MELCOR DEVELOPMENTS LTD.

Interim Consolidated Financial Statements

For the three months ended March 31, 2011

(Unaudited, in thousands of Canadian dollars)

MELCOR DEVELOPMENTS LTD.

Interim Consolidated Statements of Income

Unaudited ($000s)	For the three months ended **March 31, 2011**	 March 31, 2010
Revenue	**24,859**	29,568
Cost of sales	**(13,558)**	(16,786)
	11,301	12,782
General and adminstrative expense	**(3,753)**	(2,698)
Amortization expense	**(130)**	(140)
Fair value gains on investment properties	**1,060**	1,690
	8,478	11,634
Interest income	**565**	471
Interest expense	**(3,965)**	(2,859)
Net finance costs	**(3,400)**	(2,388)
Income before income taxes	**5,078**	9,246
Income tax expense	**(1,138)**	(2,348)
Net income for the period	**3,940**	6,898
Basic earnings per share	**0.13**	0.23
Diluted earnings per share	**0.13**	0.23

Interim Consolidated Statements of Comprehensive Income

Unaudited ($000s)	For the three months ended **March 31, 2011**	 March 31, 2010
Net income for the period	**3,940**	6,898
Other comprehensive income		
Unrealized gains (losses) on translation of foreign subsidiaries	**(205)**	(271)
Comprehensive income	**3,735**	6,627

MELCOR DEVELOPMENTS LTD.

Interim Consolidated Statements of Financial Position

Unaudited ($000s)	**March 31, 2011**	December 31, 2010	January 1, 2010
ASSETS			
Cash and cash equivalents	**6,111**	6,391	3,947
Accounts receivable	**10,468**	12,992	10,306
Income taxes recoverable	**2,851**	-	1,450
Agreements receivable	**89,593**	97,474	81,316
Land inventory (note 7)	**486,224**	478,461	434,268
Investment properties (note 8)	**429,379**	415,255	363,348
Property and equipment (note 9)	**13,016**	13,017	13,715
Other assets	**20,742**	20,406	16,955
	1,058,384	1,043,996	925,305
LIABILITIES			
Bank operating loan	**36,075**	53,651	68,026
Accounts payable and accrued liabilities	**24,917**	35,343	22,807
Income taxes payable	**-**	4,592	-
Provision for land development costs (note 10)	**81,183**	72,255	63,755
General debt	**281,516**	287,725	230,666
Convertible debenture (note 11)	**38,831**	-	-
Deferred income tax liabilities	**58,047**	57,612	52,267
	520,569	511,178	437,521
SHAREHOLDERS' EQUITY			
Share capital	**13,534**	13,354	13,003
Contributed surplus	**1,458**	1,015	572
Convertible debenture (note 11)	**639**	-	-
Accumulated other comprehensive income	**(672)**	(467)	-
Retained earnings	**522,856**	518,916	474,209
	537,815	532,818	487,784
	1,058,384	1,043,996	925,305

MELCOR DEVELOPMENTS LTD.

Interim Consolidated Statements of Changes in Equity

Unaudited ($000s)	Share Capital	Contributed Surplus	Convertible Debenture	Retained earnings	AOCI	Total Equity
Balance at January 1, 2011	**13,354**	**1,015**	**-**	**518,916**	**(467)**	**532,818**
Net income for the period	**-**	**-**	**-**	**3,940**	**-**	**3,940**
Cumulative translation adjustment	**-**	**-**	**-**	**-**	**(205)**	**(205)**
Transactions with equity holders						
Issuance of convertible debenture (note 11)	**-**	**-**	**639**	**-**	**-**	**639**
Employee share options						
Value of services recognized	**-**	**449**	**-**	**-**	**-**	**449**
Proceeds on issuing shares	**180**	**(6)**	**-**	**-**	**-**	**174**
Balance at March 31, 2011	**13,534**	**1,458**	**639**	**522,856**	**(672)**	**537,815**

	Share Capital	Contributed Surplus	Convertible Debenture	Retained earnings	AOCI	Total Equity
Balance at January 1, 2010	13,003	572	-	474,209	-	487,784
Net income for the period	-	-	-	6,898	-	6,898
Cumulative translation adjustment	-	-	-	-	(271)	(271)
Transactions with equity holders						
Employee share options						
Value of services recognized	-	111	-	-	-	111
Proceeds on issuing shares	15	-	-	-	-	15
Balance at March 31, 2010	13,018	683	-	481,107	(271)	494,537

Interim Consolidated Statements of Cash Flows

Unaudited (000's)	For the three months ended March 31, 2011	March 31, 2010
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the period	**3,940**	6,898
Non cash items:		
Amortization of operating lease incentives	**846**	679
Amortization of property and equipment	**130**	140
Stock based compensation expense	**449**	111
Non cash interest	**200**	-
Fair value gains	**(1,060)**	(1,690)
Deferred income taxes	**122**	(244)
	4,627	5,894
Agreements receivable	**7,881**	6,030
Development activities	**2,894**	5,917
Operating assets and liabilities	**(13,371)**	(5,544)
	2,031	12,297
INVESTING ACTIVITES		
Purchase of land inventory	**(1,699)**	(1,538)
Payment of operating lease incentives	**(2,064)**	-
Purchase of investment properties	**(14,771)**	(1,337)
Purchase of property and equipment	**(129)**	(15)
	(18,663)	(2,890)
FINANCING ACTIVITIES		
Bank operating loan	**(17,576)**	(52)
Proceeds from general debt	**6,500**	-
Repayment of general debt	**(12,375)**	(6,511)
Proceeds from convertible debenture	**39,642**	-
Share capital issued	**174**	15
	16,365	(6,548)
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY	**(13)**	(92)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**(280)**	2,767
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**6,391**	3,947
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**6,111**	6,714
Total income taxes paid	**8,459**	4,200
Total interest paid	**4,579**	3,205

1. CORPORATE INFORMATION

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

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

2. BASIS OF PRESENTATION AND ADOPTION OF IFRS

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

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim consolidated financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in note 6, we have consistently applied the same accounting policies in our opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 6 discloses the impact of the transition to IFRS on our previously disclosed shareholders' equity and comprehensive income, including the nature and effect of significant changes in accounting policies from those used in our annual financial statements for the year ended December 31, 2010. Figures for fiscal 2010 in these financial statements have been restated for comparative purposes.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of June 1, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that take effect during the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

These interim consolidated financial statements should be read in conjunction with our Canadian GAAP annual financial statements for the year ended December 31, 2010.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) 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) Investments in twenty-two joint operations (2010 – twenty-two) with interests ranging from 30% to 75%. Where we undertake our activities under joint operations arrangements through an undivided interest in the operation's assets, we include our interest in jointly controlled assets, liabilities, revenues and expenses in the consolidated financial statements and classify them according to their nature.

b) *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.

c) *Land inventory*

Land inventory is recorded at the lower of cost and net realizable value. Cost includes all costs incurred to purchase development land. Net realizable value is the estimated selling price in the ordinary course of business, less costs to complete the development and selling costs.

The cost of land and carrying costs are 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.

d) *Investment properties*

Investment properties include commercial, industrial, and residential properties, and a manufactured home community held for the long term to earn rental income and for capital appreciation. It also includes properties under development for future use as investment properties. 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 reporting period end date by professional valuators who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

e) *Property and equipment*

Property and equipment are 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 amortization and any accumulated impairment losses.

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

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

f) *Other assets*

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

g) *Impairment of non-financial assets*

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.

h) *Borrowing costs*

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Qualifying assets include our land under development and investment property under development assets. All other borrowing costs are recognized as interest expense in the 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. The provision is recognized as a liability with an equal amount charged 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.

j) *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 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.

k) *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.

l) *Stock based compensation*

We use the Black-Scholes option pricing model to fair value options granted during the period to our employees. The estimated fair value of options on the date of grant is recognized as compensation expense 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.

m) *Foreign currency*

The consolidated financial statements are presented in Canadian dollars, which is our functional currency.

Assets and liabilities of our US operations, for which the functional currency is the US dollar, are translated 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 are recognized as other comprehensive income or loss.

n) *Financial instruments*

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

Fair value through profit or loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term or if it is designated to be in this category at its inception. Financial instruments in this category are recognized at fair value, with changes in fair value recognized in the consolidated statement of income. The only instruments that are classified in this category are cash and cash equivalents.

Loans to third parties and receivables

Loans to third parties 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 to third parties and receivables are measured at amortized cost using the effective interest method less a provision for impairment, if necessary. Loans to third parties and receivables are comprised of accounts receivable and agreements receivable.

Other liabilities

Other liabilities include bank operating loan, accounts payable and accrued liabilities, general debt, and the convertible debenture. 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.

o) *Convertible debenture*

Our compound financial instruments are 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 recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised 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.

p) *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.

Operating assets and liabilities is defined as the net change of accounts receivable, other assets, income taxes payable and accounts payable and accrued liabilities. Excluded from operating assets and liabilities are investment property additions that are unpaid and in the accounts payable as at the end of the period.

4. CHANGES IN ACCOUNTING POLICIES

a) *IFRS 9 Financial Instruments*

The modifications to this standard address classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. IFRS 9 has been amended to also deal with financial liabilities and derecognition of financial instruments. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. We have not yet assessed the impact of the standard or determined whether we will adopt the standard early.

b) *IFRS 7 Financial Instruments: Disclosure*

The modifications to this standard address disclosures related to transfers of financial assets and the derecognition of financial assets by a reporting entity. This amendment is required to be applied for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. We have not yet assessed the impact of the standard or determined whether we will adopt the standard early.

c) *IAS 12 Income Taxes*

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

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

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

e) *IFRS 13 Fair Value Measurement*

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

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) *Impairment 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 the expected impairment on agreements receivable.

b) *Net realizable value of land inventory*

We estimate the net realizable value of land inventory using estimates and assumptions about future selling prices and future developments costs. This includes estimating common costs associated with all phases of a land development project and allocating these estimated costs across current and future development phases.

c) *Fair value of investment properties*

Investment properties are valued using a discounted cash flow approach, as completed by qualified valuators. 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.

d) *Recoverable amount of property and equipment*

We estimate the expected recoverable amount of our property and equipment at the lowest level of assets for which there are separately identifiable cash inflows. The golf course assets are grouped by course for purposes of determining the recoverable amount. Factors considered when estimating the cash flows are based on historical experience and include the length of the golf season, the number of rounds of golf expected to be sold, as well as the anticipated course conditions for the season.

e) *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 our measurement of cost of sales reported given that we sell land inventory prior to all costs being committed or known. The nature of land development includes a long-term time frame to complete all municipal requirements.

6. TRANSITION TO IFRS

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

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

a) *Estimates*

The estimates we previously made under Canadian GAAP were not revised for the application of IFRS, except where necessary to reflect any difference in accounting policies. This was a mandatory exception in IFRS 1.

b) *Business combinations*

IFRS 1 provides the option to not apply retrospectively IFRS 3, Business Combinations, to business combinations that occurred before the transition date or an alternate designated date. We elected to use the exemption and did not retrospectively apply IFRS 3 to business combinations that occurred prior to our transition date.

c) *Borrowing costs*

IAS 23, Borrowing Costs, requires an entity to capitalize the borrowing costs related to all qualifying assets. IFRS 1 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. We elected to apply IAS 23 prospectively from our transition date to qualifying assets in existence on that date.

d) *Cumulative translation differences*

Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, from the date a subsidiary was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at the transition date. We elected to reset cumulative translation gains and losses to zero at our transition date.

e) *Share-based payments*

IFRS 2, *Share-based Payments*, applies to all grants of equity settled transactions made after November 7, 2002 that have not vested at the transition date. A company may also choose to apply the standard 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. We have elected to apply IFRS 2 to all share-based payments that had not yet vested at the transition date.

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

The following tables provide a reconciliation of our equity as previously reported under Canadian GAAP to IFRS as at the date of the transition to IFRS, the preceding annual year-end, and the end of the comparative interim period, as required by IFRS 1.

December 31, 2010

	Note	Share Capital	Contributed Surplus	Retained earnings	AOCI	Total Equity
As reported under Canadian GAAP - December 31, 2010		13,354	1,015	345,827	(1,979)	358,217
Differences increasing (decreasing) reported amount:						
Investment properties	i			218,456		218,456
Property and equipment	ii			(5,449)		(5,449)
Decommissioning obligation	iii			(5,100)		(5,100)
Cost of sales	iv			(303)		(303)
Interest expense	v			49		49
Deferred income tax impact	vi			(33,052)		(33,052)
Cumulative translation differences	vii			(1,512)	1,512	-
As reported under IFRS - December 31, 2010		13,354	1,015	518,916	(467)	532,818

March 31, 2010

	Note	Share Capital	Contributed Surplus	Retained earnings	AOCI	Total Equity
As reported under Canadian GAAP - March 31, 2010		13,018	683	319,094	(1,783)	331,012
Differences increasing (decreasing) reported amount:						
Investment properties	i			204,871		204,871
Property and equipment	ii			(5,648)		(5,648)
Decommissioning obligation	iii			(5,100)		(5,100)
Interest expense	v			86		86
Deferred income tax impact	vi			(30,684)		(30,684)
Cumulative translation differences	vii			(1,512)	1,512	-
As reported under IFRS - March 31, 2010		13,018	683	481,107	(271)	494,537

January 1, 2010

	Note	Share Capital	Contributed Surplus	Retained earnings	AOCI	Total Equity
As reported under Canadian GAAP - December 31, 2009		13,003	572	314,457	(1,512)	326,520
Differences increasing (decreasing) reported amount:						
Investment properties	i			202,182		202,182
Property and equipment	ii			(5,681)		(5,681)
Decommissioning obligation	iii			(5,100)		(5,100)
Deferred income tax impact	vi			(30,137)		(30,137)
Cumulative translation differences	vii			(1,512)	1,512	-
As reported under IFRS - January 1, 2010		13,003	572	474,209	-	487,784

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

The following is a reconciliation of our net earnings reported under Canadian GAAP to our net income reported under IFRS for the three months ended March 31, 2010 and the year ended December 31, 2010.

		Three months ended March 31, 2010	Year ended December 31, 2010
Net earnings as reported under Canadian GAAP		4,637	45,056
Differences increasing (decreasing) reported amount:			
Fair value gains (losses)	i	1,690	11,346
Reversal of amortization on investment properties	i	999	4,933
Property and equipment amortization	ii	33	227
Capitalized costs expensed through cost of sales	iv	-	(303)
Capitalized costs	v	86	49
Deferred income taxes	vi	(547)	(2,915)
Net income under IFRS		6,898	58,393

The following is a reconciliation of our comprehensive income reported under Canadian GAAP to our comprehensive income reported under IFRS for the three months ended March 31, 2010 and the year ended December 31, 2010.

	March 31, 2010	December 31, 2010
Comprehensive income as reported under Canadian GAAP	4,366	44,589
Differences increasing (decreasing) reported amount:		
Differences in net earnings	2,261	13,337
Foreign currency translation	-	-
Comprehensive income under IFRS	6,627	57,926

Our explanatory notes are as follows:

i) **Investment properties**

Under IFRS, we have elected to measure investment properties at fair value with changes to fair value recorded in the statement of income. Under Canadian GAAP, investment properties were recorded at cost and amortized over the useful life. This resulted in an opening increase to the value reported for investment properties of $202,182.

ii) **Property and equipment**

Our golf course assets do not meet the definition of investment property as described in IAS 40 Investment Property. As a result the golf course assets have been reclassified from investment properties to property and equipment. The total amount reclassified was $18,559.

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

We also occupy a portion of investment properties for our operations and corporate head office. Under IAS 40 we are required to identify the portion of the investment property assets that are occupied and reclassify those amounts to property and equipment and record amortization. This resulted in a reclassification of $398 of assets.

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

iii) **Recognition of decommissioning obligation**

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

iv) **Cost of sales**

As a result of applying IAS 23, Borrowing Costs, the recognition and timing of the capitalization of borrowing costs has increased the cost of sales associated with developed land inventory that was sold in 2010, which would have otherwise been expensed in a subsequent period.

v) **Borrowing costs**

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

vi) **Deferred income tax impact**

The increase to the deferred income tax liability at January 1, 2010 was $30,137. This was comprised of the following: an increase of $32,997 to the liability due to the increase of investment property values greater than tax values, decrease to the liability of $1,585 due to the impairment of property and equipment, an increase to the future income tax asset of $1,275 due to recognition of the provision for asbestos.

vii) **Cumulative translation differences**

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

viii) **Provision for land development**

Under Canadian GAAP, we recorded a provision for land development at the time a lot was sold to a third party. Under the guidance of IAS 37 Provisions, we are recording a provision for land developments costs at the point in time when the initial obligation is created and is measurable. This occurs upon the approval of the development plan with the municipality. This change resulted in an increase to the provision on the opening statement of financial position of $20,601 with an offsetting increase to our land inventory.

7. LAND INVENTORY

	March 31, 2011	December 31, 2010	January 1, 2010
Raw land held	**250,908**	261,203	223,473
Land under development	**86,706**	77,051	77,576
Developed land	**148,610**	140,207	133,219
	486,224	478,461	434,268

During the three month period ended March 31, 2011, we purchased 17 acres of land at a cost of $558. There was no vendor financing related to the purchases. During the same period in the prior year, we purchased 219 acres of land at a cost of $10,109 and received vendor financing of $8,571. We also purchased 60 finished lots in the US for $1,141; no financing was obtained for this purchase.

Land inventory expensed during the three month period ended March 31, 2011 was $8,265 (Q1-2010 - $12,290).

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

The weighted average interest rate used for capitalization of borrowing costs to land under development is 5.12% for the three month period ended March 31, 2011 (Q1-2010 – 4.47%).

8. INVESTMENT PROPERTIES

	Three months ended March 31, 2011	Year ended December 31, 2010
January 1, 2010 (as stated under Canadian GAAP)		180,123
Reclassification to property and equipment (note 6 (ii))		(18,957)
IFRS fair value adjustment (note 6 (i))		202,182
Balance - beginning of period	**415,255**	363,348
Additions		
Direct acquisition	**11,144**	2,829
Acquisition through business combination	**-**	21,607
Property improvements	**1,230**	3,402
Property development	**1,410**	14,086
Disposals	**-**	(1,650)
Fair value gains	**1,060**	12,996
Foreign currency translation	**(720)**	(1,363)
Balance - end of period	**429,379**	415,255

Investment properties were valued by qualified external valuation professionals as at January 1, 2010 and December 31, 2010. We obtained updated market data and considered whether changes to any important valuation model variables resulted in significant changes to any of the property fair value at March 31, 2010 and March 31, 2011. This resulted in fair value gains of $1,060 and $1,690, 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.

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

	March 31, 2011		December 31, 2010		January 1, 2010	
	Min	**Max**	Min	Max	Min	Max
Capitalization rate	6.00%	8.50%	6.00%	8.50%	6.00%	8.50%
Terminal capitalization rate	6.25%	8.50%	6.25%	8.50%	6.25%	9.00%

The weighted average interest rate used for capitalization of borrowing costs to investment properties under development is 5.26% for the three month period ended March 31, 2011 (Q1-2010 – 5.35%).

Investment properties with a March 31, 2011 fair value of $356,436 are pledged as security for general debt.

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

9. PROPERTY AND EQUIPMENT

	Golf course assets					
	Land	Buildings	Equipment	Greens and tees	Corporate	Total
January 1, 2010 (as stated under Canadian GAAP)						
Net book value	-	-	-	-	439	439
Reclassification from investment properties (note 6 (ii))	1,293	6,089	3,056	8,121	398	18,957
Impairment (note 6 (ii))	-	(1,862)	(326)	(3,493)	-	(5,681)
Net book value - IFRS	1,293	4,227	2,730	4,628	837	13,715
Additions	-	8	297	191	83	579
Net disposals	-	-	(11)	-	-	(11)
Amortization	-	(206)	(691)	(231)	(138)	(1,266)
Net book value - December 31, 2010	**1,293**	**4,029**	**2,325**	**4,588**	**782**	**13,017**
Additions	**-**	**-**	**19**	**77**	**33**	**129**
Net disposals	**-**	**-**	**-**	**-**	**-**	**-**
Amortization	**-**	**(8)**	**(33)**	**(56)**	**(33)**	**(130)**
Net book value - March 31, 2011	**1,293**	**4,021**	**2,311**	**4,609**	**782**	**13,016**

10. PROVISION FOR LAND DEVELOPMENT

	Three months ended March 31, 2011	Year ended December 31, 2010
January 1, 2010 (as stated under Canadian GAAP)		43,154
IFRS transition adjustment (note 6 (viii))		20,601
Balance - beginning of period	**72,255**	63,755
Additional provisions	**15,016**	44,831
Changes to estimate	**1,742**	(2,117)
Cost incurred	**(7,830)**	(34,214)
Balance - end of period	**81,183**	72,255

11. 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.

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

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	**(8)**
Deferred tax impact	**(212)**
	639
Total	**39,430**

During the three month period ended March 31, 2011, we recognized $10 of expense related to amortization of transaction costs and interest expense of $372.

12. FINANCIAL GUARANTEES

In the normal course of operations, we issue letters of credit as security for the completion of obligations pursuant to development agreements signed with municipalities. At March 31, 2011 we had $31,875 (December 31, 2010 - $32,248) in letters of credit outstanding and recorded a net liability of $81,183 (December 31, 2010 - $72,255) in provision for land development costs in respect of these development agreements.

Normally, obligations secured 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 venture agreements and, in doing so, may take on risk beyond our proportionate interest in the joint venture. 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 venture participant(s) who also provide similar guarantees. We will have to perform on our guarantee only if a joint venture participant was in default of their guarantee. At March 31, 2011 we had guaranteed $4,193 (December 31, 2010 - $3,081) in loans and $7,783 (December 31, 2010 - $10,026) 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 venture participants. As well, we have remedies available within the joint venture agreement, to address the application of the guarantees. In certain instances there are reciprocal guarantees amongst joint venture participants.

13. SHARE CAPITAL

Issued and outstanding common shares at March 31, 2011 are 30,146,000 (December 31, 2010 – 30,110,000). There were 36,000 options exercised during the current quarter. There were 3,000 options exercised during the same period in the prior year.

During the quarter 30,000 stock options were issued to employees of the company. The fair value of the options issued was $4.83. The options vest evenly over three years and expire after five years. There were no options issued during the same period in the prior year.

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

14. INCOME TAX EXPENSE

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate for the full financial year. The estimated average annual rate used for the three month period ended March 31, 2011 was 26.2% (2010 – 27.9%).

15. RELATED PARTY TRANSACTIONS

During the quarter we issued $22,000 of the convertible debenture (note 11) to companies controlled by two members of our executive management team who are also directors of our company. This transaction occurred in the normal course of operations and was measured at its exchange amount, which approximates its carrying value. During the quarter, coupon payments of $192 were made to the two individuals.

16. SEGMENTED INFORMATION

A summary of our US operations and assets is as follows:

	For the three months ended	
	March 31, 2011	March 31, 2010
External revenue	**689**	122
Net income (loss)	**27**	10
Assets	**40,108**	12,381
Equity	**7,547**	6,213

Our divisions reported the following results:

	For the three months ended March 31, 2011					
	Community Development	**Property Development**	**Investment Properties**	**Recreational Properties**	**Corporate**	**Total**
Segment revenue	14,129	13	10,855	49	-	25,046
Intersegment elimination	-	-	(187)	-		(187)
External revenue	14,129	13	10,668	49	-	24,859
Cost of sales	(8,265)	-	(5,031)	(262)	-	(13,558)
	5,864	13	5,637	(213)	-	11,301
Amortization expense	-	-	0	(97)	(33)	(130)
General and administrative	(1,196)	(292)	(286)	(312)	(1,667)	(3,753)
Fair value gains		414	646	-	-	1,060
	4,668	135	5,997	(622)	(1,700)	8,478
Interest income	438	-	12	-	115	565
Interest expense	(355)	-	(2,660)	(54)	(896)	(3,965)
Income before income tax	4,751	135	3,349	(676)	(2,481)	5,078
Income tax					(1,138)	(1,138)
Net income						3,940

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

For the three months ended March 31, 2010

	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Total
Segment revenue	19,757	-	9,980	69	-	29,806
Intersegment elimination	-		(238)			(238)
External revenue	19,757	-	9,742	69	-	29,568
Cost of sales	(12,290)	-	(4,238)	(258)	-	(16,786)
	7,467	-	5,504	(189)	-	12,782
Amortization expense	-	-	-	(106)	(34)	(140)
General and administrative	(1,043)	(190)	(206)	(331)	(928)	(2,698)
Fair value gains	-	832	858	-	-	1,690
	6,424	642	6,156	(626)	(962)	11,634
Interest income	467	-	4	-	-	471
Interest expense	(152)	-	(2,119)	(49)	(539)	(2,859)
Income before income tax	6,739	642	4,041	(675)	(1,501)	9,246
Income tax					(2,348)	(2,348)
Net income						6,898

17. EVENTS AFTER THE REPORTING PERIOD

On June 1, 2011 we declared a dividend of $0.20 per share, payable on June 30, 2011 to shareholders of record on June 16, 2011.

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Other Information

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

Forward Looking Statements

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

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

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2011 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

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

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

Non-standard Measures

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

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

Management's Discussion & Analysis

June 1, 2011

The following discussion & analysis should be read in conjunction with the consolidated financial statements and related notes for the quarter ended March 31, 2011 and the Management's Discussion & Analysis (MD&A) and consolidated financial statements appearing in the Annual Report for the fiscal year ended December 31, 2010.

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on June 1, 2011.

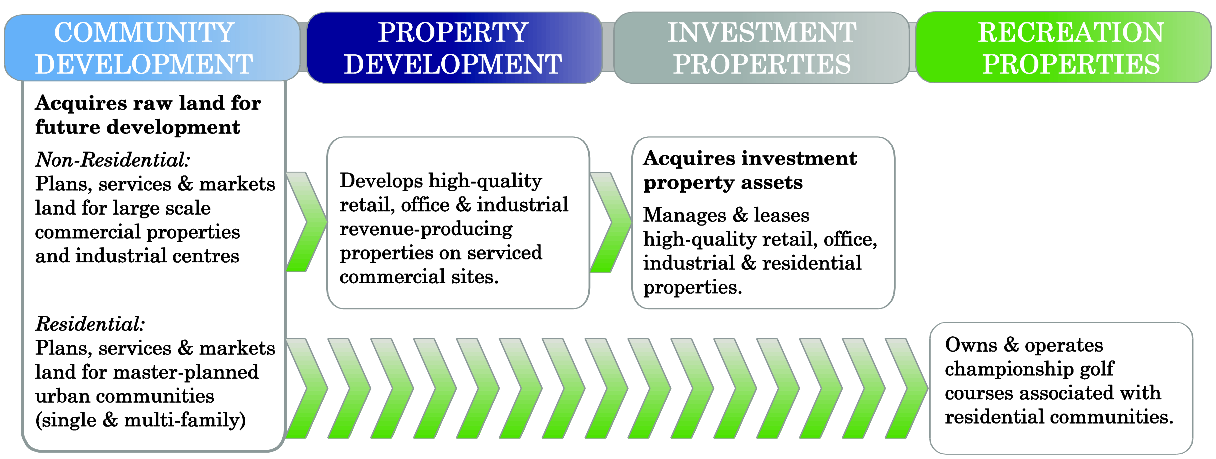
The financial statements underlying this MD&A, including 2010 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted. Details regarding the adoption of IFRS can be found in note 6 in the first quarter financial statements.

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

Overview of our Business

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

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



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

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange.

Mission, Vision & Strategy

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

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

SUSTAIN & IMPROVE

Execute on 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 in western Canada and the southern US (based on available financial resources)**
- **Explore strategic opportunities to increase capital resources to supplement growth while maintaining a strong balance sheet**

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

Q1-2011 Highlights

	Three Months Ended		Change
($000s except as noted)	31-Mar-11	31-Mar-10	
Revenue	24,859	29,568	(16%)
Gross margin (%)	45.5%	43.2%	5%
Net income	3,940	6,898	(43%)
Margin on net income	15.8%	23.3%	(32%)
Shareholders' equity	537,815	494,537	9%
Cash from operations	2,031	12,297	(83%)
Per Share Data			
Basic earnings	0.13	0.23	(43%)
Diluted earnings	0.13	0.23	(43%)
Cash from operations	0.07	0.41	(83%)
Book value	17.84	16.33	9%

- Q1-2011 represents the first interim financial statements prepared in accordance with IFRS. Comparative results for Q1-2010 are also presented in accordance with IFRS.
- Revenue decreased to $24.86 million in Q1-2011 compared to $29.57 million in the same quarter last year. This was primarily due to a decrease in plan registrations during the quarter in our Community Development division, offset by higher overall rental income from Investment Properties.

- Gross margins improved to 45.5% from 43.2% in the same period last year. Gross margin is significantly impacted by the mix of land inventory sold in a period. Industrial and commercial land typically have higher margins than residential land.
- Margin on net income decreased to 15.8% from 23.3% in the same period last year as a result of increases to:
    - interest expense due to our higher debt base as a result of the convertible debenture issued in the quarter; and
    - general and administrative expenses related to increases in headcount to support company growth and increased stock based compensation expense.

  In addition, the adjustment to the fair value of our investment properties was lower than the prior period.
- Our quarterly results are impacted by the cyclical nature of our business. Income can fluctuate significantly from period to period due to the timing of plan registrations, the cyclical nature of real estate and construction markets, the mix of lot sales and product types, and the mix of joint operation sales activity.
- On February 8, 2011, we issued a $40 million convertible debenture in a private placement. This significantly increased our capital and provides us with the resources to execute on our growth plans within all divisions.
- We welcomed Jonathan Chia, Chief Financial Officer, to our executive team on January 24, 2011. On June 1, 2011 we announced the appointment of Brian Baker to Chief Operating Officer. Brian was previously Vice President, Property Development.
- On June 1, 2011 our board declared a dividend of $0.20 per share, payable to shareholders of record on June 16, 2011. The dividend is an eligible dividend for Canadian tax purposes.

Divisional Results

Our business is comprised of four integrated and complementary operating divisions: Community Development, which acquires raw land for future commercial and residential community development; Property Development, which develops high-quality retail, office and industrial revenue-producing properties on serviced commercial sites developed by Community Development; Investment Properties, which manages and leases the commercial developments produced by Property Development as well as an externally purchased portfolio of assets; and Recreational Properties, which includes the operations of championship golf courses associated with Melcor residential communities. Our Corporate division carries out support functions in the areas of accounting, treasury, information technology, administration, legal and human resources.

The following table summarizes divisional results for Q1-2011.

	Community Development		Property Development		Investment Properties		Recreational Properties		Corporate	
	Three Months Ended		Three Months Ended		Three Months Ended		Three Months Ended		Three Months Ended	
($000s except as noted)	31-Mar-11	31-Mar-10	31-Mar-11	31-Mar-10	31-Mar-11	31-Mar-10	31-Mar-11	31-Mar-10	31-Mar-11	31-Mar-10
Revenue	14,129	19,757	13	-	10,668	9,742	49	69	-	-
Portion of total revenue	57%	67%	0%	-	43%	33%	0%	0%	-	-
Cost of sales	(8,265)	(12,290)	-	-	(5,031)	(4,238)	(262)	(258)	-	-
Net operating income (NOI)	5,864	7,467	13	-	5,637	5,504	(213)	(189)	-	-
Gross margin	42%	38%	100%	-	53%	56%	(435%)	(274%)	-	-
Portion of total NOI	52%	58%	0%	-	50%	43%	(2%)	(1%)	-	-
General and administrative expense	(1,196)	(1,043)	(292)	(190)	(286)	(206)	(312)	(331)	(1,667)	(928)
Amortization expense	-	-	-	-	-	-	(97)	(106)	(33)	(34)
Fair value adjustment	-	-	414	832	646	858	-	-	-	-
Interest income	438	467	-	-	12	4	-	-	115	-
Interest expense	(355)	(152)	-	-	(2,660)	(2,119)	(54)	(49)	(896)	(539)
Divisional income before tax	4,751	6,739	136	642	3,350	4,042	(680)	(678)	(2,481)	(1,501)
Portion of income before tax	94%	73%	3%	7%	66%	44%	(13%)	(7%)	(49%)	(16%)

Community Development

Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as completed urban communities and large-scale commercial and industrial centres. The Community Development division currently owns over 9,000 acres of undeveloped land.

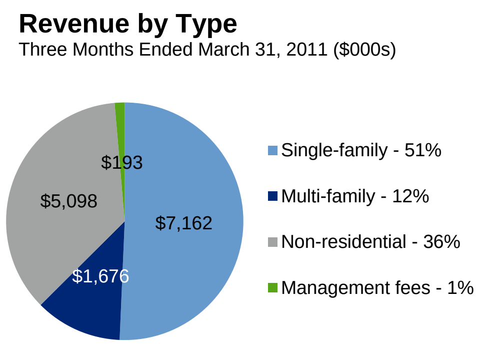
With a significant number of plan registrations occurring during the last quarter of 2010, single-family lot sales in Q1-2011 were not as high as in the prior year. Revenue recognition for single-family lots depends on the timing of plan registrations.

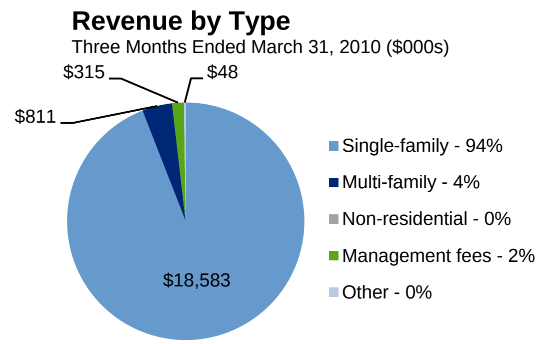
We are currently developing a number of communities throughout Alberta to maintain appropriate inventory levels. We are breaking ground on two new communities in Edmonton and Cochrane during the second quarter of 2011. During the same period in 2010, we continued development of existing communities, but did not begin any new communities.

Non-residential revenues are generated from commercial and industrial land sales, which generally, due to the size of these transactions, occur infrequently and do not trend like our residential lots. In the first quarter of 2011, we sold three parcels of land representing 8.8 acres. There were no similar sales in the first quarter of 2010.

Income can fluctuate significantly from period to period due to the timing of plan registrations, the cyclical nature of real estate markets, the mix of lot sales and product types, and the mix of joint operation's sales activity.

During the quarter, we purchased 16 acres of raw land in British Columbia and increased our land holdings in the southern US with the purchase of 60 serviced lots in Arizona.





Regional Sales Analysis	Three Months Ended March 31, 2011				Three Months Ended March 31, 2010			
(including joint ventures at 100%)	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Other (Acres)	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Other (Acres)
Northern Alberta	54	2.9	3.0	-	146	2.4	-	0.2
Central Alberta	8	-	-	-	3	-	-	-
Southern Alberta	3	-	5.8	-	15	-	-	-
Other	2	-	-	-	3	-	-	-
	67	2.9	8.8	-	167	2.4	-	0.2

Our average revenue per unit on single-family lots remained consistent at $150,000. Average revenue per acre on multi-family sites decreased to $580,000 from $660,000 in Q4-2010.

Developed Inventory	Three Months Ended March 31, 2011				Three Months Ended March 31, 2010			
(including joint ventures at 100%)	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Other (Acres)	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Other (Acres)
Open	732	74.0	111.0	-	561	69.0	95.0	-
Purchases	60	-	-	-	-	-	-	-
New developments	61	14.0	15.0	-	66	10.0	-	-
Sales	(67)	(2.9)	(8.8)	-	(167)	(2.4)	-	0.2
	786	85.1	117.2	-	460	76.6	95.0	0.2

Property Development

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

Currently there is approximately 32,000 square feet under construction across 4 buildings. These projects are expected to be finalized during the fourth quarter. We expect to start 4 additional buildings representing 54,000 square feet of new construction in the second quarter.

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

MELCOR DEVELOPMENTS LTD.

Investment Properties

Investment Properties Summary ($000s except as noted)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net operating income (NOI)	5,637	5,504
Same asset NOI	5,092	5,398
Occupancy	88%	88%
Fair value of portfolio	429,379	366,112
Funds from operations	3,549	3,651

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

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

During the quarter, we increased our US portfolio holdings by acquiring two residential properties, which added 93 units for leasing.

Comparison of the same asset net operating income (NOI) from portfolio assets held during both periods is $5.09 million for Q1-2011 and $5.40 million for Q1-2010, or a decrease of 5.7%. This decrease is primarily driven by the re-tenanting of a suburban office asset resulting in first quarter downtime for construction. We expect that our net operating income will increase as rental rates increase and occupancy rates are maintained and improved. Occupancy is consistent with prior periods, currently maintained at 88%.

Recreational Properties

Recreational Properties Summary	Ownership interest	Season opened 2011	Season opened 2010
Managed by Melcor:			
Lewis Estates (Edmonton)	60%	April 28	April 4
The Links (Spruce Grove)	100%	April 29	April 6
Black Mountain (Kelowna)	100%	April 1	March 16
Managed by a Third Party:			
Jagare Ridge (Edmonton)	50%	May 6	April 23

Our Recreational Properties division owns and manages championship golf courses built to add value to Melcor residential communities. The financial performance of our golf courses is greatly influenced by the weather conditions during the golf season. Our golf courses are closed during the first quarter, but generate incremental revenues from events held at the facilities.

Quarterly Results

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

	Three Months Ended							
($000s)	31-Mar-11	31-Dec-10	30-Sep-10	30-Jun-10	31-Mar-10	31-Dec-09*	30-Sep-09*	30-Jun-09*
Revenue	24,859	84,363	40,921	34,834	29,568	48,872	44,374	27,279
Net income	3,940	33,569	11,646	6,280	6,898	9,918	9,377	3,746
Per Share								
Basic earnings	0.13	1.11	0.39	0.20	0.23	0.33	0.32	0.12
Diluted earnings	0.13	1.10	0.38	0.20	0.23	0.33	0.31	0.12
Book value	17.84	17.70	16.80	16.37	16.33	10.78	10.73	10.43

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

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

Liquidity & Capital Resources

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

	As at	
($000s except as noted)	31-Mar-11	31-Dec-10
Cash & cash equivalents	6,111	6,391
Accounts receivable	10,468	12,992
Agreements receivable	89,593	97,474
Operating loan	36,075	53,651
Accounts payable	24,917	35,343
Total assets	1,058,384	1,043,996
Total liabilities	520,569	511,178
Debt to equity ratio	0.96	0.96

The following table summarizes our cash flows from (used in) operating, investing and financing activities for the first quarter of 2011 and 2010, as reflected in our consolidated statement of cash flows:

	Three Months Ended	
($000s)	31-Mar-11	31-Mar-10
Cash flows from (used in) operating activities	2,031	12,297
Cash flows from (used in) investing activities	(18,693)	(2,890)
Cash flows from (used in) financing activities	16,402	(6,548)

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 development projects, completing real estate acquisitions, debt principal and interest payments, and paying dividends when declared by our board of directors.

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

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

Cash generated from operations was $2.03 million in Q1-2011 compared to $12.30 million in Q1-2010. This reduction is a result of normal fluctuations to accounts payable, accounts receivable and other operating assets and liabilities.

Cash used in investing activities was $18.66 million in Q1-2011 compared to $2.89 million in Q1-2010. In Q1-2011, we used $14.77 million in the purchase of investment properties compared to $1.34 million in Q1-2010, as we continue to build our investment properties portfolio in the US.

Cash generated from financing activities was $16.37 million in Q1-2011 compared to cash used in financing activities of $6.55 million in Q1-2010. During Q1-2011, we received proceeds from the issuance of a $39.64 million, convertible debenture and $6.50 million from general financing activities. We repaid $17.58 million of our syndicated credit facility and $12.38 million of general debt, mainly related to debt on land inventory.

Convertible Debenture

During Q1-2011, we completed the issue and sale of a $40 million, 6.25% convertible, unsecured subordinated debenture. The issue closed on February 8, 2011 with a maturity date of February 8, 2017. The debenture is fully convertible at the option of the holder at any time prior to maturity at a conversion price of $18.51 per share. From the period of 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. Melcor 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.

Of the total $40 million issued, $22 million of the convertible debenture was issued to companies controlled by two members of our executive management team who are also directors of our company. This 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.

The debenture will be a source of financing for our current operations, and not allocated to one specific purpose. We anticipate that this infusion of cash will facilitate our growth plans. Assuming the debenture is not converted until maturity, we will have an annual cash interest payment of $2.50 million for each of the next six years.

Share Data

Melcor is listed on the Toronto Stock Exchange under the trading symbol "MRD". As at June 1, 2011 there were 30,177,230 common shares issued and outstanding and 1,416,867 options, each convertible to one common share upon exercise or exchange.

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

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

Changes in Accounting Policies

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

IFRS 9 Financial Instruments

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

IFRS 7 Financial Instruments: Disclosure

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

IAS 12 Income Taxes

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

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

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

IFRS 13 Fair Value Measurement

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

Internal Control over Financial Reporting and Disclosure Controls

The President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified.

Non-standard Measures

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

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

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

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

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

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

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 (expressed as a percentage). This measure indicates the relative efficiency with which we earn revenue.

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

Debt to equity ratio = total debt / total equity

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