MELCOR DEVELOPMENTS LTD.

Interim Consolidated Financial Statements

For the three and six months ended June 30, 2011

(Unaudited, in thousands of Canadian dollars)

Interim Consolidated Statements of Income

Unaudited **($000s)**	**For the three months ended** **June 30, 2011**	June 30, 2010	**For the six months ended** **June 30, 2011**	June 30, 2010
Revenue	**24,615**	34,834	**49,474**	64,402
Cost of sales	**(11,977)**	(19,568)	**(25,535)**	(36,354)
	12,638	15,266	**23,939**	28,048
General and adminstrative expense	**(4,403)**	(3,427)	**(8,156)**	(6,125)
Amortization expense	**(362)**	(407)	**(492)**	(547)
Fair value gains on investment properties	**1,168**	(348)	**2,228**	1,342
Gain on sale of assets	**-**	7	**-**	7
	9,041	11,091	**17,519**	22,725
Interest income	**543**	590	**1,108**	1,061
Interest expense	**(3,698)**	(2,895)	**(7,663)**	(5,754)
Net finance costs	**(3,155)**	(2,305)	**(6,555)**	(4,693)
Income before income taxes	**5,886**	8,786	**10,964**	18,032
Income tax expense	**(1,392)**	(2,506)	**(2,530)**	(4,854)
Net income for the period	**4,494**	6,280	**8,434**	13,178
Basic earnings per share	**0.15**	0.20	**0.28**	0.43
Diluted earnings per share	**0.15**	0.20	**0.28**	0.43

Interim Consolidated Statements of Comprehensive Income

Unaudited **($000s)**	**For the three months ended** **June 30, 2011**	June 30, 2010	**For the six months ended** **June 30, 2011**	June 30, 2010
Net income for the period	**4,494**	6,280	**8,434**	13,178
Other comprehensive income				
Unrealized gains (losses) on translation of foreign subsidiaries	**(42)**	175	**(247)**	(96)
Comprehensive income	**4,452**	6,455	**8,187**	13,082

MELCOR DEVELOPMENTS LTD.

Interim Consolidated Statements of Financial Position

Unaudited **($000s)**	**June 30, 2011**	December 31, 2010
ASSETS		
Cash and cash equivalents	**8,194**	6,391
Accounts receivable	**11,638**	12,992
Income taxes recoverable	**3,722**	-
Agreements receivable	**76,150**	97,474
Land inventory (Note 4)	**493,752**	478,461
Investment properties (Note 5)	**455,852**	415,255
Property and equipment	**12,800**	13,017
Other assets	**22,645**	20,406
	1,084,753	1,043,996
LIABILITIES		
Bank operating loan	**71,722**	53,651
Accounts payable and accrued liabilities	**23,817**	35,343
Income taxes payable	**-**	4,592
Provision for land development costs	**75,868**	72,255
General debt	**282,149**	287,725
Convertible debenture	**38,858**	-
Deferred income tax liabilities	**55,164**	57,612
	547,578	511,178
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	**13,960**	13,354
Contributed surplus	**1,985**	1,015
Convertible debenture	**639**	-
Accumulated other comprehensive income	**(714)**	(467)
Retained earnings	**521,305**	518,916
	537,175	532,818
	1,084,753	1,043,996

Interim Consolidated Statements of Changes in Equity

Unaudited **($000s)**	Share Capital	Contributed Surplus	Convertible Debenture	AOCI	Retained earnings	Total Equity
Balance at January 1, 2011	**13,354**	**1,015**	**-**	**(467)**	**518,916**	**532,818**
Net income for the period	**-**	**-**	**-**	**-**	**8,434**	**8,434**
Cumulative translation adjustment	**-**	**-**	**-**	**(247)**	**-**	**(247)**
Transactions with equity holders						
Dividends paid	**-**	**-**	**-**	**-**	**(6,045)**	**(6,045)**
Issuance of convertible debenture	**-**	**-**	**639**	**-**	**-**	**639**
Employee share options						
Value of services recognized	**-**	**992**	**-**	**-**	**-**	**992**
Share issuance	**606**	**(22)**	**-**	**-**	**-**	**584**
Balance at June 30, 2011	**13,960**	**1,985**	**639**	**(714)**	**521,305**	**537,175**

Unaudited **($000s)**	Share Capital	Contributed Surplus	Convertible Debenture	AOCI	Retained earnings	Total Equity
Balance at January 1, 2010	13,003	572	-	-	474,209	487,784
Net income for the period	-	-	-	-	13,178	13,178
Cumulative translation adjustment	-	-	-	(96)	-	(96)
Transactions with equity holders						
Dividends paid	-	-	-	-	(4,551)	(4,551)
Employee share options						
Value of services recognized	-	221	-	-	-	221
Share issuance	247	-	-	-	-	247
Balance at June 30, 2010	13,250	793	-	(96)	482,836	496,783

Interim Consolidated Statements of Cash Flows

	For the three months ended		For the six months ended	
Unaudited **($000s)**	**June 30, 2011**	June 30, 2010	**June 30, 2011**	June 30, 2010
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income for the period	**4,494**	6,280	**8,434**	13,178
Non cash items:				
Amortization of operating lease incentives	**777**	936	**1,623**	1,615
Amortization of property and equipment	**362**	407	**492**	547
Stock based compensation expense	**543**	110	**992**	221
Non cash interest	**189**	-	**389**	-
Gain on disposal of assets	**-**	(7)	**-**	(7)
Fair value gains	**(1,168)**	348	**(2,228)**	(1,342)
Deferred income taxes	**156**	(1,039)	**278**	(1,283)
	5,353	7,035	**9,980**	12,929
Agreements receivable	**13,443**	15,356	**21,324**	21,386
Development activities	**(12,733)**	(800)	**(9,839)**	5,117
Operating assets and liabilities	**(6,692)**	7,745	**(20,063)**	2,201
	(629)	29,336	**1,402**	41,633
INVESTING ACTIVITIES				
Purchase of land inventory	**-**	(4,384)	**(1,699)**	(5,922)
Payment of operating lease incentives	**(2,069)**	(2,804)	**(4,133)**	(2,804)
Purchase of investment properties	**(16,780)**	(3,567)	**(31,551)**	(4,904)
Proceeds from disposal of assets	**-**	10	**-**	10
Purchase of property and equipment	**(145)**	(24)	**(274)**	(39)
	(18,994)	(10,769)	**(37,657)**	(13,659)
FINANCING ACTIVITIES				
Bank operating loan	**35,647**	(15,947)	**18,071**	(15,999)
Proceeds from general debt	**-**	6,150	**6,500**	6,150
Repayment of general debt	**(8,300)**	(6,106)	**(20,675)**	(12,617)
Proceeds from convertible debenture	**-**	-	**39,642**	-
Dividends paid	**(6,045)**	(4,551)	**(6,045)**	(4,551)
Share capital issued	**410**	232	**584**	247
	21,712	(20,222)	**38,077**	(26,770)
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY	**(6)**	123	**(19)**	31
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**2,083**	(1,532)	**1,803**	1,235
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**6,111**	6,714	**6,391**	3,947
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**8,194**	5,182	**8,194**	5,182
Total income taxes paid	**5,169**	1,200	**13,628**	5,400
Total interest paid	**4,550**	3,140	**9,129**	6,345

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".

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.

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 interim 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. The accounting policies followed in these interim financial statements are the same as those applied in the company's interim financial statements for the period ended March 31, 2011. We have consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 3 discloses the impact of the transition to IFRS on our previously disclosed shareholders' equity at June 30, 2010 and comprehensive income for the three and six months ended June 30, 2010, 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 accounting policies applied in these interim consolidated financial statements are based on IFRS effective for the year ended December 31, 2011, as issued and outstanding as of July 27, 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, and our interim financial statements for the quarter ended March 31, 2011 prepared in accordance with IFRS applicable to interim financial statements.

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

3. 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. The IFRS 1 exemptions applied in the conversion from Canadian GAAP to IFRS are disclosed in our interim financial statements for the quarter ended March 31, 2011.

The following tables provide a reconciliation of our equity as previously reported under Canadian GAAP to IFRS as at the end of the current comparative interim period, June 30, 2011.

						June 30, 2010
	Note	Share Capital	Contributed Surplus	Retained earnings	AOCI	Total Equity
As reported under Canadian GAAP - June 30, 2010		13,250	793	320,044	(1,608)	332,479
Differences increasing (decreasing) reported amount:						
Investment properties	i			205,852		205,852
Property and equipment	ii			(5,577)		(5,577)
Decommissioning obligation	iii			(5,100)		(5,100)
Interest expense	iv			183		183
Deferred income tax impact	v			(31,054)		(31,054)
Cumulative translation differences	vi			(1,512)	1,512	-
As reported under IFRS - June 30, 2010		13,250	793	482,836	(96)	496,783

The following is a reconciliation of our net earnings reported under Canadian GAAP to our net income reported under IFRS for the three months and the six months ended June 30, 2010.

		For the three months ended June 30, 2010	For the six months ended June 30, 2010
Net earnings as reported under Canadian GAAP		5,501	10,138
Differences increasing (decreasing) reported amount:	Note		
Fair value gains (losses)	i	(348)	1,342
Reversal of amortization on investment properties	i	1,329	2,328
Property and equipment amortization	ii	71	104
Capitalized costs	iv	97	183
Deferred income taxes	v	(370)	(917)
Net income under IFRS		6,280	13,178

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

The following is a reconciliation of our comprehensive income reported under Canadian GAAP to our comprehensive income reported under IFRS for the three months and the six months ended June 30, 2010.

	For the three months ended June 30, 2010	For the six months ended June 30, 2010
Comprehensive income as reported under Canadian GAAP	5,676	10,042
Differences increasing reported amount:		
Differences in net earnings	779	3,040
Comprehensive income under IFRS	6,455	13,082

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. No amortization is recorded using this method. 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 at January 1, 2010, with an additional fair value gain of $1,342 for the six months ended June 30, 2010, along with a reversal of amortization expense of $2,328 for the six months ended June 30, 2010.

ii) Property and equipment

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.

This impairment at January 1, 2010 under IFRS resulted in a reduction of amortization expense for the six month period ended June 30, 2010 of $104.

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) 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.

v) 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. An additional increase of $917 to the deferred tax liability was recorded at June 30, 2010 due to changes in fair value of investment properties during that six month period.

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

vi) 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.

4. LAND INVENTORY

	June 30, 2011	December 31, 2010
Raw land held	**248,736**	261,203
Land under development	**101,347**	77,051
Developed land	**143,669**	140,207
	493,752	478,461

During the six month period ended June 30, 2011, we purchased 17 acres of land at a cost of $558 (Q2-2011 - $nil) and 60 finished lots in the US for $1,141 (Q2-2011 - $nil). There was no financing related to these purchases.

During the same period in the prior year, we purchased 348 acres of land (Q2-2010 – 129 acres) at a cost of $19,836 (Q2-2010 - $9,727) and received vendor financing of $13,914 (Q2-2010 – $5,343).

5. INVESTMENT PROPERTIES

	For the six months ended June 30, 2011	For the year ended December 31, 2010
Balance - beginning of period	**415,255**	363,348
Additions		
Direct acquisition	**12,695**	2,829
Acquisition through business combination	**20,838**	21,607
Property improvements	**2,460**	3,402
Property development	**3,398**	14,086
Disposals	**-**	(1,650)
Fair value gains	**2,228**	12,996
Foreign currency translation	**(1,022)**	(1,363)
Balance - end of period	**455,852**	415,255

Investment properties were valued by qualified external valuation professionals as at 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 values at June 30, 2011. Fair values of investment properties were updated based on the updated data and model variables.

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

	June 30, 2011			December 31, 2010		
	Min	**Max**	**Weighted Average**	Min	Max	Weighted Average
Capitalization rate	6.00%	8.50%	7.30%	6.00%	8.50%	7.28%
Terminal capitalization rate	6.50%	8.50%	7.57%	6.25%	8.50%	7.55%

Acquisition through business combination

On May 31, 2011, we acquired a 264 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 $20,838 (US$21,500) and was financed with a promissory note in the amount of $8,721 (US$9,000) and a cash payment of $12,875 (US$12,500). The property is pledged as security against the promissory note.

The amounts of revenue and net income before tax of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period are $200 and $135 respectively (US$205 and US$138 respectively).

We are unable to present pro forma revenue and earnings as though the acquisition date had been January 1, 2011, as the information necessary to determine these amounts is not available.

6. SHARE CAPITAL

Issued and outstanding common shares at June 30, 2011 are 30,225,000 (December 31, 2010 – 30,110,000).

During the six months ended June 30, 2011, there were 115,000 options exercised, with 79,000 exercised in the second quarter. There were 55,500 options exercised during the same period in the prior year, with 52,500 exercised in the second quarter of 2010.

During the three months ended June 30, 2011, 75,000 stock options were issued to employees of the company. The fair value of the options issued was $4.72 per share. The options vest evenly over three years and expire after five years, and have an exercise price of $16.05. There were no options issued during the same period in the prior year. There have been 105,000 stock options issued year-to-date in 2011 (2010 – nil).

During the quarter, we paid a dividend of $0.20 per share to shareholders of record on June 16, 2011, resulting in a $6,045 dividend payment on June 30, 2011.

7. 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 six month period ended June 30, 2011 was 26.2% (2010 – 27.9%).

8. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2011 we issued $22,000 (2010 - $nil) in convertible debentures to companies controlled by two members of our executive management team who are also directors of our company.

During the quarter, debenture coupon payments of $343 (Q2-2010 - $nil) were made to these two companies, with total year-to-date payments of $535 (2010 - $nil).

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

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

9. SEGMENTED INFORMATION

The following table summarizes our US operations and assets:

	For the three months ended		For the six months ended	
(in Canadian dollars)	**June 30, 2011**	June 30, 2010	**June 30, 2011**	June 30, 2010
External revenue	**1,141**	355	**1,830**	477
Net income	**165**	87	**192**	97
Assets	**61,880**	31,405	**61,880**	31,405
Equity	**7,671**	6,628	**7,671**	6,628

Our divisions reported the following results:

For the three months ended June 30, 2011

	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Total
Segment revenue	10,318	-	11,782	2,784	-	24,884
Inter-segment elimination	-	-	(206)	(63)	-	(269)
External revenue	10,318	-	11,576	2,721	-	24,615
Segment earnings	3,419	1,307	3,697	502	(3,039)	5,886
Inter-segment elimination	-	-	-	-	-	-
External earnings	3,419	1,307	3,697	502	(3,039)	5,886
Income tax						(1,392)
Net income						4,494

For the three months ended June 30, 2010

	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Total
Segment revenue	22,129	5	10,222	2,766	-	35,122
Inter-segment elimination	(28)	-	(238)	(22)	-	(288)
External revenue	22,101	5	9,984	2,744	-	34,834
Segment earnings	7,444	1,740	1,086	520	(2,004)	8,786
Inter-segment elimination	-	-	-	-	-	-
External earnings	7,444	1,740	1,086	520	(2,004)	8,786
Income tax						(2,506)
Net income						6,280

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

Our divisions reported the following results:

For the six months ended June 30, 2011

	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Total
Segment revenue	24,447	13	22,637	2,832	-	49,929
Inter-segment elimination	-	-	(392)	(63)	-	(455)
External revenue	24,447	13	22,245	2,769	-	49,474
Segment earnings	8,170	1,442	7,046	(174)	(5,520)	10,964
Inter-segment elimination	-	-	-	-	-	-
External earnings	8,170	1,442	7,046	(174)	(5,520)	10,964
Income tax						(2,530)
Net income						8,434

For the six months ended June 30, 2010

	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Total
Segment revenue	41,886	5	20,202	2,835	-	64,928
Inter-segment elimination	(28)	-	(476)	(22)	-	(526)
External revenue	41,858	5	19,726	2,813	-	64,402
Segment earnings	14,183	2,382	5,127	(155)	(3,505)	18,032
Inter-segment elimination	-	-	-	-	-	-
External earnings	14,183	2,382	5,127	(155)	(3,505)	18,032
Income tax						(4,854)
Net income						13,178

The following table summarizes our assets by division:

	June 30, 2011	December 31, 2010
Community Development	**588,832**	591,291
Property Development	**13,334**	5,446
Investment Properties	**464,442**	426,890
Recreational Properties	**13,093**	12,647
Corporate	**5,052**	7,722
	1,084,753	1,043,996

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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, project completion dates, development plans, 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

July 27, 2011

The following discussion & analysis should be read in conjunction with the consolidated financial statements and related notes for the quarter ended June 30, 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 July 27, 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 in thousands of Canadian dollars except per lot and acres amounts, or 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.

Q2-2011 Highlights

	Three months ended		Change	Six months ended		Change
($000s except as noted)	30-Jun-11	30-Jun-10		30-Jun-11	30-Jun-10	
Revenue	24,615	34,834	(29%)	49,474	64,402	(23%)
Gross margin (%)	51.3%	43.8%	17%	48.4%	43.6%	11%
Net income	4,494	6,280	(28%)	8,434	13,178	(36%)
Margin on net income	18.3%	18.0%	1%	17.0%	20.5%	(17%)
Shareholders' equity	537,175	496,783	8%	537,175	496,783	8%
Cash from operations	(629)	29,336	(102%)	1,402	41,633	(97%)
Per Share Data						
Basic earnings	0.15	0.20	(25%)	0.28	0.43	(35%)
Diluted earnings	0.15	0.20	(25%)	0.28	0.43	(35%)
Cash from operations	(0.02)	0.97	(102%)	0.05	1.37	(97%)
Book value	17.77	16.37	9%	17.77	16.37	9%

Highlights for the quarter include:

- Revenue decreased to $24.62 million in Q2-2011 compared to $34.83 million in the same quarter last year. This was primarily due to decreased sales in our Community Development division, as a result of decreased lot sales primarily in Edmonton compared to the prior year. Higher rental income from Investment Properties helped partially offset this shortfall as their divisional asset base continues to grow.

- Gross margins in Q2-2011 improved to 51.3% from 43.8% in the same period last year. Gross margin is significantly impacted by the mix of land inventory sold in a period. The current quarter land sales occurred in geographical locations and neighborhoods with higher margins. The Investment Properties division also had an increase to margins in the current year as a result of higher rental rates and an increase to their leasable square footage through acquisitions.
- Margin on net income increased to 18.3% from 18.0% in the same period last year as a result of higher fair value gains in the current quarter compared to the prior year. These fair value gains are the result of increased leasing activity and progress on Property Development projects. This increase however is also offset partially by increases to:
  - interest expense due to our higher debt base as a result of the convertible debenture issued in the first quarter and draws on our credit facility; and
  - general and administrative expenses as we invest in hiring additional staff and implementing infrastructure to support company growth and higher stock based compensation expense.
- The Community Development division continues to build inventory across all regions to meet current and future demand. Cash used in development activities was $12.73 in Q2-2011 compared to $0.80 in Q2-2010.
- On May 31, 2011, we acquired a 264 unit residential complex near Houston, Texas for a purchase price of US$21,500, as we continue to grow our US asset portfolio.
- 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 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 was paid on June 30, 2011, and 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 Q2-2011:

	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)	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
Revenue	10,318	22,129	-	5	11,782	10,460	2,784	2,766	-	-
Portion of total revenue	41.5%	62.6%	-	0.0%	47.3%	29.6%	11.2%	7.8%	-	-
Cost of sales	(5,980)	(13,817)	-	-	(4,827)	(4,625)	(1,214)	(1,172)	-	-
Gross margin	4,338	8,312	-	5	6,955	5,835	1,570	1,594	-	-
Gross margin %	42.0%	37.6%	0.0%	100.0%	59.0%	55.8%	56.4%	57.6%	-	-
Portion of total margin	33.7%	52.8%	0.0%	0.0%	54.1%	37.1%	12.2%	10.1%	-	-
General and administrative expense	(1,322)	(1,264)	(442)	(208)	(111)	(242)	(670)	(640)	(2,084)	(1,553)
Amortization expense	-	-	-		-	-	(326)	(372)	(36)	(35)
Gain on disposal	-	-	-	-	-	-	-	7	-	-
Fair value adjustment	-	-	1,749	1,943	(581)	(2,291)	-	-	-	-
Interest income	523	500	-	-	13	15	-	-	8	75
Interest expense	(120)	(104)	-	-	(2,579)	(2,231)	(72)	(69)	(927)	(491)
Divisional income before tax	3,419	7,444	1,307	1,740	3,697	1,086	502	520	(3,039)	(2,004)

Divisional results are shown before inter-segment eliminations

	Community Development		Property Development		Investment Properties		Recreational Properties		Corporate	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
($000s except as noted)	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
Revenue	24,447	41,886	13	5	22,637	20,202	2,832	2,835	-	-
Portion of total revenue	49.0%	64.5%	0.0%	0.0%	45.3%	31.1%	5.7%	4.4%	-	-
Cost of sales	(14,245)	(26,107)	-	-	(9,858)	(8,863)	(1,476)	(1,430)	-	-
Gross margin	10,202	15,779	13	5	12,779	11,339	1,356	1,405	-	-
Gross margin %	41.7%	37.7%	100.0%	100.0%	56.5%	56.1%	47.9%	49.6%	-	-
Portion of total margin	41.9%	55.3%	0.0%	0.0%	52.5%	39.8%	5.6%	4.9%	-	-
General and administrative expense	(2,518)	(2,307)	(733)	(398)	(586)	(448)	(979)	(971)	(3,750)	(2,481)
Amortization expense	-	-	-	-	-	-	(424)	(478)	(69)	(69)
Gain on disposal	-	-	-	-	-	-	-	7	-	-
Fair value adjustment	-	-	2,162	2,775	66	(1,433)	-	-	-	-
Interest income	961	967	-	-	25	19	-	-	122	75
Interest expense	(475)	(256)	-	-	(5,238)	(4,350)	(127)	(118)	(1,823)	(1,030)
Divisional income before tax	8,170	14,183	1,442	2,382	7,046	5,127	(174)	(155)	(5,520)	(3,505)

Divisional results are shown before inter-segment eliminations

Community Development

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

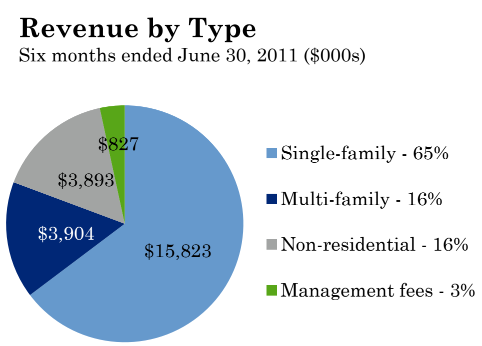
With a significant number of plan registrations occurring during the last quarter of 2010, single-family lot sales in Q1-2011 and Q2-2011 were not as high as in the prior year. Revenue recognition for single-family lots is highly dependent on the timing of plan registrations.

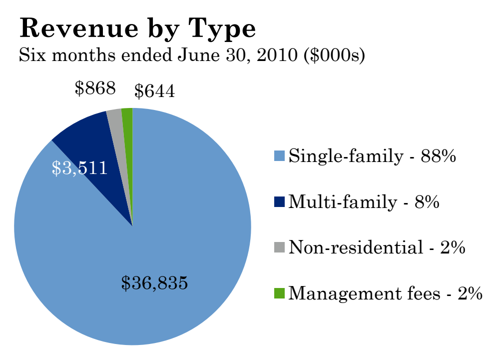
We continue to actively develop a number of communities throughout Alberta to establish and maintain appropriate inventory levels. We broke ground on new communities in all regions in the current quarter, which will create new developed lot inventory by the end of this year, subject to plan registrations. There were no plan registrations in the current quarter, and as such, no new developed lot inventory.

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 second quarter of 2011, we sold one commercial site representing 2.1 acres at an average price of $882,000 per acre. In the comparative quarter of 2010 we sold 6.1 industrial acres at an average sales price of $270,000 per acre. A non-residential sale recorded in Q1-2011 was reclassified to a multi-family sale in the current quarter.

Sales of other land represents sales of raw land inventory, not included in our developed lot inventory.

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.





Regional Sales Analysis	Three months ended 30-Jun-11				Three months ended 30-Jun-10			
(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)
Edmonton Region	53	-	-	-	242	6.0	-	0.2
Red Deer	3	-	2.1	-	7	-	6.1	-
Calgary Region	16	-	-	4.1	41	-	-	-
Lethbridge	5				38			
Kelowna	3	-	-	-	8	-	-	-
	80	-	2.1	4.1	336	6.0	6.1	0.2

Regional Sales Analysis	Six months ended 30-Jun-11				Six months ended 30-Jun-10			
(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)
Edmonton Region	107	5.8	-	-	242	6.0	-	0.2
Red Deer	11	-	2.1	-	7	-	6.1	-
Calgary Region	19	-	5.8	4.1	41	-	-	-
Lethbridge	5				38			
Kelowna	5	-	-	-	8	-	-	-
	147	5.8	7.9	4.1	336	6.0	6.1	0.2

Our average revenue per unit on single-family lots was $143,000, a decrease of $7,000 from the prior quarter average of $150,000. Average revenue per acre on multi-family sites is $664,000.

Developed Inventory	Six months ended 30-Jun-11			Six months ended 30-Jun-10		
(including joint ventures at 100%)	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)	Single-family (Lots)	Multi-family (Acres)	Non-Residential (Acres)
Open	732	74.5	111.3	561	68.7	94.4
Purchases	60	-	-	-	-	-
New developments	61	14.3	14.8	195	9.6	27.9
Sales	(147)	(5.8)	(7.9)	(336)	(6.0)	(6.1)
	706	83.0	118.2	420	72.3	116.2

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. The Property Development division earns fair value gains income in relation to these development and leasing activities.

The following table is a summary of current development projects:

	Development Status			
	Construction activity during the quarter	Estimated completion	Upcoming development activity	Estimated start
Northern Alberta:				
Leduc Common (Leduc, AB)	Construction commenced: 16,700 sq ft CRU 6,000 restaurant pad site	Q3-2011	Planning for new phase on adjacent lands	To be determined
Miller (Edmonton, AB)	Construction completed: 11,450 sq ft CRU 4,200 sq ft CRU	Completed	Development of project complete	N/A
Westgrove (Spruce Grove, AB)	No current construction	N/A	CRU building (8,400 sq ft)	Q3-2011
Central Alberta:				
Clearview Market (Red Deer, AB)	Construction commenced: 4,615 sq ft bank building 7,500 sq ft bank building	Q4-2011	Two additional bank buildings (approx total size 10,600 sq ft)	Q3-2011
Southern Alberta:				
Kingsview Market (Airdrie, AB)	Servicing and sitework underway on Phase 2	N/A	Planning and leasing underway for 3 buildings (approx total size 17,750 sq ft)	Q3-2011
Chestermere Station (Chestermere, AB)	Construction commenced: 6,130 sq ft bank building	Q3-2011	Planning and leasing underway for new phase, including 3 buildings (approx total size 16,000 sq ft)	2012

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 as construction and leasing are completed.

MELCOR DEVELOPMENTS LTD.

Investment Properties

Investment Properties Summary	Three months ended		Six months ended	
($000s except as noted)	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
Net operating income (NOI)	6,749	5,405	12,386	10,909
Same asset NOI	6,450	6,257	12,415	12,201
Occupancy	89%	91%	89%	91%
Fair value of portfolio	442,234	426,890	442,234	426,890
Funds from operations	4,782	3,882	8,976	7,745

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 across seven different asset classes. Our portfolio has high occupancy rates with long-term tenancies from high quality retail and commercial clients.

During the quarter, we increased our US portfolio holdings by acquiring an additional residential property which added 264 units for leasing. In the first six months of 2011 we completed three acquisitions adding a total of 357 units for residential leasing.

The following table summarizes our net operating income:

	Three months ended		Change	Six months ended		Change
($000s except as noted)	30-Jun-11	30-Jun-10		30-Jun-11	30-Jun-10	
Same properties	6,450	6,257	3%	12,415	12,201	2%
2010 Acquisitions	737	79		1,323	293	
2010 Dispositions	-	4		-	30	
2011 Acquisitions	340	-		271	-	
NOI before adjustments	7,527	6,340	19%	14,009	12,524	12%
Amortization of operating lease incentives	(778)	(935)		(1,623)	(1,615)	
NOI	6,749	5,405	25%	12,386	10,909	14%

Our same properties NOI has increased quarter over quarter due to increased rental rates on lease renewals, which were partially offset by slightly lower occupancy rates in the period. Overall, our NOI has increased due to additional leasable properties adding significant rentable square footage and residential units.

Recreational Properties

Recreational Properties Summary		Six months ended 30-Jun-11		Six months ended 30-Jun-10	
	Ownership interest	Season opened	Rounds of golf	Season opened	Rounds of golf
Managed by Melcor:					
Lewis Estates (Edmonton)	60%	April 28	8,762	April 4	11,393
The Links (Spruce Grove)	100%	April 29	7,911	April 6	9,611
Black Mountain (Kelowna)	100%	April 1	10,663	March 16	8,978
Managed by a Third Party:					
Jagare Ridge (Edmonton)	50%	May 6	7,829	April 23	10,307

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. Late course openings and unfavorable weather conditions experienced so far in the 2011 golf season have resulted in fewer rounds of golf being played.

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)	30-Jun-11	31-Mar-11	31-Dec-10	30-Sep-10	30-Jun-10	31-Mar-10	31-Dec-09*	30-Sep-09*
Revenue	24,615	24,859	84,363	40,921	34,834	29,568	48,872	44,374
Net income	4,494	3,940	33,569	11,646	6,280	6,898	9,918	9,377
Per Share								
Basic earnings	0.15	0.13	1.11	0.39	0.20	0.23	0.33	0.32
Diluted earnings	0.15	0.13	1.10	0.38	0.20	0.23	0.33	0.31
Book value	17.77	17.84	17.70	16.80	16.37	16.33	10.78	10.73

*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 June 30, 2011, compared to December 31, 2010.

	As at	
($000s except as noted)	30-Jun-11	31-Dec-10
Cash & cash equivalents	8,194	6,391
Accounts receivable	11,638	12,992
Agreements receivable	76,150	97,474
Operating loan	71,722	53,651
Accounts payable	23,817	35,343
Total assets	1,084,753	1,043,996
Total liabilities	547,578	511,178
Debt to equity ratio	1.02	0.96

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

	Three months ended		Six months ended	
($000s)	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
Cash flows from (used in) operating activities	(629)	29,336	1,402	41,633
Cash flows from (used in) investing activities	(18,994)	(10,769)	(37,657)	(13,659)
Cash flows from (used in) financing activities	21,712	(20,222)	38,077	(26,770)

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 used in operations was $0.63 million in Q2-2011 compared to cash generated from operations of $29.34 million in Q2-2010. This change is primarily the result of increased cash spent on development activities in the Community Development division, as the division continues to invest in new communities to create future inventory. The change is also a result of fluctuations to earnings, accounts payable, accounts receivable and other operating assets and liabilities through normal business activities.

Cash used in investing activities was $18.99 million in Q2-2011 compared to $10.77 million in Q2-2010. In Q2-2011, we purchased additional investment properties as we continue to build our investment properties portfolio in the US. Also, there were no land purchases in Q2-2011 as compared with $4.38 million of land inventory purchases in Q2-2010.

Cash generated from financing activities was $21.71 million in Q2-2011 compared to cash used in financing activities of $20.22 million in Q2-2010. During Q2-2011, we increased our bank operating loan by $35.65 million partially related to current year acquisitions, whereas in Q2-2010 we reduced our bank operating loan by $15.95 million. Also during the quarter, we paid $6.01 million of dividends, which was an increase of $1.49 million over the same quarter in the prior year.

Share Data

Melcor is listed on the Toronto Stock Exchange under the trading symbol "MRD". As at July 27, 2011 there were 30,232,197 common shares issued and outstanding and 1,382,934 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 June 30, 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 or determined whether we will adopt the standard early.

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 or determined whether we will adopt the standard early.

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.

Internal Control over Financial Reporting and Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended June 30, 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