of 4.3% or $279,000.

Occupancy rates have decreased during the third quarter, down 3% from the prior quarter. The occupancy rate is 88% as at September 30, 2010. Recent leasing activity indicates that occupancy should improve by the first quarter of 2011, however downward pressure on rental rates will continue to be a challenge for the division.

During the quarter, the Division acquired a 6,400 sq. ft. bank building in Westgrove Common, transferred from the Property Development Division *(as described in section B – "Property Development Operations").*

During the quarter, the Company refinanced and funded one of its larger office buildings for $29,000,000 ($20,520,000 net of previous mortgage payout) for a fixed term of 5 years at 4.77% and negotiated a 10 year fixed rate loan at 4.91% for $8,200,000 ($4,100,000 net of joint venture interest), on a revenue property in Chestermere, Alberta.

The Division continues to pursue investment opportunities in western Canada and the United States.

D. RECREATIONAL PROPERTY OPERATIONS

Operating Review ($000)	Nine Months ended September 30th **2010**	2009	Three Months ended September 30th **2010**	2009
Revenue	**6,290**	5,948	**3,455**	3,706
Operating expenses	**(2,768)**	(2,590)	**(1,338)**	(1,276)
	3,522	3,358	**2,117**	2,430
Interest expense	**(209)**	(177)	**(91)**	(59)
Administrative expenses	**(1,498)**	(1,251)	**(527)**	(506)
Depreciation expense	**(1,098)**	(907)	**(507)**	(414)
Earnings from operations	**717**	1,023	**992**	1,451
Gain on sale of assets	**14**	13	**7**	(6)
Divisional earnings	**731**	1,036	**999**	1,445

This Division owns and manages three 18-hole championship golf courses, two that are in the Edmonton region (one of which is 60% owned), and one in the Black Mountain region of Kelowna, British Columbia. In addition, the Division owns a 50% interest in another golf course in south west Edmonton which is managed by the owner of the other 50% interest.

Weather has impacted the golf courses throughout the 2010 season. On a positive note, all of the courses were in excellent condition and are expected to remain that way through 2011.

LIQUIDITY AND CAPITAL RESOURCES

The US sub-prime lending debacle, that sent global financial markets into a crisis, continues to impact liquidity for many enterprises and will for many months to come. The Company's liquidity has been affected in several ways, both negatively and positively. Real estate, by its nature, is more liquid in good markets and less liquid in poor markets. In the current real estate market, our real estate liquidity continues to improve in the short term. Current economics still support the fundamental value of the Company's real estate assets.

The Company uses two sources of funding to finance operations depending on the division:

- The Community Development Division uses a bank line of credit which margins the land development assets of the Company. These credit lines are used to fund the operations of the Company. Due to recent reductions in the prime borrowing rates, this Division has benefited by being able to borrow at rates fluctuating with prime. Even with an increase in the spread over prime, the cost of borrowing on a floating basis is currently lower compared to historical cost of funds. We had experienced some borrowing pressure as the repayment terms for certain of our agreements receivable were extended, which negatively impacted our margining ability. Our builders were able to move their inventory and our overdue agreements receivable are at normal levels. We continue to work with our main lender to modify the terms of our credit facility to better reflect our borrowing requirements.
- The Investment Property Division uses fixed rate, long term mortgage financing on its revenue producing assets to raise capital. Financing terms had tightened in 2009 as many lenders curtailed lending activity. This was compounded by the loss of the asset backed lending market. The tightening of terms included the reduction of loan amortization (from 25 years to 20 years), lower loan to value ratios (from 75% to 60%), tighter restrictions on debt coverage, increased pricing of loans as premium spreads have increased (from 125 basis points to 330 basis points) and a movement away from non-recourse loans. The effect to the Company has not been significant, given that the market value of the investment property assets have risen as a result of increased rental revenues. As such, the Company is still able to finance increased loan amounts from its existing portfolio of buildings. The Company continues to see a greater appetite from traditional lenders to lend with terms that continue to be more competitive with each passing month. In those situations where the Company provides limited recourse on the

loan, amortizations on new assets are back to 25 years, spreads are in the 170 – 210 basis point range over the benchmark Canada bond yield and loan to value ratios have risen to 65-70% range with some as high as 75%. Currently, bond yields are at historical lows which prices mortgage rates at levels below the 4% range.

OFF-BALANCE SHEET ARRANGEMENTS
CRITICAL ACCOUNTING ESTIMATES
FINANCIAL INSTRUMENTS
RECENT ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED

There are no material changes to the above titled sections at September 30, 2010 in comparison to the December 31, 2009 annual MD&A.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The President and Chief Executive Officer and the acting Chief Financial Officer ("CFO") and Corporate Controller have evaluated whether there were material changes to internal control over financial reporting ("ICFR") during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified.

The Company's CFO has resigned effective October 31, 2010. In the interim, all the roles and responsibilities of this position have been assumed by the Acting CFO and Corporate Controller, pending the appointment of a new CFO. This change has not resulted in a material weakness relating the design of the ICFR at September 30, 2010.

CHANGE IN ACCOUNTING POLICY

International Financial Reporting Standards

In February 2008, the AcSB confirmed that IFRS will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. Our first annual IFRS financial statements will be for the year ending December 31, 2011 and will include the comparative period of 2010. Starting in the first quarter of 2011, we will provide unaudited consolidated interim financial information in accordance with IFRS including comparative figures for 2010.

The Company commenced its IFRS conversion project in 2008. A formal project plan and a project team, including an external advisor, have been established. Regular reporting is provided to senior management, the Audit Committee and the Board of Directors.
The conversion plan consists of the following three phases:

1) Diagnostic phase – This phase included a high-level impact assessment of the differences between current Canadian GAAP and IFRS, focusing on the areas which will have the most significant impact to the Company. A preliminary conversion roadmap was prepared as part of this phase.

The Company completed the diagnostic assessment phase in 2008 by performing comparisons of the differences between Canadian GAAP and IFRS. This assessment provided insight on the high risk and complex areas relating to the conversion. The Company determined that the most significant impact of IFRS conversion is to Investment Properties, the effects of which are elaborated on below.

2) Design, planning and solution phase – This phase focused on determining the specific impact on the Company based on the application of the IFRS requirements. Accounting policies are substantially finalized, first-time adoption exemptions have been considered,

draft financial statements and disclosures are prepared and a detailed implementation plan and timeline has been developed and is being reviewed and updated on a regular basis. This phase also includes the development of a training plan.

The Company is now nearing the end of the design, planning and solution phase. The Company's preliminary IFRS policies and procedures are in the process of being finalized. While new procedures and controls are being put into place to address certain unique IFRS accounting and disclosure requirements, the Company does not anticipate any significant comprehensive changes to its current accounting and consolidation systems, its internal controls or its disclosure control process as a result of the conversion to IFRS. Appropriate resources have been secured to complete the changeover on a timely basis. We have detailed project plans and progress reporting in place to support and communicate the changeover.

3) Implementation and review phase – This phase includes execution of changes to accounting policies and practices, and implementation and testing of business processes, systems and internal controls. It also includes training programs for the company finance and other staff, as necessary.

The following paragraphs describe the material changes between the Company's current Canadian GAAP accounting policies, and the anticipated accounting policy choices under IFRS. Certain accounting policies expected to be adopted under IFRS may not be adopted and the application of such policies to certain transactions or circumstances may be modified and, as a result, the impact of the conversion has not been quantified at this time.

IFRS 1: First-Time Adoption of IFRS

The Company's adoption of IFRS will require the application of IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does require certain mandatory exceptions and permits limited optional exemptions. The following are the optional exemptions available under IFRS 1 which are significant to the Company and which the Company expects to be applied in preparation of its first financial statements under IFRS:

a) Business combinations

IFRS 1 states that a first-time adopter may elect not to apply IFRS 3, *Business Combination* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company intends to make this election in order to only apply IFRS 3 to business combinations prospectively (i.e. to those that occur on or after January 1, 2010).

b) Cumulative translation differences

International Accounting Standards ("IAS") 21, *The Effects of Changes in Foreign Exchange Rates,* requires an entity to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from periods prior to the date of transition to IFRS. The Company expects to deem all cumulative translation differences to be zero on transition to IFRS.

c) Borrowing costs

IAS 23, *Borrowing Costs*, requires an entity to capitalize the borrowing costs related to all qualifying assets. IFRS1 allows an entity to apply the requirements related to borrowing costs to qualifying assets for which the commencement date for capitalization is on or after its transition date or an earlier designated date. The Company elected to apply IAS 23 prospectively from its transition date (i.e. January 1, 2010).

d) Share-based payment transactions
On first time adoption of IFRS the requirements of IFRS 2, *Share-based Payment*, apply to all grants of equity settled transactions made after November 7, 2002 that have not yet vested at the transition date. A company may also choose to apply to any equity instruments that were granted before November 7, 2002, or that were granted after that date, and vested before the date of transition, but only if the company has previously disclosed the fair value of the instrument, determined at the measurement date. The Company has elected to apply IFRS 2 to all share-based payments that had not yet vested at the transition date

IFRS 1 allows for certain other optional exemptions; however, the Company does not expect such exemptions to be significant to its adoption of IFRS.

Investment properties
The Company considers its commercial properties, properties under development and manufactured home community to be investment properties under IAS 40, *Investment Property* ("IAS 40"). Investment properties include land and buildings held primarily to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or for sale in the ordinary course of business. The Company notes that its golf course assets are not considered investment properties under IAS 40 and as such, will be accounted for as property, plant, and equipment. Similar to Canadian GAAP, investment properties are initially recorded at cost under IAS 40. However, subsequent to initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for its investment properties. The company expects to use the fair value model when preparing its financial statements under IFRS.

The use of the fair value model will have a material impact on the Company's balance sheet given that the majority of the Company's investment properties have a fair value significantly higher than their current amortized cost.

The adoption of the fair value model will also have a significant impact on the Company's income statement. Under the fair value model, gains or losses arising from a change in the fair value of investment properties are to be recognized in income in the period of the change. Net income during any given period may be greater or less than as determined under Canadian GAAP depending on whether an increase or decrease in fair value occurs during the period of measurement. Under the fair value model, depreciation of investment properties is not recorded.

Other areas of change
The conversion to IFRS will also have an impact on the Company's accounting for certain other areas such as borrowing costs, provisions, interests in joint ventures and tenant leasing costs.

All changes as described above will impact the accounting of deferred income taxes, most significantly related to the changes in the carrying values of the Company's investment properties.

Several IFRS standards are in the process of being amended by the IASB. Amendments to existing standards are expected to continue until the reporting date of December 31, 2011. The Company is monitoring the IASB's active projects and all changes to IFRS will be incorporated as required.

At the current stage of the project, Melcor cannot reasonably determine the full impact that adopting IFRS would have on its financial position and future results.

SUMMARY OF QUARTERLY RESULTS

Financial information for the prior eight fiscal quarters are as follows:

	($000s)	($000s)	Earnings Per Common Share	
	Revenues	Net Earnings	Basic	Diluted
September 30, 2008	25,967	18,542	.59	.58
December 30, 2008	41,758	14,404	.47	.47
March 31, 2009	16,083	183	.01	.01
June 30, 2009	27,279	3,746	.12	.12
September 30, 2009	44,374	9,377	.32	.31
December 31, 2009	48,872	9,918	.33	.33
March 31, 2010	30,247	4,637	.15	.15
June 30, 2010	35,770	5,501	.18	.18
September 30, 2010	41,757	7,724	.26	.26