MELCOR DEVELOPMENTS LTD.

2010 ANNUAL REPORT

CORPORATE PROFILE

Our mission at Melcor is to be one of Alberta's leading real estate development and management companies. We achieve this mission by continually striving to meet the needs of our customers, shareholders, fellow employees and communities in which we operate.

Melcor Developments Ltd. is engaged in the following activities:

COMMUNITY DEVELOPMENT

- the development of urban communities and the subsequent marketing of residential, commercial and industrial lands in Western Canada in the metropolitan areas of Calgary, Edmonton, Lethbridge, Red Deer and in the Cities of Kelowna and Regina.

PROPERTY DEVELOPMENT

- the development of income producing properties in western Canada.

INVESTMENT PROPERTIES

- the ownership and management of income producing properties in western Canada and southern United States.

RECREATION PROPERTY

- the ownership and management of championship golf courses in western Canada.

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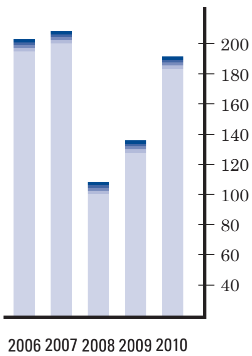
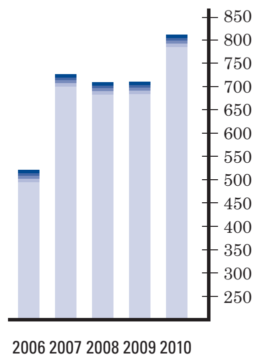
FINANCIAL HIGHLIGHTS

($000s)	2010	2009
Revenue	**193,027**	136,608
Earnings	**45,056**	23,224
Assets	**809,253**	708,203
Shareholder's equity	**358,217**	326,520
PER SHARE		
Basic earnings	**1.49**	0.78
Book value per share	**11.90**	10.78
Average share trading price	**12.09**	7.49
Dividends paid	**0.35**	0.25

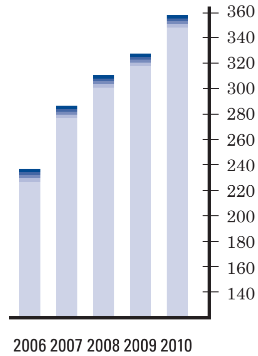
REVENUE
(millions of dollars)



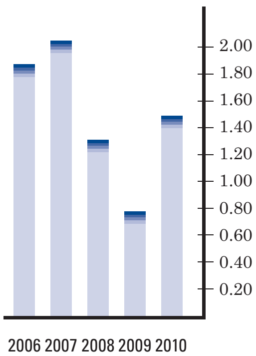
ASSETS
(millions of dollars)



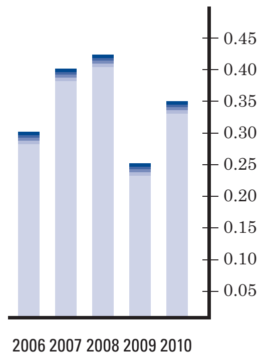
SHAREHOLDER'S EQUITY
(millions of dollars)



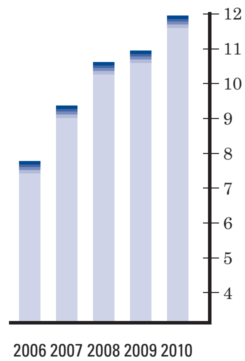
EARNINGS PER SHARE
(dollars)



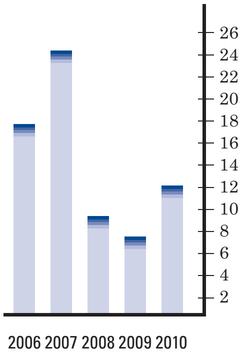
DIVIDENDS PER SHARE
(dollars)



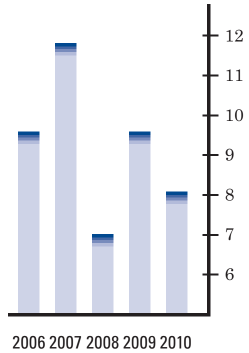
BOOK VALUE PER SHARE
(dollars)



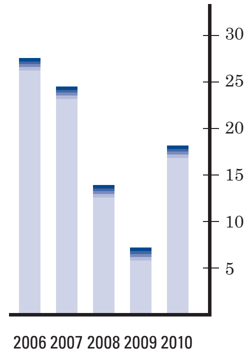
AVERAGE SHARE PRICE
(dollars)



PRICE EARNINGS RATIO



RETURN ON EQUITY
(percent)



MESSAGE FROM THE EXECUTIVE CHAIRMAN

On behalf of the Board of Directors, I am pleased to report that the Company's 2010 net earnings were $45,056,000 or $1.49 per share compared to $23,224,000 or $.78 per share in 2009. This significant improvement in earnings is the result of higher sales activity by the Company's Community Development Division.

PLANNING FOR CONTINUED SUCCESS

The Board of Directors ensures that the Company establishes a business plan and budget which will optimize value for shareholders. This process involves consultation with management to discuss relevant issues, including a review of the general business environment, business plan assumptions, setting appropriate levels of risk, and the review and approval of business goals and detailed financial budgets. As mentioned in last year's Report to Shareholders, our outlook for 2010 was a forecast of modestly improved results. However, our management team clearly delivered outstanding results that exceeded our expectations.

SUCCESSION PLANNING

To ensure future success and continued growth of the Company, the Board of Directors places a high priority on ensuring management and Board succession plans are in place. Melcor is fortunate to have a strong management team who are capable of meeting the Company's future leadership needs. On September 30, 2010, the Board of Directors appointed Andrew Melton as Executive Vice Chairman of the Board to provide assistance to the Executive Chairman. Andrew's extensive experience in the real estate industry will provide additional leadership in our strategic planning and acquisition objectives. The Board of Directors also appointed Gordon Clanachan as Chairman of the Audit Committee. He will replace Bill Grace who has served as Chairman for the past several years. We extend our thanks to Mr. Grace for his outstanding service and we are pleased he will remain a member of the Audit Committee and as Lead Director on the Board of Directors.

DIVIDEND TO SHAREHOLDERS

The Board of Directors increased the dividend to shareholders from $0.25 per common share in 2009 to $0.35 per common share for 2010. The Company has a consistent record of paying dividends and providing shareholders a return on their investment.

SUPPORT TO THE COMMUNITY

During the past year Melcor provided significant financial contributions to many charitable organizations. Total charitable donations to important community causes in 2010 exceeded $400,000. The United Way is one of the many charities that the Company supports in communities where it operates. As well, we are proud of the generous donations made by Melcor employees, deserving recipients of The United Way of Alberta and Capital Region's Platinum Award in 2010.

FINANCING OPERATIONS AND GROWTH

The Company has recently issued a $40 million convertible debenture for general operating purposes. Kingsett Capital, a leading Canadian investment firm, secured $18 million of the debenture and we are pleased to have them as a strategic partner with Melcor. The Company also completed several acquisitions of promising real estate opportunities throughout Alberta and the southwestern United States.

OUTLOOK FOR 2011

In Alberta, where the majority of Company assets are, real estate markets have remained relatively strong. It is anticipated that Alberta will continue to lead the country in economic growth over the next few years. Melcor, with its diverse real estate holdings, is well positioned to benefit from this anticipated economic growth. We forecast that 2011 results will be similar to those of 2010.

ACKNOWLEDGEMENTS

The Board of Directors recognizes and appreciates management and staff for their continued outstanding contributions to the Company's success and growth. I also thank our Board of Directors for their guidance, our customers and suppliers for their business and support, and our shareholders for their continued confidence.

Timothy C. Melton, Executive Chairman

MESSAGE FROM THE PRESIDENT AND CEO

I am pleased to report that 2010 was a highly successful year for our Company. Our management team and staff have been successful in achieving or exceeding virtually all of our Business Plan objectives for the year.

Melcor's share price has continued to strengthen through 2010 to end the year at $14.85 per share. Revenues for the year ended December 31, 2010 were up 41% from 2009, Earnings before Tax were up 94%, Assets increased 14%, and Dividends increased 40%. The Community Development Division was the largest contributor to these increased results, as our builder customers replenished their inventories of residential lands.

The Alberta economy has shown a high level of resilience through a difficult recession. Consumer and business confidence has been maintained with significant support of federal and provincial government fiscal and monetary initiatives, which have translated to particularly strong results for our Alberta-based Community Development Division operations. As a result, Melcor was able to refocus on one of its key objectives; to position the company for future growth by strengthening our existing asset base through acquisitions. In 2010, the Company added approximately $75 million in new acquisitions of land and investment properties in Alberta, Arizona and Texas. Melcor has added significant strategic assets in existing markets while broadening its operations in the southwest USA as high-quality opportunities have arisen.

COMMUNITY DEVELOPMENT DIVISION

The Community Development Division had a highly successful year. Revenues were up 58% from 2009 with earnings more than doubling as operating margins returned to pre-recession levels. The Edmonton Region produced the strongest results, with the Calgary Region bringing on new projects to re-establish its market share. The Community Development Division made several strategic acquisitions including: a 50% joint venture interest in 195 acres in west Edmonton, a 60% joint venture interest in 360 acres in Cochrane, Alberta, 74 acres in west Lethbridge, 145 acres in Red Deer, and 25 acres in north Calgary.

In October 2010, Melcor and its joint venture partner successfully launched one of Western Canada's first large-scale, environmentally intelligent residential communities in southwest Edmonton. As one of the Company's 'green' initiatives, the development of "Larch Park" has set new industry standards for reducing the environmental impact in lighting, storm water treatment and road way construction. Melcor has also launched new initiatives at its Kelowna Black Mountain Community and Golf Course with the goal of increasing residential demand in a weak economy.

PROPERTY DEVELOPMENT DIVISION

The Property Development Division continued its strong record of developing high-quality retail commercial and office projects. Current retail commercial projects include Airdrie, Chestermere, Leduc, Spruce Grove and northeast Edmonton. The Property Development Division has a large pipeline of active projects in the planning, design and preleasing stages across Alberta.

INVESTMENT PROPERTY DIVISION

The Investment Property Division has continued its successful trajectory of growth with revenue and earnings up 15% from the prior year. 'Same building' occupancy rates have seen modest decreases over the year, as new building inventories in Edmonton and Calgary have resulted in softer lease rates in their respective office markets. We expect to see a slow recovery in office markets in the short term, as Edmonton and Calgary absorb significant vacant inventories as several new office buildings are completed over the next 24 months. During the year, the Investment Property Division acquired a 240-unit residential apartment complex in Sugarland, a Houston suburban community to diversify its asset class mix and provide positive cash flows for the Division. We continue to look for quality assets to strengthen our position in this asset class in the Phoenix and Houston metropolitan areas.

RECREATION PROPERTY DIVISION

The Recreational Property Division delivered profitable results despite missing business plan targets. Poor summer weather in the Edmonton region, along with weaker-than-forecasted demand in Kelowna contributed to results that were below expectations.

MANAGEMENT

Melcor is extremely fortunate to have loyal, dedicated and productive personnel in its organization.

The company added 18 new staff to the team at all levels in 2010, including Andy Melton who was appointed as our Executive Vice-Chairman and Brad Pelletier, who assumed the role of Vice President of the Kelowna Region.

Melcor's long serving CFO Michael Shabada retired on October 31, 2010 following 19 years of dedicated service. We wish Michael well and thank him for his professional and dedicated service to the Company. We are pleased to introduce Jonathan Chia as the 3rd CFO in Melcor's 43 year public company history. Jonathan brings a fresh approach after serving as CFO of an Edmonton-based public company in the technology service business.

Melcor recognized 14 employees with long service totaling 240 years in 2010, and added 2 members to Melcor's Quarter Century Club.

FINANCING

Melcor continues to enjoy strong and healthy relationships with its lending partners. During the year, Melcor placed mortgage financing on 6 properties totaling $59 million. In addition, a private placement of $40 million in convertible debentures was initiated and successfully completed in 2011 providing Melcor with fixed rate, fixed term convertible financing to assist with future growth prospects.

The banking syndicate led by our bankers provides a credit facility to a maximum of $120 million based on certain margin and other credit tests which continues to serve our operating needs.

2011 OUTLOOK

Management expects 2011 to be a successful year in our normal business operations, as the economy continues to adjust from the impact of the recession. We believe that the Alberta economy will grow at a strong pace over the next 3 to 5 years with solid demand for the energy products and services that Alberta is blessed with. The impact of this economic growth on the real estate sector is typically delayed, and is expected to deliver stronger demand in the years following 2011.

Melcor has re-entered the real estate market in the southwest USA with recent acquisitions in Arizona and Texas. We believe that the USA market will recover to normal economic conditions in a 3 to 5 year timeframe, and will yield acceptable returns on our investments in the medium and long-term.

I would like to thank our management and employees for their successful work this year, particularly in the fourth quarter where we delivered exceptional results. With our talented team, a solid financial base and strong business relationships, we are looking forward to delivering continued value to our shareholders in 2011.

Ralph Young

Ralph B. Young, President and Chief Executive Officer

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MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

MARCH 8, 2011

The following discussion and analysis of the financial results and position of Melcor Developments Ltd. should be read in conjunction with the audited financial statements and notes to those statements for the years ended December 31, 2010 and 2009. The financial data provided has been prepared in accordance with Canadian Generally Accepted Accounting Principles. The Company's reporting currency is Canadian dollars.

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

Additional information including the Annual Information Form and Management Information Circular is available from SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

To provide investors with an understanding of Melcor Development Ltd.'s ("Melcor" or the "Company") 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 the Company's intentions, plans, expectations, and beliefs and are based on the Company's experience and its 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 the Company's strategic initiatives for 2011 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, the Company's financial condition or the results of our outlook of its operations.

By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond the Company's control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that the Company's actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. The Company cautions the readers of this document not to place undue reliance on its forward-looking statements. Assumptions about the performance of the Canadian and US economies and how this performance will affect the business are material factors we consider in determining our forward-looking statements for the year ended December 31, 2010. For additional information regarding material risks and assumptions, please see the discussion under Risk Factors throughout this MD&A.

Investors and others 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, the Company does not undertake to update any forward-looking statement whether written or oral, that may be made by the Company or on its behalf.

BASIC ACTIVITIES

Melcor Developments Ltd., which traces its history back to 1923, has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. It has operated and prospered for over 87 years, due to stable and committed ownership and loyal and dedicated staff who are focused on the real estate industry. Melcor primarily operates in Alberta in the metropolitan areas of Calgary, Edmonton, Lethbridge and Red Deer. It also has assets in Kelowna (British Columbia), Regina (Saskatchewan), Houston (Texas), and Phoenix (Arizona). Its diversified operations include:

- the acquisition of raw land, which is held for future development until market conditions warrant the planning, servicing and marketing of urban communities which are then sold in the form of single family, multiple family and commercial or industrial lots;
- the development of income producing properties in Alberta;
- the ownership and management of income producing properties in western Canada and the southern United States; and
- the ownership and management of championship golf courses in western Canada.

MISSION STATEMENT

Melcor's mission is to be Alberta's premier real estate development and management company by successfully meeting the needs of our:

- Shareholders, partners and lenders;
- Customers and suppliers;
- Fellow employees; and
- Communities.

OVERALL PERFORMANCE

RESULTS OF OPERATIONS

Net earnings for the year were $45,056,000 compared to prior year earnings of $23,224,000. Basic earnings per share for 2010 were $1.49, a 91% increase from 2009 earnings per share of $0.78.

Current year operating results were a significant improvement from the prior year as revenues were $193,027,000 versus $136,608,000 in 2009 and earnings before income taxes and gains on sale were $59,219,000 versus $30,457,000 in the prior year.

Margins improved in the Community Development Division as discount programs in effect in the prior year were discontinued during the year. The Investment Property Division has continued to produce strong returns, with increased earnings from operations in the current year. The change in general and administrative expenses is consistent with expectations due to higher earnings and levels of business activities in 2010, resulting in additional personnel and increased incentive payments.

	YEAR ENDED		THREE MONTHS ENDED	
Financial Highlights ($)	**December 31, 2010**	December 31, 2009	**December 31, 2010**	December 31, 2009
Revenue	**193,027,000**	136,608,000	**85,198,000**	48,872,000
Net earnings	**45,056,000**	23,224,000	**27,194,000**	9,918,000
Assets	**809,253,000**	708,203,000	**809,253,000**	708,203,000
Shareholders' equity	**358,217,000**	326,520,000	**358,217,000**	326,520,000
PER SHARE				
Basic earnings	**1.49**	0.78	**0.90**	0.33
Diluted earnings	**1.48**	0.77	**0.89**	0.33
Book value [1]	**11.90**	10.78	**11.90**	10.78

[1] See "Non-GAAP Financial Measures" section

SUMMARY OF QUARTERLY RESULTS

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

	REVENUES	NET EARNINGS	EARNINGS PER COMMON SHARE	
	($000s)	($000s)	Basic ($)	Diluted ($)
March 31, 2009	16,083	183	.01	.01
June 30, 2009	27,279	3,746	.12	.12
September 30, 2009	44,374	9,377	.32	.31
December 31, 2009	48,872	9,918	.33	.33
March 31, 2010	30,247	4,637	.15	.15
June 30, 2010	35,770	5,501	.18	.18
September 30, 2010	41,757	7,724	.26	.26
December 31, 2010	85,253	27,194	.90	.89

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

SELECTED ANNUAL INFORMATION

($000s)	**2010**	2009	2008	2007	2006
Revenue	**193,027**	136,608	108,436	207,024	203,402
Net earnings	**45,056**	23,224	41,021	63,670	57,771
Assets	**809,253**	708,203	707,982	726,765	522,927
Liabilities	**451,306**	381,683	397,823	440,281	287,017
Equity	**358,217**	326,520	310,159	286,484	235,910
($)					
Basic earnings per share	**1.49**	0.78	1.32	2.05	1.87
Diluted earnings per share	**1.48**	0.77	1.31	2.00	1.83
Dividends per share	**0.35**	0.25	0.42	0.40	0.30

CORPORATE RISK

The cyclical nature of the Company's business along with the majority of its assets being located in Alberta, may subject Melcor to greater risks than companies that are more geographically diversified. Various factors which are not in management's control can impact the Company's business. These factors include:

- interest and inflation rates;
- general economic conditions in the regions in which the Company operates;
- population growth and migration;
- job creation and employment patterns;
- consumer confidence;
- pricing of input costs;
- competitor's strategies;
- government policies, regulations and taxation; and
- availability of financing for real estate assets.

COMMUNITY DEVELOPMENT OPERATIONS

The Community Development Division is responsible for the acquisition, planning, development and marketing of urban communities. Although the Division predominantly develops mixed-use residential communities, it also develops large-scale commercial and industrial centres in the Edmonton, Red Deer and Calgary regions. The majority of residential lots and parcels are sold to homebuilders that purchase sites through agreements for sale.

Strategic initiatives for 2011 – 2013 include:

- Maintain market share and income levels in current markets;
- Continue tight cash management through the continuing fragile economy;
- Maintain tight inventory control and proactive agreement receivable management by working with builders;
- Consider acquisitions in Canada which are complimentary to existing land holdings;
- Consider selective selling of some non-core land assets;
- Continue with significant planning approvals in Calgary, Balzac, Cochrane, Sylvan Lake and Edmonton; and
- Begin development on new projects in north Calgary, Balzac, Cochrane, Red Deer, Lethbridge and southeast and west Edmonton.

ANNUAL OPERATING REVIEW

($000s)	**2010**	2009	2008	2007	2006
Revenue	**145,128**	91,839	72,401	182,941	183,581
Cost of sales	**(78,969)**	(56,269)	(37,583)	(84,316)	(103,653)
Allowance adjustments	**-**	(1,060)	(1,200)	-	-
Option deposit forfeited	**-**	(709)	-	-	-
Net operating income (NOI) [1]	**66,159**	33,801	33,618	98,625	79,928
Interest revenue	**2,030**	1,719	5,015	6,557	4,109
Interest expense	**(758)**	(831)	(1,291)	(726)	(935)
	67,431	34,689	37,342	104,456	83,102
Administrative expenses	**(5,141)**	(4,587)	(4,675)	(5,653)	(4,472)
Divisional earnings	**62,290**	30,102	32,667	98,803	78,630

[1] See "Non-GAAP Financial Measures" section

QUARTERLY OPERATING REVIEW

($000s)	Q1 2010	Q2 2010	Q3 2010	Q4 2010	**Total 2010**
Revenue	19,757	22,129	30,463	72,779	**145,128**
Cost of sales	(12,290)	(13,817)	(18,434)	(34,428)	**(78,969)**
Net operating income (NOI) [1]	7,467	8,312	12,029	38,351	**66,159**
Interest revenue	467	500	528	535	**2,030**
Interest expense	(161)	(146)	(51)	(400)	**(758)**
	7,773	8,666	12,506	38,486	**67,431**
Administrative expenses	(1,044)	(1,262)	(1,341)	(1,494)	**(5,141)**
Divisional earnings	6,729	7,404	11,165	36,992	**62,290**

[1] See "Non-GAAP Financial Measures" section

SELECTED FINANCIAL BENCHMARKS

($000s)	**2010**	2009	2008	2007	2006
ASSETS					
Agreements receivable	**97,474**	81,316	90,056	140,625	127,178
Land inventory	**457,047**	413,667	424,668	384,974	255,570
	554,521	494,983	514,724	525,599	382,748
DEBT					
Bank debt	**53,651**	68,026	79,502	85,629	29,599
Provision for land development costs	**50,265**	43,154	35,725	51,103	39,805
Debt on land inventory	**76,487**	65,556	79,688	106,565	72,440
	180,403	176,736	194,915	243,297	141,844
Net investment	**374,118**	318,247	319,809	282,302	240,904
NOI as % of revenue [1]	**45.6%**	36.8%	46.4%	53.9%	43.5%
Divisional earnings as % of net investment [1]	**18.0%**	9.4%	10.9%	37.8%	36.4%
% of assets financed [1]	**32.5%**	35.7%	37.9%	46.3%	37.1%

[1] See "Calculations" in "Non GAAP Financial Measures" section

SALES ACTIVITY & REGIONAL HIGHLIGHTS

a) Sales Activity

The Division experienced a strong 2010 with revenues exceeding budgets. Total sales for the Division were $145,128,000 in 2010 versus $91,839,000 in the prior year. This large year over year increase is due in part to a weak 2009. The recovering economy in 2010 allowed for builders to work through their existing inventory and require new inventory. New stages in existing projects were completed in all regions in order to meet this renewed demand.

The fourth quarter of 2010 was particularly successful for the Division, with approximately half of the Division's sales occurring during this time. Home sales activity was strongest in the first part of the year and the apparent strength of the second half of 2010 was due entirely to later than usual plan registrations.

Shareholders are reminded that earnings can fluctuate significantly from one year to another due to the timing of plan registrations, the cyclical nature of real estate markets and the mix of lot sizes and product types and the mix of joint venture sales activity.

Plan registrations are key to revenue recognition in the real estate development industry. This process creates the legal title to the product we are selling (i.e. Lot, Block, Plan). In order to sell real property, it must have a legal title. As for timing of registrations, weather related construction cycles mean the completion of a finished product (including plan registration) occur in the latter half of the year. In many instances, plan registration is often the last revenue recognition criteria to be met before a sale is recorded.

The current cycle of moderate demand is expected to continue into 2011 given that there is improving but still somewhat restrained consumer confidence. The Division expects 2011 pricing to be similar to 2010. Construction costs are expected to remain stable throughout the next year.

REVENUE ANALYSIS ($)

	Year Ended December 31, 2010			Year Ended December 31, 2009		
Revenue by type	**External Revenue (1)**	**Units/Acres @ 100% (2)**	**Gross Average Revenue Per Unit/Acre (3)**	External Revenue (1)	Units/Acres @ 100% (2)	Gross Average Revenue Per Unit/Acre (3)
Single family lots	**128,169,000**	**1,163**	**146,900**	84,340,000	824	125,700
Multiple family sites	**7,288,000**	**20.0**	**660,600**	5,053,000	6.1	831,100
Commercial sites	**1,630,000**	**2.2**	**681,600**	-	-	-
Industrial parcels	**820,000**	**6.1**	**270,200**	-	-	-
Non-strategic parcels	**48,000**	**0.2**	**219,800**	127,000	3.1	53,600
Other land	**1,067,000**	**26.7**	**40,000**	1,175,000	122.2	19,200
Management fees & other	**2,853,000**			1,077,000		
	141,875,000			91,772,000		

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

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

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

REGIONAL SALES ANALYSIS - YEAR ENDED DECEMBER 31, 2010

	(Lots)	**(Acres)**			
(including joint ventures at 100%)	Single Family	Multi-family	Commercial	Industrial	Raw Land
Edmonton	587	7.1	1.5	-	0.2
Calgary	284	-	0.7	-	-
Red Deer	208	12.9	-	6.1	-
Lethbridge	74	-	-	-	26.7
Kelowna	10	-	-	-	-
	1,163	20.0	2.2	6.1	26.9

REGIONAL SALES ANALYSIS - YEAR ENDED DECEMBER 31, 2009

	(Lots)	**(Acres)**			
(including joint ventures at 100%)	Single Family	Multi-family	Commercial	Industrial	Raw Land
Edmonton	488	6.1	-	-	2.0
Calgary	105	-	-	-	-
Red Deer	151	-	-	-	123.3
Lethbridge	77	-	-	-	-
Kelowna	3	-	-	-	-
	824	6.1	-	-	125.3

RESIDENTIAL LOT SALE HISTORY

(including joint ventures at 100%)	**2010**	2009	2008	2007	2006
Edmonton	**587**	488	90	526	844
Calgary	**284**	105	52	270	310
Red Deer	**208**	151	334	396	466
Lethbridge	**74**	77	81	128	140
Kelowna	**10**	3	20	29	15
	1,163	824	577	1,349	1,775

b) Edmonton Region

The Company has active developments in the cities of Spruce Grove, Leduc and St. Albert as well as the southwest, southeast and west end of Edmonton. The Region showed an increase in lots sales of 20% over 2009. Several exciting new projects helped generate sales for the Division such as the ground breaking at the new Larch Park development in south Edmonton, as well as new inventory in west Edmonton at Lewis Estates, southwest Edmonton in MacTaggart Mains, and The Brickyard of Erin Ridge in St. Albert.

c) Calgary Region

2010 marked the first year of sales for Melcor within the City of Calgary in over 7 years. The Division successfully brought inventory to the market in the community of Valley Ridge in northwest Calgary, resulting in 78 lots sold for the Division. The Division also continues to develop projects in both the Town of Chestermere and the City of Airdrie. The Division was successful in acquiring a major land holding in the Town of Cochrane and will begin development of this property through a joint venture in 2011 (see "Inventory" section below for further details).

d) Red Deer Region

The Company was active in both the Southbrook community in the southeast part of the City of Red Deer and in the Clearview community in the northeast. The Region had lot sales of 208 compared to 2009 of 151, an increase of 38%. This was primarily the result of a recovery in the market after the slow down that Red Deer saw in 2009. The current year also marked the first industrial land sales in the Division's new McKenzie Industrial Business Park project located in south Red Deer.

e) Lethbridge Region

The Company continues to be active in the north part of the City of Lethbridge in the Legacy Ridge community and in the south part of Lethbridge in the community of Paradise Canyon. Activity remains consistent in this Region compared to prior years. The Region recorded 74 lot sales during the year, compared to 77 in 2009.

f) Kelowna Region

The Company continued with development and sales in its Black Mountain residential community. During the 2010 year, 10 single family residential lots were sold within the development. The Black Mountain golf course hosted a number of charity tournaments and other events during the year as a means to develop awareness and generate traffic to the community.

g) Regina Region

Preliminary planning on the Region's industrial lands, which were annexed into the City of Regina in the prior year, continues to progress.

h) Summary

Housing markets in all regions are recovering, providing a more stabilized base for future sales. Revenues in 2011 are expected to remain in line with 2010. Net operating income as a percentage of revenue was 45.6% in 2010 which is back to average levels achieved during 2006 & 2007 at the peak of the market.

INVENTORY

Much of the Division's focus in 2009 and 2010 was aimed at reducing serviced lot inventories to an appropriate level and keeping them in line with anticipated market demand. This will continue to be a goal in 2011.

DEVELOPED INVENTORY CARRY FORWARD SCHEDULE

RESIDENTIAL LOT INVENTORY

(in lots - including joint ventures at 100%)	**2010**	2009	2008	2007	2006
At beginning of the year	**561**	1,112	875	593	612
New developments	**1,334**	273	814	1,631	1,756
Sales	**(1,163)**	(824)	(577)	(1,349)	(1,775)
	732	561	1,112	875	593

MULTI-FAMILY/COMMERCIAL/INDUSTRIAL SITE INVENTORY

(in acres - including joint ventures at 100%)	**2010**	2009	2008	2007	2006
At beginning of the year	**164**	161	148	127	160
New developments	**56**	9	27	61	76
External sales	**(30)**	(6)	(5)	(31)	(99)
Internal transfers	**(5)**	-	(9)	(9)	(10)
	185	164	161	148	127

UNDEVELOPED INVENTORY CARRY FORWARD SCHEDULE

LAND INVENTORY

(in acres - net of joint venture interests)	**2010**	2009	2008	2007	2006
At beginning of the year	**8,715**	8,808	8,865	7,092	6,117
Purchases	**653**	26	86	2,135	1,305
Sales	**(27)**	(63)	-	-	(56)
Developed	**(261)**	(56)	(143)	(362)	(274)
	9,080	8,715	8,808	8,865	7,092
Average cost per acre ($)	**31,700**	28,100	27,800	27,600	22,800

The acquisition of land inventory is based upon management's anticipation of market demand and development potential. The average cost per acre has increased in each of the past five years.

The current year saw the Division making several strategic acquisitions, some resulting in the formation of new joint ventures. Purchases included the following:

- During the first quarter, the Company purchased 145 acres in Red Deer and 74 acres in Lethbridge. The Division anticipates commencing development of the Red Deer lands in 2011.
- During the second quarter, the Division purchased 3 parcels of land comprising 24 acres (net of joint venture interest) in Edmonton, Alberta, 25 acres in northwest Calgary, Alberta and 80 acres in the Phoenix area of Arizona, US. The 25 acres in Calgary are in addition to a land holding that the Company previously owned, which brings the Company's holdings in that investment to 75 acres (net of joint venture interests). The Division anticipates that development of these lands could begin as early as 2011.
- During the third quarter, the Division formed a new joint venture and purchased land comprising 77 acres (net of joint venture interest) in Edmonton, Alberta. Development is expected to commence within the next two years.
- Also in the third quarter, the Division purchased 228 acres (net of joint venture interest) in Cochrane, Alberta (Calgary Region). These lands are going to be developed in a new joint venture and are expected to generate revenue as early as 2011. The formation of joint ventures is considered a consistent practice of the Company to diversify its development and investment risk. Melcor has a 60% participating interest in this joint venture and the remaining 40% is held by seven other investors. Of these seven investors, two participating companies holding a 5% interest each, are related to directors of the Company.
- There were no land purchases during the fourth quarter.

Land purchases during the last five years are as follows:

LAND PURCHASES

(in acres - net of joint venture interests)	**2010**	2009	2008	2007	2006
Edmonton	**101**	-	-	327	379
Calgary	**253**	-	3	491	132
Red Deer	**145**	-	17	471	704
Lethbridge	**74**	-	-	160	85
British Columbia	**-**	26	66	-	5
Regina	**-**	-	-	686	-
Arizona	**80**	-	-	-	-
	653	26	86	2,135	1,305
($000s)					
Land cost	**47,673**	700	2,240	89,633	55,349
Vendor financing	**(32,452)**	(275)	(878)	(51,137)	(29,872)
Net cash used for acquisitions	**15,221**	425	1,362	38,496	25,477

LAND HOLDINGS

Land Inventory by Region	Developed Inventory (including joint ventures at 100%)			Undeveloped Inventory (net of joint venture interests)
	Residential Lots	Residential Acres	Commercial / Industrial Acres	Acres
NORTHERN ALBERTA				
Edmonton	293	14	-	1,101
Spruce Grove	97	3	12	925
County of Parkland	-	-	-	570
Leduc	80	3	7	389
St. Albert	3	-	-	77
SOUTHERN ALBERTA				
Calgary	43	-	7	840
Airdrie	-	5	40	644
M.D. Rockyview	-	-	-	849
Chestermere	75	1	20	36
Lethbridge	54	-	-	594
Cochrane	-	-	-	228
CENTRAL ALBERTA				
Red Deer	41	5	24	233
County of Red Deer	-	-	-	1,002
Sylvan Lake	-	-	-	220
Innisfail	-	-	-	129
BRITISH COLUMBIA				
Kelowna	46	44	-	405
Fraser - Fort George	-	-	-	66
SASKATCHEWAN				
Regina	-	-	-	686
ARIZONA	-	-	-	86
DECEMBER 31, 2010	**732**	**75**	**110**	**9,080**
DECEMBER 31, 2009	561	69	95	8,715

Undeveloped land inventory is an aggregate of raw land and unregistered projects and their related pre-development costs. Pre-development costs include the cost of regulatory approvals, planning, engineering and infrastructure servicing. The latter can be significant in instances where utilities or roadways are constructed over expanses of raw land in order to bring services or access to subdivisions that are being developed.

FINANCING

The Division attempts to finance its land acquisition activities by obtaining vendor financing on a portion of the acquisition price. Please see the "Financial Instruments" section of this MD&A for further information.

The Division may also access a credit facility which, on a margined basis, allows for the borrowing of money using agreements receivable, developed land inventory and undeveloped land inventory as collateral. Please see the "Liquidity" section of this MD&A for further information.

RISK FACTORS

Residential lot sales are influenced by the demand for new housing which is impacted by interest rates, growth in employment, immigration, new family population and the size of these families. Our ability to bring new communities to the market is impacted by municipal regulatory requirements and environmental considerations which affect the planning, subdivision and use of land.

The lengthy planning and approval process can take up to eighteen months. During this period, the market conditions in general and / or the market for lots in the size and price range in our developments may change.

The Company must manage its financial resources to ensure that it has adequate financial and operational cash flow to support the holding cost of its inventory and land holdings.

Management attempts to mitigate these risks by:

- Developing in the vicinity of major population and employment centres in Alberta where we have developed land for decades;
- Making the strategic acquisition of land for future development a priority;
- Marketing lots in various sizes and price ranges in all regions in which we carry on development programs;
- Monitoring market conditions by maintaining close contact with our customers, industry associations and forecasting agencies;
- Managing and participating in joint ventures;
- Contracting highly regarded professional consultants as required rather than having them on staff; and
- Practicing an environmental program to minimize risk on acquisitions and development.

PROPERTY DEVELOPMENT OPERATIONS

The Property Development Division acquires commercial sites from the Community Development Division at fair market value with the goal of creating additional value by developing the sites into revenue producing properties. Once completed, these assets are transferred at fair market value to the Investment Property Division, with a mandate to hold and manage the assets. The profit earned on transfer is eliminated upon consolidation.

Strategic initiatives for 2011 - 2013 include:

- To implement the Business Plan for the Division and to meet the Corporate objectives of asset diversification, income growth and stability by constructing revenue producing developments primarily on land created through the Company's land development operations in Alberta;
- To oversee construction and leasing of up to 24,000 square feet of retail space in Leduc Common in Leduc, Alberta;
- To oversee construction and leasing of 17,000 square feet of retail space in Clearview Market Square, a neighbourhood shopping centre in Red Deer, Alberta;
- To continue the development of Chestermere Station (Chestermere, Alberta) and Kingsview Market (Airdrie, Alberta); and
- To advance projects in Spruce Grove, Calgary, Lethbridge and Edmonton on lands currently transferable from the Community Development Division.

ANNUAL OPERATING REVIEW

($000s)	**2010**	2009	2008	2007	2006
Revenue	**29,053**	36,825	62,615	8,112	13,638
Cost of sales	**(20,534)**	(25,363)	(38,259)	(6,165)	(11,531)
Net operating income (NOI) [1]	**8,519**	11,462	24,356	1,947	2,107
Administrative expenses	**(926)**	(750)	(774)	(570)	(518)
Divisional earnings	**7,593**	10,712	23,582	1,377	1,589

[1] See "Non-GAAP Financial Measures" section

QUARTERLY OPERATING REVIEW

($000s)	Q1 2010	Q2 2010	Q3 2010	Q4 2010	**Total 2010**
Revenue	4,103	2,952	3,581	18,417	**29,053**
Cost of sales	(3,300)	(1,894)	(2,301)	(13,039)	**(20,534)**
Net operating income (NOI) [1]	803	1,058	1,280	5,378	**8,519**
Administrative expenses	(190)	(208)	(217)	(311)	**(926)**
Divisional earnings	613	850	1,063	5,067	**7,593**

[1] See "Non-GAAP Financial Measures" section

DEVELOPMENT ACTIVITY

LEDUC COMMON - Leduc, Alberta

This 600,000 sq.ft. regional power centre includes the major retailers of Walmart, Canadian Tire, Rona and Staples. The Division constructed and leased two buildings in 2010 in this project (see "Sales Activity" below) one of which completed Phase I of the development, and one in the ongoing Phase III. Construction will commence in 2011 on a 16,900 sq. ft. commercial retail unit ("CRU") building and a final pad designated for a single user, which will complete Phase III. The Division has two additional phases scheduled for Leduc Common, which are expected to be developed over the next three years. It is anticipated that Phase IV of the development will commence in spring 2012 with development north of Canadian Tire. Retailers continue to perform very well within the shopping centre.

CHESTERMERE STATION - Chestermere, Alberta

During 2010, the Division constructed and leased three buildings in this development (see "Sales Activity" below) marking the completion of Phases II and IV of the project. With the completion of these phases, focus has shifted to the planning phase of Phase VI which will likely include the construction of a 6,100 sq. ft. chartered bank building in 2011. The Division is also working on the planning stages of Phase V which will see the development of the Town of Chestermere's "Main Street" which is an extension of the overall commercial development and will link the existing Town Hall with the retail lands. Interest in Chestermere Station remains strong.

WESTGROVE COMMON - Spruce Grove, Alberta

Westgrove Common is a regional shopping centre shadow anchored by Home Depot and Real Canadian Superstore. The Division has constructed 2 buildings totaling 6,738 sq. ft. in previous years and added a 6,300 sq.ft. chartered bank building in July 2010. Future development of 18,800 sq. ft. in retail space will complete the current phase.

MILLER COMMERCIAL - Edmonton, Alberta

This 3.3 acre neighborhood centre currently includes an 11,750 sq. ft. Rexall Drug Store. Development of this center will be completed in 2011 with an 11,500 sq. ft. CRU and a 4,200 multi-bay outparcel.

KINGSVIEW MARKET - Airdrie, Alberta

The Division has commenced development of a 38 acre regional shopping centre known as Kingsview Market, which will be home to an assortment of national and regional retailers. During 2010, the Division successfully completed and leased three buildings which marked the completion of Phase 1 of the project (see "Sales Activity" below). It is anticipated that the 2011 development program will include two pads totaling almost 10,000 sq. ft. and the closing of two third-party sales, one of which will result in a 30,000 sq. ft. shadow anchor.

CLEARVIEW MARKET SQUARE – Red Deer, Alberta

In the current year, the Division successfully received zoning approval and development permits for the development of a new shopping centre located in the under-retailed region of northeast Red Deer. Interest in Clearview Market is very strong to date. Three national financial institutions will kick start this 20 acre development, all opening to the public in the fall of 2011.

FUTURE PROJECT UPDATE

In addition to active development, the Division continues to obtain municipal approvals in order to initiate development on existing land assets. These future projects include:

Project	Location	Description	Size (Sq. Ft.)	Expected Start
Village at Blackmud Creek	Southeast Edmonton, Alberta	Regional Business Park	750,000	2012
West Henday Promenade	West Edmonton, Alberta	Regional Mixed-use Commercial Centre	365,000	2012
The District at North Deerfoot	Northeast Calgary, Alberta	Regional Office / Industrial Park	1,750,000	2012
The Canyons	Lethbridge, Alberta	Neighbourhood Shopping Centre	130,000	2012
Jagare Ridge	Southeast Edmonton, Alberta	Regional Shopping Centre	135,000	2013
Greenwich	West Calgary, Alberta	Regional Shopping Centre / Office Park	100,000	2013
Sweet Lands	West Calgary, Alberta	Regional Shopping Centre / Office Park	100,000	2013
Denecky III	Lethbridge, Alberta	Regional Power Centre	Unknown	2013

SALES ACTIVITY

Sales activities for the Division are generated from the transfer of revenue producing assets to the Investment Property Division. The Division also earns management fees from managing the development of properties within joint ventures.

During the year, the Division completed the following projects:

- During the first quarter, construction of a 7,400 sq. ft. building for a national chartered bank in Leduc Common was completed. This building was transferred to the Investment Properties Division at a transfer price of $4,100,000 for an intersegment gain of $800,000 to the Division.
- During the second quarter, a 6,000 sq. ft. CRU building in Leduc Common was transferred to the Investment Properties Division at a transfer price of $2,950,000 for an intersegment gain of $1,055,000 to the Division. This transfer marks the completion of Leduc Common Phase I.
- During the third quarter, a 6,400 sq. ft. bank building in Westgrove Common was transferred to the Investment Properties Division at a transfer price of $3,550,000 for an intersegment gain of $1,050,000 to the Division.
- The fourth quarter was particularly active for the Division with the transfer of six properties to the Investment Property Division:
    - Three buildings in the Chestermere Station project were completed totaling 10,000 sq. ft., which included a bank building, a fast food restaurant and a CRU building. These buildings transferred to the Investment Property Division at a transfer price of $2,840,000 for an intersegment gain of $975,000 to the Division.
    - Three buildings were completed in the new Kingsview Market project. These buildings included a bank building, a retail store and a CRU building totaling almost 36,000 sq. ft. These buildings transferred to the Investment Property Division at a transfer price of $15,558,000 for an intersegment gain of $4,583,000 to the Division. These buildings represent the first completed buildings of this project and the first buildings constructed by the Division in Airdrie, Alberta.

FINANCING

The Division funds its operations through interim financing from financial institutions or from internal sources. Historically, the Division has been successful in obtaining very competitive long-term fixed rate financing terms by waiting until the asset has been built and substantially leased. Typically, the Division obtains takeout financing on behalf of the Investment Property Division. As at December 31, 2010, there was no specific debt in the Division.

RISK FACTORS

The major risks include:

- Leasing risks (finding qualified tenants to lease the completed space);
- Construction risks (managing the cost and quality of developing the project); and
- Financing risks (ensuring the project has adequate financing resources).

Management attempts to mitigate these risks by:

- Developing in the vicinity of major population and employment centres where the Company conducts business and owns similar assets;
- Hiring professional consulting firms to aid in the planning and design of the project;
- Using professional consultants and realtors to market the new projects;
- Analysing market conditions and evaluating potential customers;
- Obtaining adequate pre-leasing levels prior to construction;
- Acquiring the land after the project is approved (i.e. sites are not inventoried);
- Contracting with reputable construction companies that use fixed / target price contracts;
- Constantly monitoring leasing activity, construction progress and project costs; and
- Communicating with financial institutions regarding interim and take-out financing.

INVESTMENT PROPERTY OPERATIONS

The Investment Property Division has established itself as a key contributor to the continuing success of Melcor as one of Alberta's premier real estate development companies. The majority of the Division's assets are managed by the Company with third party property management used for properties outside the Edmonton Region.

Strategic initiatives for 2011 – 2013 include:

- To implement the Business Plan for the Division to meet objectives of increasing the return on investment;
- To focus on client retention through continuous customer contact and ongoing service evaluation;
- To reorganize the Division to manage future growth and to implement a management succession plan for the Division;
- To acquire multi-family revenue producing assets in Arizona and Texas;
- To enhance the quality of the portfolio's assets by upgrading their appearance, functionality and desirability thereby increasing their rental opportunity;
- To obtain and maintain financing to ensure reasonable leverage of its assets;
- To execute detailed leasing strategies for each asset; and
- To maintain occupancy levels above 90% over the next 3 years.

ANNUAL OPERATING REVIEW

($000s)	**2010**	2009	2008	2007	2006
Rental revenue	**45,247**	39,443	36,510	25,771	19,765
Operating expenses	**(18,522)**	(16,081)	(15,729)	(11,159)	(8,805)
Net operating income (NOI) [1]	**26,725**	23,362	20,781	14,612	10,960
Interest income	**25**	15	51	33	36
Interest expense	**(9,875)**	(7,773)	(6,874)	(4,699)	(3,811)
Amortization of investment properties	**(4,929)**	(4,385)	(4,038)	(2,959)	(2,303)
Amortization of tenant leasing costs	**(3,340)**	(2,578)	(2,382)	(1,705)	(1,456)
Administrative expenses	**(1,183)**	(1,118)	(794)	(758)	(535)
Earnings from operations	**7,423**	7,523	6,744	4,524	2,891
Gain on sale of investment property	**1,650**	339	22,052	-	11,108
Divisional earnings	**9,073**	7,862	28,796	4,524	13,999

[1] See "Non-GAAP Financial Measures" section

QUARTERLY OPERATING REVIEW

($000s)	Q1 2010	Q2 2010	Q3 2010	Q4 2010	**Total 2010**
Rental revenue	10,660	11,157	11,306	12,124	**45,247**
Operating expenses	(4,242)	(4,622)	(4,606)	(5,052)	**(18,522)**
Net operating income (NOI) [1]	6,418	6,535	6,700	7,072	**26,725**
Interest income	4	15	9	(3)	**25**
Interest expense	(2,196)	(2,286)	(2,575)	(2,818)	**(9,875)**
Amortization of investment properties	(999)	(1,329)	(1,219)	(1,382)	**(4,929)**
Amortization of tenant leasing costs	(679)	(936)	(836)	(889)	**(3,340)**
Administrative expenses	(207)	(241)	(276)	(459)	**(1,183)**
Earnings from operations	2,341	1,758	1,803	1,521	**7,423**
Gain on sale of investment property	-	-	-	1,650	**1,650**
Divisional earnings	2,341	1,758	1,803	3,171	**9,073**

[1] See "Non-GAAP Financial Measures" section

The Investment Property Division experienced an increase in 2010 in revenues, net operating income and divisional earnings. Rental rates and occupancy rates have remained stable during 2010.

Comparison of same asset NOI from portfolio assets held during both years is $23,766,000 for the year ended December 31, 2010 which compares to $22,785,000 for the year ended December 31, 2009 – an increase of 4.3% or $981,000. NOI growth from these assets is expected to continue over the next few years in spite of a softening office market, as leases continue to turn over at higher renewal rental rates. While the growth in operational performance is partly a result of recent acquisitions, the majority of the growth is a result of better performance from the existing portfolio.

Continued focus on asset upgrades and tenant retention will result in increased revenues for the buildings. The portfolio has the advantage of a modest lease turnover annually over the next 4 years, reducing the risk of significant blocks of space becoming vacant in any one given year.

SELECTED FINANCIAL BENCHMARKS

($000s)	**2010**	2009	2008	2007	2006
Commercial properties net book value	**189,176**	153,463	126,426	119,871	84,276
Manufactured home community and related assets net book value	**2,703**	2,748	2,813	2,879	2,941
Tenant leasing costs	**17,056**	14,031	9,312	8,188	6,509
Asset book value	**208,935**	170,242	138,551	130,938	93,726
Financing [1]	**(204,356)**	(160,743)	(134,638)	(103,906)	(75,685)
Net investment	**4,579**	9,499	3,913	27,032	18,041
EBITDA [1]	**22,203**	19,666	17,605	12,149	8,969
NOI as % of rental revenue [2]	**59.1%**	59.2%	56.9%	56.7%	55.5%
Earnings from operations as % of net investment [2]	**105.4%**	112.2%	43.6%	20.1%	17.1%
Divisional earnings as % of net investment [2]	**128.9%**	117.2%	186.1%	20.1%	82.6%
EBITDA as % of asset book value [2]	**11.7%**	12.7%	13.1%	10.8%	10.3%
% assets financed [2]	**97.8%**	94.4%	97.2%	79.4%	80.8%

[1] See "Non-GAAP Financial Measures" section
[2] See "Calculations" in "Non-GAAP Financial Measures" section

PROPERTY HOLDINGS

Location/Name	Year Acquired	Units	Site Size (Square Feet)	% Leased 2010	% Leased 2009
RESIDENTIAL PROPERTIES					
Edmonton, Alberta					
Edward Street Apartments	2006	11	N/A	82	100
Southern United States					
Pebble Creek, Texas	2010	240	N/A	92	N/A
Dakotas at Camelback, Arizona	2009	64	N/A	89	92
MANUFACTURED HOME COMMUNITY					
Calgary, Alberta					
Watergrove (*)	1995	308	N/A	100	100
OTHER REVENUE ASSETS					
Edmonton Region, Alberta					
104 Street Parking Lot #1	2001	28	N/A	-	-
104 Street Parking Lot #2	2002	28	N/A	-	-
102 Street Parking Lot	2009	45	15,000	-	-
Royal Bank Parkade	2005	330	N/A	-	-
Jasper Avenue Development Site	2005	N/A	25,000	-	-
Leduc Common (land leases)	2003-2005	N/A	336,000	-	-
Calgary Region, Alberta					
Chestermere Station (land leases) (*)	2006-2009	N/A	80,000	-	-
Kelowna, British Columbia					
Richter Street Parking Lot	2007	26	7,500	-	-
Saskatchewan					
Saskatchewan Industrial Warehouses	2010	2	559,000	-	-
Executive Terrace Parking Lot	2007	59	16,000	-	-

(* Joint Venture)

Location/Name	Year Acquired	Rentable Square Feet Office	Retail	Total	% Leased 2010	% Leased 2009
BUILDINGS						
Edmonton Region, Alberta						
Melton Building	1973	100,803	12,130	112,933	90	93
Corinthia Plaza	1975	-	23,143	23,143	100	100
Westcor Building	1978	59,024	12,811	71,835	100	100
Princeton Place	1999	50,110	8,448	58,558	79	100
Capilano Centre (*)	1999	68,508	28,578	97,086	81	96
100 Street Place	2000	41,221	3,074	44,295	100	90
Birks Building	2001	24,801	9,884	34,685	70	75
Westgate Business Centre	2001	74,845	-	74,845	79	95
Glentel Building	2002	15,968	-	15,968	100	100
Associated Centre	2002	55,119	19,205	74,324	95	91
Leduc Common	2003-2010	-	133,336	133,336	99	98
Sterling Business Centre	2003	67,909	-	67,909	43	99
Stanley Buildings	2004	33,432	-	33,432	93	93
Royal Bank Building	2005	118,493	17,191	135,684	93	89
Westgrove Common	2006-2010	-	13,059	13,059	100	100
Market at Magrath	2006-2009	38,140	40,221	78,361	98	100
Premier Audio Building	2008	-	6,000	6,000	100	100
Miller Crossing	2009	-	11,827	11,827	100	-
Calgary Region, Alberta						
Kingsview Market	2010	-	36,003	36,003	89	-
Kensington Road Building	1980	17,867	5,984	23,851	100	100
Crowfoot Centre	2002	44,787	23,699	68,486	94	99
Chestermere Station (*)	2006-2010	-	79,750	79,750	92	93
Lethbridge, Alberta						
Lethbridge Centre (*)	2007	114,716	312,481	427,197	74	81
Regina, Saskatchewan						
University Park Plaza	1981	-	41,206	41,206	100	100
Executive Terrace	2007	42,843	-	42,843	100	100
Towers Mall	2007	-	115,999	115,999	96	95
Market Mall	2007	-	42,553	42,553	79	50
Parliament Place	2007	24,411	-	24,411	95	95
Kelowna, British Columbia						
Kelowna Business Centre	2006	35,653	36,429	72,082	80	97
Richter Street	2007	28,978	-	28,978	91	95
2010 Total with JV interest @ 100%		**1,057,628**	**1,033,011**	**2,090,639**	**87**	
2010 Total net of JV interest		**966,016**	**822,607**	**1,788,623**	**88**	
2009 Total with JV interest @ 100%		1,043,019	983,021	2,026,040		91
2009 Total net of JV interest		958,356	765,087	1,723,444		93

(* Joint Venture)

PROPERTY TRANSACTIONS

The Division had the following additions in 2010:

- On June 1, 2010 the Division closed on the purchase of a 240 unit residential complex comprising 11.5 acres near Houston, Texas, at a purchase price (including acquisition costs) of $US 20,632,000, and assumed a $US 16,167,000 mortgage. During the second quarter, the Division acquired 50 condominium units in Phoenix, Arizona.
- During the fourth quarter, the Division acquired two industrial warehouse buildings in North Battleford, Saskatchewan located on over 550,000 sq. ft. of land, with warehouse space of 110,000 sq. ft. at an acquisition price of $2,400,000.
- During the year, the Division also acquired nine properties transferred from the Property Development Division (as described in section – "Property Development Operations"). These properties include 3 buildings in the Edmonton Region (located in Westgrove Common and Leduc Common) and six retail buildings in the Calgary region (located in Chestermere station and Kingsview Market). These transfers added an additional 65,800 sq. ft. (at 100% JV interest) to the Investment Property portfolio in the current year.

The Division sold its Crowfoot Circle land lease in the current year, which resulted in a $1,650,000 gain for the Division.

FINANCING

The Division normally finances its assets with fixed rate long-term mortgage financing. The advantages of this strategy include:

- Reduction of interest rate risk as mortgages are financed over fixed terms of five to fifteen years;
- Returns are increased due to leverage; and
- Cash flow from financing helps to fund asset acquisitions thus allowing the Division to expand its asset base.

In 2010, the Division financed six properties for gross proceeds of $60,090,000, net of joint venture interests. The Division used five lenders and achieved a weighted average interest rate of 5.1%.

See the "Financial Instruments" section of this MD&A for further information.

RISK FACTORS

The two major risks affecting the Division are retaining existing tenants and attracting new tenants. The Division is subject to the market conditions in the geographic areas where it owns properties. As these market conditions change, the ability to achieve higher occupancy rates also changes. Market conditions are influenced by outside factors such as government policies, demographics and employment patterns, the affordability of rental properties, competitive leasing rates and long-term interest and inflation rates.

Management attempts to mitigate these risks by:

- Owning properties in the vicinity of major population and employment centres, (normally in areas where we also develop land for resale);
- Diversifying the type of investment properties in the portfolio;
- Managing and participating in joint ventures;
- Purchasing properties that are below replacement value, which improves prospects for future appreciation in lease rates and property values;
- Obtaining long-term, fixed-rate financing when the features of the specific property meet conditions that generate competitive financing terms;
- Managing our buildings so as to have competitive operating costs; and
- Maintaining adequate insurance coverage to protect the Division's income stream, assets and exposure to third party claims.

RECREATIONAL PROPERTY OPERATIONS

This Division owns and manages three 18-hole championship golf courses, two of which are in the Edmonton region (The Links at Spruce Grove and Lewis Estates Golf Course, a 60% joint venture), and one in the Black Mountain region of Kelowna, British Columbia. In addition, the Division owns a 50% interest in the Jagare Ridge Golf Course in southwest Edmonton.

Strategic initiatives for 2011 - 2013 include:

- To enhance Divisional performance through revenue growth and cost savings;
- To provide a high standard of service to our customers so as to maximize their enjoyment at our golf courses; and
- To initiate construction of a new clubhouse for the Links Golf Course.

RECREATIONAL PROPERTY OPERATIONS (continued)

ANNUAL OPERATING REVIEW

($000s)	**2010**	2009	2008	2007	2006
Revenue	**6,884**	6,393	4,689	4,324	3,026
Operating costs	**(3,432)**	(3,284)	(2,707)	(2,295)	(1,708)
Net operating income (NOI) [1]	**3,452**	3,109	1,982	2,029	1,318
Interest revenue	**-**	-	5	2	-
Interest expense	**(270)**	(211)	(270)	(301)	(280)
Administration expenses	**(1,752)**	(1,534)	(1,106)	(1,143)	(630)
Depreciation expense	**(1,370)**	(1,145)	(853)	(703)	(333)
Gain/(Loss) on sale of capital assets	**14**	43	33	121	14
Divisional earnings (loss)	**74**	262	(209)	5	89

[1] See "Non-GAAP Financial Measures" section

QUARTERLY OPERATING REVIEW

($000s)	Q1 2010	Q2 2010	Q3 2010	Q4 2010	**Total 2010**
Revenue	69	2,766	3,455	594	**6,884**
Operating costs	(258)	(1,172)	(1,338)	(664)	**(3,432)**
Net operating income (NOI) [1]	(189)	1,594	2,117	(70)	**3,452**
Interest expense	(49)	(69)	(91)	(61)	**(270)**
Administrative expenses	(331)	(640)	(527)	(254)	**(1,752)**
Depreciation expense	(143)	(448)	(507)	(272)	**(1,370)**
Gain/(Loss) on sale of capital assets	-	7	7	-	**14**
Divisional earnings (loss)	(712)	444	999	(657)	**74**

[1] See "Non-GAAP Financial Measures" section

SELECTED FINANCIAL BENCHMARKS

($000s)	**2010**	2009	2008	2007	2006
Golf courses and related assets - Asset cost	**24,563**	24,114	20,109	18,336	11,861
Golf courses and related assets - Accumulated depreciation	**(6,889)**	(5,555)	(4,533)	(3,751)	(3,336)
Asset cost	**17,674**	18,559	15,576	14,585	8,525
Financing [1]	**(6,882)**	(4,367)	(4,750)	(5,091)	(4,790)
Net investment	**10,792**	14,192	10,826	9,494	3,735
EBITDA [1]	**1,714**	1,618	909	1,007	702
NOI as % of revenue [2]	**50.1%**	48.6%	42.3%	46.9%	43.6%
Divisional earnings as % of net investment [2]	**0.7%**	2.1%	(2.1%)	0.1%	3.8%
EBITDA as % of asset cost [2]	**9.5%**	7.3%	8.9%	6.7%	6.7%
% assets financed [2]	**38.9%**	23.5%	30.5%	34.9%	56.2%

[1] See "Non-GAAP Financial Measures" section
[2] See "Calculations" in "Non-GAAP Financial Measures" section

Current year revenues are higher than 2009 primarily due to a full season of operations at the Black Mountain course in Kelowna, British Columbia. All golf courses had positive contributions to cash from operations which were $1,430,000 for the year (2009 - $1,364,000).

OPERATIONAL ACTIVITY

The courses are maintained consistent with the adopted objectives of a recognized championship public golf course. This sustains a positive economic balance between the level of the course fees, the number of rounds attracted and the level of enjoyment experienced by our customers as it relates to course conditions. All courses have a reputation of consistently being in excellent condition overall. The Black Mountain golf course hosted a number of charity tournaments during the year as a means to develop a positive and prestigious image in the community, as well as attract and maintain a loyal customer group.

EQUIPMENT / ASSETS

The Division purchases and maintains recognized brand name groundskeeping equipment, which allows grounds crews to perform a superior job. Golf carts are replaced every 6 to 8 years. The Division is planning on initiating the construction of a new clubhouse for the Links at Spruce Grove. Once completed, all clubhouses for the courses which are managed by the Division will be considered state of the art.

FINANCING

The Division's financing goals are similar to those of the Investment Property Division (i.e. to obtain long-term fixed rate financing).

Currently, the Lewis Estates Golf Course is financed with a variable rate mortgage and is part of a comprehensive financing arrangement which also includes a term loan on future development lands. The Links at Spruce Grove was refinanced in the current year with a variable rate mortgage that matures in July 2011. Also during the current year, the Black Mountain Golf Course was financed with a $3,000,000 fixed rate mortgage. There is currently no mortgage financing in place on the Jagare Ridge Golf Course.

RISK FACTORS

The primary risk factor is to continue to attract golfers to play at the Division's golf courses. Golf course results are subject to weather, number of playing days, competition from other courses, the amount of disposable income available to customers to spend on recreational activities, popularity of the sport and the cost of providing desirable playing conditions.

Management attempts to mitigate these risks by:

- Owning golf courses near high population areas;
- Keeping green fees competitive, but sufficient to maintain a high standard of course conditions;
- Servicing the corporate golf tournament business, which increases the number of sold out days and provides revenue on marginal weather days;
- Building good practice facilities at the courses and by providing excellent professional golf instruction; and
- Practicing efficient, courteous and professional customer relations to encourage patrons to return.

LIQUIDITY

Management believes that with the projected level of operations for 2011 and the availability of funds under the established credit facility, mortgage financings and the convertible debenture issued subsequent to year end, the Company will have sufficient capital to fund its operations.

The Company is relatively conservative as it relates to its use of debt to finance its operations. This is evidenced by the debt to equity ratio (total debt divided by total equity as per the balance sheet) over the past 5 years which is as follows:

	2010	2009	2008	2007	2006
	1.26 to 1	1.17 to 1	1.28 to 1	1.54 to 1	1.22 to 1

The Company has an ongoing requirement to finance its operations. The Company has a credit facility syndicate with a major chartered bank. Under the terms of this facility, the Company pledges specific agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral. This credit facility may be terminated by the bank upon one year's notice and may be modified to meet the Company's needs.

A summary of the credit facility is as follows:

($000s)	**2010**	2009	2008	2007
Supportable credit limit	**146,330**	126,800	129,300	155,900
Credit limit approved	**153,400**	155,700	157,400	109,770
Credit used	**53,651**	68,026	79,502	85,629

The Company's supportable credit limit is calculated based on a formula and tests as required by the bank. The supportable credit limit is calculated based on agreements receivable balances and land inventory. As such, the supportable limit fluctuates in response to increases or decreases in these balance sheet accounts. Management monitors the supportable credit limit very closely and keeps the bank informed at all times of its current collections and inventory production plans.

In addition to the credit facility above, the Company can raise equity and obtain debt financing as discussed in the "Capital Resources" section of this MD&A.

CASH FLOWS

The Company generated $61,130,000 in cash from operating activities during 2010 versus $42,232,000 in the prior year. Cash generated from operating earnings was higher in 2010 by $21,832,000 over the amount generated from operating earnings in the prior year. An increase in agreements receivable during the year was offset by changes in the Company's other operating assets and liabilities.

The Company used $39,132,000 in cash for investing activities which compares to $24,949,000 used in the prior year. The main difference is that the Company invested $15,221,000 in the purchase of land inventory as compared to $425,000 in 2009.

The Company used $19,544,000 in financing activities which is primarily due to debt repayments during the year exceeding loan advances, and payments made to shareholders. Operating line borrowings decreased by $14,375,000. Repayment of debt on land inventory was $21,879,000 during the year. Debt on investment properties increased by $30,045,000 which is comprised of new financing of $46,150,000 less repayments of $16,105,000. The Company also raised $472,000 from the issuance of share capital resulting from the exercising of employee share options. The Company used $3,234,000 of funds for the purchase of Common Shares under a normal course issuer bid in 2010; there was not a similar purchase in 2009. Dividends paid during the year used $10,573,000 in cash versus $7,521,000 used in the prior year.

Contractual obligations include:

		Payments Due by Period			
($000s)	**Total**	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Long term debt	**415,255**	45,469	58,531	42,719	268,536
Operating leases	**385**	123	247	15	-
Contractual commitments	**-**	-	-	-	-
Total contractual obligations	**415,640**	45,592	58,778	42,734	268,536

CAPITAL RESOURCES

The Company does not have any capital commitments other than what has already been disclosed in the notes to the consolidated financial statements.

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

Credit facility:

The Community Development Division uses a bank line of credit which margins the land development assets of the Company. These credit lines are used to fund the operations of the Company. Due to the current low prime borrowing rates, the Company has benefited by being able to borrow at rates fluctuating with prime. The cost of borrowing on a floating basis is low when compared to historical cost of funds. In the prior year, the Company was experiencing some borrowing pressure as the Community Development Division had extended repayment terms to its builders for agreements receivable, negatively impacting the Company's margining ability. In the current year, these extended receivables have been collected. As a result of these collections, and along with a strong inflow of new receivables due from 2010 sales, the Company can now support 100% of its approved limit under its main syndicated operating facility.

Mortgage financing:

The Investment Property Division uses fixed rate, long term mortgage financing on its revenue producing assets to raise capital. Financing terms have tightened over the past years as a result of the credit crisis experienced in 2008 and 2009. The effect to the Company has not been significant, given that the market value of the investment property assets have risen as a result of increased rental revenues. As such, the Company is still able to finance increased loan amounts from its existing portfolio of buildings. As of late, the Company has seen a greater appetite from traditional lenders to lend with terms that continue to be more competitive with each passing month. The current year saw new mortgage rates achieved by the Company from Canadian lending institutions as low as 3.94% ranging to 5.13%. The Company also assumed a loan from a US bank at 6.06%.

CONVERTIBLE DEBENTURE

Subsequent to December 31, 2010, the Company successfully completed the issue and sale of $40,000,000, 6.25% convertible unsecured subordinated debentures. The issue closed on February 8, 2011 with a maturity date of February 8, 2017. The debentures are convertible at the option of the holder at any time prior to maturity at a conversion price of $18.51 per share. From the period of February 1, 2014 until January 31, 2016, the Company will have the option to redeem the Debentures at a price equal to their principal amount, plus any accrued and unpaid interest, provided the weighted average trading price of the common shares is 125% of the conversion price for a specified period of time. Commencing February 1, 2016, the Company will have the option of redeeming the Debentures at a price equal to their principal amount plus any accrued and unpaid interest.

Of the total $40,000,000 issued, $22,000,000 of the convertible debenture was issued to companies controlled by two directors of the Company who are also management of the 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 all of the Company's current operations, and not allocated to one specific purpose. The Company anticipates that this infusion of cash will further facilitate the organization's growth plans. Assuming the debentures are not converted until maturity, this will also mean a $2,500,000 annual cash interest payment for each of the next six years.

OTHER SOURCES

The Company could obtain additional cash required for capital expenditures from the following sources:

EQUITY

The Company does not have any plans to raise equity from the issuance of common or preferred shares, other than related to the Company's existing share option plans and convertible debenture. The Company has issued stock options to its employees. As these options become vested, they can be exercised by the employee, thus raising share capital for the Company. If all outstanding options are exercised at their earliest date, the Company stands to raise $7,145,100 in share capital by the end of 2013. See the "Outstanding Share Data" section in this MD&A for further information.

DEBT

The Company could obtain additional financing from the following sources:

- Use of current credit facility. The Company could generate cash through the use of the remaining limit on the Company's current credit facility (see the "Liquidity" section of this MD&A for further information);
- Refinance existing investment property assets for greater mortgage proceeds (see the "Financial Instruments" section of this MD&A for further information). The Company currently has significant equity in properties which are up for renewal during 2011 and 2012, which could generate net cash proceeds in excess of $26,000,000;
- Place interim or take-out financing for properties under development within the Property Development Division. The Property Development Division successfully transferred assets to the Investment Property Division in the current year at total transfer prices of $28,998,000 (see "Property Development" section of this MD&A for further information). Of this transfer price, $20,526,300 represents assets on which no specific financing is yet placed.
- Place new financing on other unencumbered assets.

OFF BALANCE SHEET ARRANGEMENTS

LETTERS OF CREDIT

The Company has an ongoing requirement to provide letters of credit to municipalities as part of the subdivision plan registration process. These securities would provide a source of funds to the municipalities that would allow them to complete the construction of the subdivision should the Company not be able to. The amount of any particular letter of credit is reduced at various stages of construction. Once the municipality issues a certificate acknowledging completion of the project, the letter of credit is cancelled.

The Company records the estimated cost of completion, for all single family lots and parcels (i.e. multi-family, commercial and industrial sites) sold as a "Provision for land development costs" liability in the balance sheet. The amount of individual letters of credit will normally exceed the related liability recorded in the accounts due to the timing of the ongoing expenditures which are incurred as the project is being developed, compared to the timing of reductions in the balance of the corresponding letter of credit.

The Company's letter of credit facility is part of the Company's overall credit facility that was negotiated with a major Canadian chartered bank. The Company's letter of credit balances over the past three years, net of joint venture interests are:

($000s)	**2010**	2009	2008
Total facility	**61,674**	59,709	60,827
Amount outstanding	**(32,248)**	(30,437)	(36,245)
Available for issue	**29,426**	29,272	24,582

JOINT VENTURE GUARANTEES

The Company has a history of conducting a significant portion of its business through joint ventures as a way of diversifying development and investment risk. Currently, Melcor is a participant and/or manager of twenty-two joint ventures. As manager, the Company has arranged appropriate credit facilities for all active joint ventures which margin pre-development work, agreements receivable and lot inventory to provide a line of credit facility to accommodate development activities. In some cases, the Company's guarantee for these facilities goes beyond the Company's proportionate share of the liability. The following table illustrates guarantees made by the Company related to joint venture agreements:

($000s)	**2010**	2009	2008
Net loan guarantees	**3,081**	6,268	9,769
Letter of credit guarantees	**10,026**	6,597	7,586
Amounts secured by joint venture agreements	**13,107**	12,865	17,355

To mitigate the possibility of financial loss, Melcor is diligent in its selection of joint venture participants. As well, Melcor has 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.

JOINT VENTURE ACTIVITY

The Company uses the proportionate consolidation method to account for its joint ventures. The following table illustrates selected financial data related to joint ventures at 100% as well as the net portion relevant to Melcor.

JOINT VENTURE ACTIVITY AT 100%

($000s)	**2010**	2009	2008	2007	2006
Revenue	**116,472**	49,101	57,812	93,173	104,665
Earnings	**37,847**	12,506	21,787	48,822	31,945
Assets	**509,859**	366,124	335,977	333,854	225,677
Liabilities	**186,121**	130,188	138,149	109,815	110,881

MELCOR'S PORTION (30.0% - 75.0%)

($000s)	**2010**	2009	2008	2007	2006
Revenue	**59,513**	25,553	26,999	50,489	55,572
Earnings	**19,137**	6,510	10,346	26,398	17,157
Assets	**263,705**	183,970	191,117	192,600	120,963
Liabilities	**100,265**	68,790	72,003	67,772	56,045

The activities of the twenty-two joint ventures are as follows:

- (2) Commercial Property;
- (1) Manufactured Home Community;
- (2) Active land development and golf course operations;
- (2) Active land development with commercial property development activities;
- (5) Active land development activities;
- (8) Non-active land development with activities expected to commence in 2-4 years; and
- (2) Non-active land development in the process of being wound up.

CRITICAL ACCOUNTING ESTIMATES

The Company's most significant estimates relate to measuring cost of sales in the Community Development Division which sells parcels of land prior to all costs being committed or known. These estimates are necessary to facilitate the reporting of earnings. The nature of the land development industry includes lengthy time frames to complete all municipal requirements.

When the Community Development Division obtains plan registration for a new phase of a subdivision, the estimated total cost to build the phase is determined and once a lot sale is recorded, the estimated unexpended portion of that cost is set up as a liability in the "Provision for land development costs".

The Division uses independent consultants to help in the preparation of construction budgets, which tend to be conservative in nature. When actual development costs related to the subdivision are incurred, they are applied against the provision.

At least once per year, actual costs are reviewed against the budget and revisions are made when the estimated unexpended portion of the provision is known to be significantly different from the revised estimate to complete the project.

The most significant factors causing revisions to estimates are as follows:

- Increases / decreases to contract amounts from when they are estimated to when they are actually awarded;
- Changes in costs that are contracted by the unit and the number of units vary from the estimate (i.e. volume of earth required to be moved); and
- Other changes typical in a construction environment where future events and uncertainty cannot be reasonably predicted, such as contingencies and allowances for those items which can only be estimated within a range of values and are known only after project completion.

Other significant estimates relate to valuations of agreements receivable and land inventory in the Community Development Division.

Interest bearing agreements receivable arise from and are secured by specific real estate sold in the Community Development Division, and are generally due within one year of origination. Management monitors agreements receivable for indications of impairment on an ongoing basis. Balances are reduced to their estimated realizable amounts when there is doubt regarding collection of the full amount of principal and interest. Estimated realizable amounts are measured by discounting the expected future cash flows at the original effective interest rate inherent in the receivables. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are measured at the fair value of the security underlying the receivable, net of expected costs of realization. Significant assumptions relevant to these estimates relate to the financial condition of borrowers, the value of the underlying security, and economic trends impacting the real estate markets in which the Company participates.

While this provision reflects managements' best estimate, it is subject to measurement uncertainty introduced by the impact of the uncertain economic environment as noted in the assumptions listed above. As a result, material revisions to this estimate may be required in future periods.

Land inventory carried in the Community Development Division is recorded at the lower of cost and net realizable value and comprises undeveloped land costs, capitalized carrying costs related to holding the land, and development costs to build infrastructure. Net realizable value is an entity specific value and refers to the net amount the Company expects to realize from the sale of inventory in the ordinary course of business. Determination of net realizable value of land inventory requires estimation of expected selling prices in the ordinary course of business, and estimates of costs of completion and costs required to make the sale. The Company generally does not acquire raw land for resale, but rather purchases and develops land to be sold as serviced industrial, commercial or residential lots. Management estimates net realizable value by incorporating available market information into estimates of expected sales prices, holding, development and selling costs, and resulting profit margins. While historic and projected profit margins generated by this division have been sufficient to support the carrying value of the Company's land inventory, it is possible that a severe and/or prolonged downturn in the markets serviced by the Company could result in impairment of the carrying amount of inventory. Uncertainty in the current economic environment makes it reasonably possible that estimates of net realizable value may change materially in the near term.

The market conditions of the past four years have been volatile with market demand growing rapidly until mid 2007, followed by a cooling until mid 2008 and a dramatic slowdown through to early 2009. Since then, the market has picked up and would be considered to be closer to historical levels at this time. This recent volatility has increased the risk of making estimation errors.

CHANGES IN ACCOUNTING POLICIES INCLUDING PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED

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

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

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

IFRS Conversion Plan

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

The conversion plan consists of the following three phases:

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

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

2) Design, planning and solution phase – This phase focused on determining the specific impact on the Company based on the application of the IFRS requirements. Accounting policies are substantially finalized, first-time adoption exemptions have been considered, draft financial statements and disclosures are prepared and a detailed implementation plan and timeline has been developed and is being reviewed and updated on a regular basis. This phase also includes the development of a training plan.

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

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

The Company is now working on the implementation phase, which is expected to be complete by the first quarter of 2011, while post implementation review will commence in the second quarter of 2011. To date, we are on target with the timeline established in our detailed work plan. The Company expects to file their first quarter financial statements under IFRS within the required time frame, utilizing a portion of the 30 day filing extension granted by the Alberta Securities Commission to transitioning companies.

Management has provided, for review, a draft of our January 1, 2010, opening statement of financial position in accordance with IFRS to our external auditors and Audit Committee. The following outlines their preliminary assessment of the impact of adopting IFRS on the January 1, 2010 transition date. Management is now in the process of finalizing IFRS-compliant information for comparative reporting purposes in 2011 as well as our assessment of the impact IFRS will have on our business activities as described below. IFRS training for key financial staff impacted by IFRS has been completed, and the Company continues to provide training and information to our Audit Committee and Board of Directors. The Company also continues to deliver our communication plan, informing key internal and external stakeholders about the anticipated effects of the IFRS transition, and to provide status updates to the Audit Committee.

Impact of Adoption of IFRS

Set out below are the key areas where changes in accounting policies are expected to impact the Company's audited consolidated financial statements. This list, and these comments, should not be regarded as a complete account of changes that will result from the IFRS transition. It is intended to highlight those areas believed to be the most significant; however, changes to other areas have been identified. The differences described below are those existing based on previous Canadian GAAP and current IFRS. The Company continues to monitor standard developments issued by the International Accounting Standards Board and regulatory developments issued by the Canadian Securities Administrators that may affect the timing, nature, or disclosure of our adoption of IFRS. Consequently, the following is a preliminary analysis of the impacts of conversion on the consolidated opening statement of financial position. Circumstances may arise, such as changes in IFRS standards or in interpretations of IFRS standards, which could alter this information. The amounts have not been audited or subject to review by the Company's external auditor.

Presentation

The adoption of IAS 1 is expected to result in several changes to the format of the financial statements, in expanded note disclosure, and in different classification and presentation of line items in the consolidated balance sheet and consolidated statements of income. The Audit Committee has been provided with a draft set of financial statements and the Company is now in the process of preparing full IFRS note disclosures for the committee's review. The financial statement presentation will evolve as the impacts of implementing the various standards are quantified.

IFRS 1: First-Time Adoption of IFRS

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

a) Business combinations

IFRS 1 states that a first-time adopter may elect not to apply IFRS 3, Business Combination retrospectively to business combinations that occurred before the date of transition to IFRS. The Company intends to make this election in order to only apply IFRS 3 to business combinations prospectively (i.e. to those that occur on or after January 1, 2010). This will have no impact on our opening balance sheet.

b) Cumulative translation differences

International Accounting Standards ("IAS") 21, The Effects of Changes in Foreign Exchange Rates, requires an entity to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from periods prior to the date of transition to IFRS. The Company expects to deem all cumulative translation differences to be zero on transition to IFRS. As a result, the January 1, 2010 cumulative translation adjustment balance of $1,512,000 will be reclassified, adjusting the accumulated other comprehensive income to $nil and decreasing retained earnings by $1,512,000.

c) Borrowing costs

IAS 23, Borrowing Costs, requires an entity to capitalize the borrowing costs related to all qualifying assets. IFRS1 allows an entity to apply the requirements related to borrowing costs to qualifying assets for which the commencement date for capitalization is on or after its transition date or an earlier designated date. The Company elected to apply IAS 23 prospectively from its transition date (i.e. January 1, 2010). As such, this will have no impact on the opening balance sheet.

d) Share-based payment transactions

On first time adoption of IFRS the requirements of IFRS 2, Share-based Payment, apply to all grants of equity settled transactions made after November 7, 2002 that have not yet vested at the transition date. A company may also choose to apply IFRS 2 to any equity instruments that were granted before November 7, 2002, or that were granted after that date, and vested before the date of transition, but only if the company has previously disclosed the fair value of the instrument, determined at the measurement date. The Company has elected to apply IFRS 2 to all share-based payments that had not yet vested at the transition date. This will have no impact on the opening balance sheet.

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

Investment properties (IAS 40)

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

The use of the fair value model will have a material impact on the Company's balance sheet given that the majority of the Company's investment properties have a fair value significantly higher than their current amortized cost. Management has substantially completed their assessment of the impact of the above and has determined that the effect at the date of transition will be an increase of $203,500,000. Fair values have been determined based on third party valuations.

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

Inventories (IAS 2)

The Company has determined that its land inventory does not qualify as an investment property under IAS 40, and instead is classified as Inventory under IFRS. All land inventory therefore falls under Inventories IAS 2 for reporting in IFRS. There are no differences between the Canadian GAAP standard for Inventories and IAS. As such, there is no impact to the balance sheet or income statement on transition. IAS 2 requires that inventory is recorded at the lower of cost and net realizable value and not at fair value.

Provision (IAS 37)

It is the Company's current practice under Canadian GAAP to record a "Provision for land development costs" at the time a lot is sold. Under the guidance of IAS 37, this provision will be recorded at a point in time before the lots are sold, and as such, on transition will have the impact of increasing the "Provision for land development costs" by $20,600,000 with a corresponding increase to land inventory.

Property, Plant & Equipment (IAS 16)

IAS 16 provides companies with the option for Property, Plant & Equipment ("PP&E") to be accounted for under the cost model or the revaluation model. The cost model is similar to current Canadian GAAP standards which requires initial recognition at cost, and after initial recognition at cost less accumulated depreciation. The revaluation model requires that subsequent to initial recognition, PP&E whose fair value can be reliably measured should be carried at a revalued amount, being fair value, less any subsequent accumulated depreciation. The standard allows a company to use different models for different classes of assets.

The Company's golf course assets are currently recorded in our Canadian GAAP statements in the line item "Investment Properties". However, under IAS 40, these assets do not meet the definition of an Investment Property. As such, the costs associated with the golf courses will be reclassified from "Investment properties" to "Capital assets" and accounted for under IAS 16. This will have an impact to the balance sheet of a reduction of investment properties of $18,559,000 and an increase to capital assets of the same amount. This reclassification has no impact on earnings.

Management has determined that all classes of PP&E, including golf course assets, will be accounted for under the cost model as defined in IAS 16. There is an IFRS 1 transitional election that allows companies to elect fair value to be deemed cost on transition to IFRS for any asset included in PP&E. Management does not anticipate taking this election for any assets.

Impairment of Assets (IAS 36)

There are differences in the methodology used to determine if an asset should be impaired under IFRS compared to that under previous GAAP. The previous GAAP rules provided for a two-step test, with no impairment being required if the undiscounted future expected cash flows relating to an asset are higher than the carrying value of that asset. Under IFRS, the undiscounted cash flows are not considered and an impairment is recorded where the recoverable amount (defined as the higher of 'value in use' and 'fair value less costs to sell') is below the asset's carrying value. As a result, impairments were required for certain assets under IFRS that were not recorded under previous GAAP.

Management has substantially completed their assessment of the impact of the above and has determined that the effect at the date of transition will be to decrease the book value of certain golf course assets included within property, plant and equipment by $5,700,000.

Income Taxes (IAS 12)

IFRS and Canadian GAAP accounting for income taxes are similar. However, various changes in accounting policies under IFRS will impact the corresponding deferred tax asset or liability. Because of various changes in accounting policies under IFRS, the most significant of which is the adjustment for the fair values of the Company's investment properties, it is estimated that the deferred tax assets will increase by $1,100,000 and deferred tax liabilities will increase by $41,000,000.

Other areas of change

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

Borrowing costs (IAS 23)

IAS 23 requires that borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset be capitalized as part of the cost of that asset (includes both specific and general borrowing costs). Other borrowing costs should be recognized as expense in the period in which they are incurred.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made.

This is a departure from the Company's current Canadian GAAP accounting policy. There will be no impact to the balance sheet on transition because the Company has elected the IFRS 1 exemption disclosed above. However, on an ongoing basis, the application of this IFRS accounting standard will have an impact on the interest expense reported by the Company. A quantification of this amount is not yet available.

Interests in joint ventures (IAS 31)

Under IAS 31, an entity may account for interests in joint ventures using either the equity method or the proportionate consolidation method. Canadian GAAP requires the use of the proportionate consolidation method to account for joint ventures. In 2007, the International Accounting Standards Board (IASB) issued an exposure draft to amend IAS 31, thereby restricting proportionate consolidation, however the IASB postponed the finalization of the draft. Since proportionate consolidation, the Company's current method of accounting for joint ventures, is permitted under the current IAS 31, management has decided to maintain it as the current accounting policy choice. As a result, the adoption of IAS 31 will have no effect on the balance sheet or income statement.

Tenant leasing costs

Under Canadian GAAP, tenant leasing costs are capitalized and amortized on a straight line basis over the term of the related lease agreement. This amortization is included in amortization expense for presentation purposes on the income statement. Under IAS 17 "Leases", the capitalization process remains the same, however the amortization expense is shown as a net charge against revenue. This will have no impact on earnings.

Opening consolidated Balance Sheet under IFRS at January 1, 2010

As indicated above, during 2010, management completed work to quantify January 1, 2010 balances under IFRS. In summary, on transition to IFRS, opening shareholders' equity at January 1, 2010 is estimated to increase by an estimated $157,900,000. The most significant adjustments impacting opening shareholders' equity are described in further detail in the related sections above and are summarized in the unaudited table below. This information reflects most recent views, assumptions, and expectations. However, circumstances may arise, such as changes in IFRS standards or in interpretation of IFRS standards, which could alter this information. The amounts have not been audited or subject to review by the Company's external auditor.

Opening IFRS Balance Sheet Adjustments

Standard	Balance Sheet Category	Description of Change	Increase (Decrease) to Shareholders' Equity (in 000's)
IFRS 1	Accumulated other comprehensive income	Transitional election to reset the cumulative translation account to $nil	No impact
IAS 40	Investment Properties	Recognition of opening fair value adjustment on investment properties	203,500
IAS 37	Provision	Recognition of provision for completion of unsold lots	No impact
IAS 16	Property Plant & Equipment	Reclassification of golf courses to PP&E (not qualifying as Investment Properties)	No impact
IAS 36	Property Plant & Equipment (Impairment)	Recognition of impairment of golf course assets	(5,700)
IAS 12	Income Taxes	Recognition of effect of changes above on deferred tax liability	(39,900)
Total estimated after-tax impact on shareholders' equity at January 1, 2010			**157,900**

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's management, including the President & Chief Executive Officer and the Vice-President Finance & Chief Financial Officer, has reviewed and evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in National Instrument 52-109 of the Canadian Securities Administrators) as of December 31, 2010.

Management has concluded that, as of December 31, 2010, the disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the Corporation and its consolidated subsidiaries and joint ventures would be made known to them by others within those entities, particularly during the period in which this report was being prepared. Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

During the year ended December 31, 2010, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

In accordance with NI 52-109, management designed and assessed the effectiveness of internal controls over financial reporting as of December 31, 2010, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that, as of December 31, 2010, internal control over financial reporting was effective.

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

FINANCIAL INSTRUMENTS

Financial instruments consist of cash and cash equivalents, accounts receivable, agreements receivable, bank operating loan, accounts payable and accrued liabilities, debt on land inventory and debt on investment properties. The Company believes that the fair value of financial instruments approximates their carrying values, except as described in the consolidated financial statements. The fair value of cash and cash equivalents, accounts receivable, bank operating loan and accounts payable and accrued liabilities approximate their carrying value due to their short-term nature.

The fair value of agreements receivable are estimated based on the interest bearing nature of these instruments which are at rates consistent with market rates for debt instruments with similar terms to maturity. The fair value of debt on land inventory and debt on investment properties are estimated based on quoted market rates for similar instruments with similar terms.

Agreements receivable are a financing tool used by the Company to assist builders to acquire lots. Normal terms include repayment within one year, interest at prime plus two percent after any provision for an interest relief period and an above market interest rate for balances that are past due. The Company retains full security until the agreement receivable has been collected. The Company seldom incurs bad debt losses in relation to agreements receivable.

Debt on land inventory is normally comprised of loans on the acquisition of land that are primarily held by the land vendor (fixed rate financing with repayments over 3 to 10 years) or from financial institutions (variable rate financing with repayments over 3 to 5 years).

In addition, the Company may obtain financing from a financial institution in order to commence major infrastructure in a new community or obtain project financing when the borrowing requirement falls outside the normal parameters that are currently met with a line of credit. This type of loan usually has floating rates of interest tied to prime. The following table illustrates the changes in debt on land inventory over the past five years:

DEBT ON LAND INVENTORY

($000s)	**2010**	2009	2008	2007	2006
Balance at beginning of the year	**65,556**	79,688	106,565	72,440	50,478
New loans	**32,452**	3,038	5,294	54,261	46,205
Effective interest rate accretion	**358**	-	-	-	-
Repayments	**(21,879)**	(17,170)	(32,171)	(20,136)	(24,243)
Balance at end of the year	**76,487**	65,556	79,688	106,565	72,440
Weighted average effective interest rate	**5.0%**	4.8%	5.4%	5.3%	5.5%

Debt on investment properties in the amount of $211,238,000 reflects financing placed on investment properties that have a net book value of $184,407,000. The following carry forward table illustrates the changes in debt on investment properties over the past five years:

DEBT ON INVESTMENT PROPERTIES

($000s)	**2010**	2009	2008	2007	2006
Balance at beginning of the year	**165,110**	148,634	135,413	89,869	69,432
New mortgage financing (net)	**46,150**	37,800	49,518	43,450	28,244
Loans assumed	**16,083**	-	-	4,668	-
Repayments	**(16,105)**	(21,324)	(36,297)	(2,574)	(7,807)
Balance at end of the year	**211,238**	165,110	148,634	135,413	89,869

Debt on investment properties includes loans which are normally fixed rate and long-term in nature. Rates are negotiated at a pre-agreed benchmark bond rate plus a spread and are negotiated with different lenders to ensure competitive terms and multiple sources. Loan maturity dates are spread out so as to reduce associated loan renewal risks. The following table represents cumulative loan amounts due for renewal over the next thirteen years for fixed rate mortgages (including the golf courses):

Year	Loan Renewal Amount ($)	Weighted Average Current Interest Rates	Number of Loans
2011	16,146,000	4.9%	5
2012	30,534,000	5.9%	9
2013	38,132,000	5.3%	8
2014	25,688,000	5.8%	2
2015	38,969,000	4.8%	5
2016	19,351,000	5.9%	2
2018	4,148,000	6.2%	1
2020	12,797,000	5.2%	4

OUTSTANDING SHARE DATA

The Company has only one class of Common Shares issued. The issuance of the voting Common Shares is as follows:

OUTSTANDING SHARES (#)	**2010**	2009	2008	2007	2006
At beginning of the year	**30,283,730**	29,779,830	31,189,830	31,055,720	30,755,620
Stock options exercised	**103,400**	503,900	121,700	134,110	300,100
Shares purchased and cancelled	**(277,500)**	-	(1,531,700)	-	-
At end of the year	**30,109,630**	30,283,730	29,779,830	31,189,830	31,055,720

OUTSTANDING STOCK OPTIONS (#)	**2010**	2009	2008	2007	2006
At beginning of the year	**1,029,300**	1,265,300	993,000	962,110	1,216,610
Stock options granted	**506,500**	286,900	407,700	169,200	53,600
Stock options exercised	**(103,400)**	(503,900)	(121,700)	(134,110)	(300,100)
Stock options forfeited	**(9,333)**	(19,000)	(13,700)	(4,200)	(8,000)
At end of the year	**1,423,067**	1,029,300	1,265,300	993,000	962,110

The maximum stock options which could be exercised in the future, based on existing employee stock option programs, are summarized in the table below. The amounts reflected represent only those options which are currently in the money. These amounts could change if new stock options are granted or if existing options expire or are forfeited. It may also change if the Company's share price were to increase above the current out of the money grant's exercise prices. Also, it could change if employees defer the exercise of their stock options to periods subsequent to their vesting period.

EXERCISABLE STOCK OPTIONS	2011	2012	2013
Maximum "in the money" options exercisable in the future (#)	791,500	260,133	168,800
Maximum increase in share capital ($)	4,801,400	1,671,300	672,400

FOURTH QUARTER

The earnings from the fourth quarter of 2010 were up from the prior year. The increase in earnings was primarily due to increased quarter over quarter sales of land inventory in the Community Development Division, as well as an increased contribution by the Property Development Division.

The history of the past (4) fourth quarter results are as follows:

	For the three months ended December 31st			
($000s)	**2010**	2009	2008	2007
Revenue	**85,253**	48,872	41,758	67,693
Cost of sales	**(40,118)**	(27,648)	(16,670)	(29,061)
	45,135	21,224	25,088	38,632
Interest revenue	**532**	154	1,337	1,982
Interest expense	**(3,687)**	(2,969)	(2,820)	(2,893)
General and administrative expenses	**(4,965)**	(3,540)	(4,293)	(3,172)
Amortization expense	**(2,574)**	(2,549)	(2,209)	(1,769)
Gain on sale	**1,650**	30	50	-
Foreign exchange gain	**-**	111	-	-
Earnings before income tax expense	**36,091**	12,461	17,153	32,780
Income tax expense	**(8,897)**	(2,543)	(2,749)	(7,517)
Net earnings for the period	**27,194**	9,918	14,404	25,263
Basic earnings per common share	**0.90**	0.33	0.47	0.82
Diluted earnings per common share	**0.89**	0.33	0.47	0.79

Segmented information for the fourth quarter is as follows:

	For the three months ended December 31, 2010			For the three months ended December 31, 2009		
REVENUE ($000s)	**Segment Revenue**	**Intersegment Eliminations**	**External Revenue**	Segment Revenue	Intersegment Eliminations	External Revenue
Community development	**72,779**	**(5)**	**72,774**	37,719	(5)	37,714
Property development	**18,417**	**(18,398)**	**19**	4,721	(4,720)	1
Investment property	**12,124**	**(238)**	**11,886**	10,986	(242)	10,744
Recreation property	**594**	**(20)**	**574**	445	(32)	413
	103,914	**(18,661)**	**85,253**	53,871	(4,999)	48,872
EARNINGS ($000s)	**Segment Earnings**	**Intersegment Eliminations**	**External Earnings**	Segment Earnings	Intersegment Eliminations	External Earnings
Community development	**36,993**	**118**	**37,111**	13,964	41	14,005
Property development	**5,067**	**(5,358)**	**(291)**	577	(760)	(183)
Investment property	**3,171**	**-**	**3,171**	1,297	-	1,297
Recreation property	**(657)**	**-**	**(657)**	(774)	-	(774)
	44,574	**(5,240)**	**39,334**	15,064	(719)	14,345
Non-allocated items:						
Interest income			**-**			15
Interest expense			**(527)**			(583)
General and administrative expenses			**(2,716)**			(1,427)
Foreign exchange gain			**-**			-
Earnings before income tax expense			**36,091**			12,461
Income tax expense			**(8,897)**			(2,543)
Net earnings for the period			**27,194**			9,918

NON-GAAP FINANCIAL MEASURES

Melcor uses several non-GAAP measures in evaluating and measuring certain performance results. These non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers.

Non-GAAP measures include:

- Net Operating Income (NOI) – this measures revenue less direct operating expenses.
- Earnings before interest, taxes (income), depreciation and amortization (EBITDA) – this measure is often used in the real estate industry because it isolates earnings before income taxes (at Melcor's divisional level, income taxes are not applicable), interest expense, depreciation and amortization to measure operating performance. Interest expense can distort the comparable performance of a property as it depends on the amount of financing carried by the property and the interest rate charged on the loan. Depreciation expense can vary depending on depreciation policies, age of the property and depreciable value of the property. Melcor includes amortization of tenant leasing costs as an expense and does not include gains/(losses) on sales of properties in arriving at EBITDA for the Investment Property Division.

A reconciliation of EBITDA to GAAP segmented earnings is as follows:

INVESTMENT PROPERTY DIVISION

($000s)	2010	2009	2008	2007	2006
EBITDA	**22,203**	19,666	17,605	12,149	8,969
Interest income	**25**	15	51	33	36
Interest expense	**(9,875)**	(7,773)	(6,874)	(4,699)	(3,811)
Amortization of investment properties	**(4,930)**	(4,385)	(4,038)	(2,959)	(2,303)
Gain on sale of investment properties	**1,650**	339	22,052	-	11,108
Segmented earnings	**9,073**	7,862	28,796	4,524	13,999

RECREATION PROPERTY DIVISION

($000s)	2010	2009	2008	2007	2006
EBITDA	**1,714**	1,618	909	1,007	702
Interest income	**-**	-	5	2	-
Interest expense	**(270)**	(211)	(270)	(301)	(280)
Depreciation expense	**(1,370)**	(1,145)	(853)	(703)	(333)
Segmented earnings	**74**	262	(209)	5	89

The following is a reconciliation of Financings amounts used in calculations in the divisional analysis to the GAAP measure of debt on investment properties:

($000s)	2010	2009	2008	2007	2006
Investment Property Division financing	**204,356**	160,743	134,638	103,906	75,685
Recreation Property Division financing	**6,882**	4,367	4,750	5,091	4,790
Property Development Division financing	**-**	-	9,246	26,416	9,394
Debt on investment properties	**211,238**	165,110	148,634	135,413	89,869

CALCULATIONS

The Company uses the following calculations in measuring the performance of its Divisions:

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

b) NOI as % of rental revenue = net operating income / revenue

c) Earnings from operations as % of net investment = Earnings from operations / average net investment, i.e. [(opening net investment + closing net investment) / 2]

d) Divisional earnings as % of net investment = Division earnings / average net investment, i.e. [(opening net investment + closing net investment) / 2]

e) EBITDA as % of asset cost or asset book value = EBITDA / average asset cost or asset book value, i.e. [(opening asset cost or book value + closing asset cost or book value) / 2]

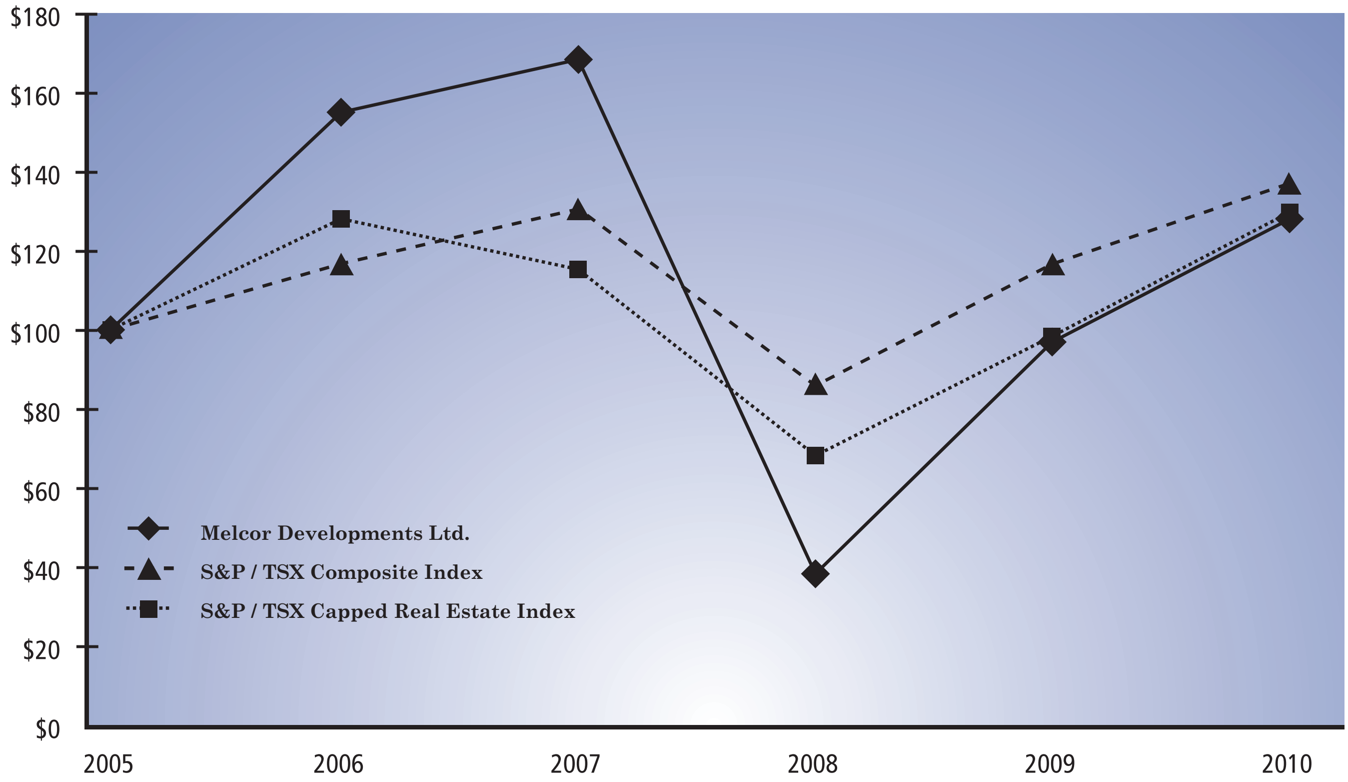
f) % of assets financed = debt / assets

g) Same building calculation = this compares the results of a building owned if it is owned for the entire current and prior years.

PERFORMANCE CHART

DECEMBER 31, 2005 - DECEMBER 31, 2010

The following chart illustrates Melcor's five-year cumulative total shareholder return, assuming an initial investment of $100 with all dividends reinvested versus the return on the S&P / TSX Composite Index and the S&P / TSX Capped Real Estate Index.



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

March 8, 2011

To the Shareholders of Melcor Developments Ltd.

We have audited the accompanying consolidated financial statements of Melcor Developments Ltd., which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009 and the consolidated statements of earnings and retained earnings, comprehensive income and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Melcor Developments Ltd. as at December 31, 2010 and December 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Edmonton, Alberta

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the years ended December 31 ($000s)	**2010**	2009
Revenue	**193,027**	136,608
Cost of sales	**(98,551)**	(77,224)
	94,476	59,384
Interest income	**2,130**	1,906
Interest expense (Note 16)	**(12,742)**	(11,491)
General and administrative expenses	**(14,884)**	(11,101)
Amortization expense	**(9,761)**	(8,241)
Gain on sale of investment properties and capital assets	**1,664**	382
Foreign exchange gain	**-**	357
Earnings before income taxes	**60,883**	31,196
Income tax (expense) recovery (Note 11)		
Current	**13,397**	(8,418)
Future	**(2,430)**	446
	(15,827)	(7,972)
Net earnings for the year	**45,056**	23,224
Retained earnings, beginning of the year	**314,457**	298,754
Dividends	**(10,573)**	(7,521)
Cost of common shares purchased in excess of stated capital	**(3,113)**	-
Retained earnings, end of the year	**345,827**	314,457
Basic earnings per share (Note 14)	**1.49**	0.78
Diluted earnings per share (Note 14)	**1.48**	0.77

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31 ($000s)	**2010**	2009
Net earnings for the year	**45,056**	23,224
Other comprehensive loss		
Unrealized losses on translation of financial statements of self sustaining foreign operation	**(467)**	(1,282)
Comprehensive income	**44,589**	21,942

CONSOLIDATED BALANCE SHEET

As at December 31 ($000s)	2010	2009
ASSETS		
Cash and cash equivalents	**6,391**	3,947
Accounts receivable	**12,992**	10,306
Income taxes recoverable	**-**	1,450
Agreements receivable (Note 3)	**97,474**	81,316
Land inventory (Note 4)	**457,047**	413,667
Investment properties (Note 5)	**214,543**	180,123
Capital assets (Note 6)	**400**	439
Deferred costs and other assets (Note 7)	**20,406**	16,955
	809,253	708,203
LIABILITIES		
Bank operating loan (Note 8)	**53,651**	68,026
Accounts payable and accrued liabilities	**30,243**	17,707
Income taxes payable	**4,592**	-
Provision for land development costs	**50,265**	43,154
Debt on land inventory (Note 9)	**76,487**	65,556
Debt on investment properties (Note 10)	**211,238**	165,110
Future income taxes (Note 11)	**24,560**	22,130
	451,036	381,683
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	**13,354**	13,003
Contributed surplus (Note 12 (f))	**1,015**	572
Retained earnings	**345,827**	314,457
Accumulated other comprehensive loss (Note 13)	**(1,979)**	(1,512)
	358,217	326,520
	809,253	708,203

SIGNED ON BEHALF OF THE BOARD

PER: ______________________ Director

PER: Ralph Y-P ______________________ Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31 ($000s)	**2010**	2009
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net earnings for the year	**45,056**	23,224
Non cash items:		
Amortization of investment properties	**6,298**	5,530
Amortization of tenant leasing costs	**3,341**	2,578
Amortization of capital assets	**122**	133
Stock-based compensation expense (Note 12 (f))	**443**	136
Gain on sale of investment properties	**(1,664)**	(382)
Future income taxes	**2,430**	(446)
	56,026	30,773
Agreements receivable	**(16,158)**	8,740
Development activities (Note 21)	**9,510**	19,130
Operating assets and liabilities (Note 21)	**11,752**	(16,411)
	61,130	42,232
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of land inventory (Note 4)	**(15,221)**	(425)
Proceeds from sale of investment properties	**1,966**	695
Investment property additions	**(20,508)**	(17,837)
Tenant leasing cost additions	**(5,286)**	(7,305)
Capital asset additions	**(83)**	(77)
	(39,132)	(24,949)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Bank operating loan	**(14,375)**	(11,076)
Proceeds from land development financing (Note 9)	**-**	2,763
Repayment of debt on land inventory (Note 9)	**(21,879)**	(17,170)
Proceeds from investment property financing	**46,150**	37,800
Repayment of debt on investment properties	**(16,105)**	(21,324)
Dividends paid	**(10,573)**	(7,521)
Share capital issued (Note 12 (a))	**472**	1,804
Common shares purchased (Note 12 (a))	**(3,234)**	-
	(19,544)	(14,724)
Foreign exchange loss on cash held in foreign currency	**(10)**	(400)
Increase in cash and cash equivalents during the year	**2,444**	2,159
Cash and cash equivalents, beginning of the year	**3,947**	1,788
Cash and cash equivalents, end of the year	**6,391**	3,947

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Melcor Developments Ltd. (the "Company") is a real estate development company with land, property development, investment property and recreation property divisions. The Company develops and manages mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres, and golf courses. The Company operates in Canada and the southern United States.

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The consolidated financial statements have been prepared within the framework of the accounting policies summarized below.

a) Basis of consolidation

These consolidated financial statements include:

(i) The accounts of Melcor Developments Ltd. and its wholly-owned subsidiary companies (the "Company"):
Melcor Developments Arizona, Inc.
Melcor Lakeside Inc.
Stanley Investments Inc.

(ii) Investments in twenty-two joint ventures (2009 – twenty) are accounted for using the proportionate consolidation method.

b) Use of estimates

The precise determination of many assets and liabilities is dependent upon future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgement. Significant areas requiring the use of management estimates relate to the impairment of agreements receivable, the net realizable value of land inventory, determination of the provision for land development costs and potential contingencies. Actual results could differ from those estimates.

c) Recognition of revenue

Revenue is recognized in each business segment as follows:

(i) Community Development – revenue from the sale of land is recognized when a minimum 15% of the sale price has been received, the sale is unconditional and possession has been granted.

(ii) Investment Property – rental revenue from properties is recognized over the term of the related lease agreement.

(iii) Recreation Property – revenue from golf courses is recognized as services are provided.

d) Capitalization of costs

(i) Community Development – The Company capitalizes all direct costs relating to land inventory including carrying costs such as property taxes, interest on debt specifically related to the project and other costs net of any rental income that may be received. General administrative overhead expenses are not allocated or capitalized to properties.

(ii) Property Development and Investment Property – For acquired and constructed properties, building revenues and operating costs are capitalized as part of the cost of the property until the property is 75% occupied by tenants, subject to a reasonable period dependent on the nature of the property.

e) 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.

f) Land inventory

Land inventory is recorded at the lower of cost and net realizable value and includes undeveloped land costs, capitalized carrying costs related to holding the land and development costs to build infrastructure. The estimated unexpended portion of costs to complete building the infrastructure, which are classified as "Provision for land development costs", are recorded as a liability at the time that a lot sale is recorded. Adjustments are made to the liability with a corresponding adjustment to cost of sales as actual costs are incurred.

The cost of land and carrying costs are allocated to each phase of development on a prorated acreage basis 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.

g) Investment properties

Commercial properties and the manufactured home community are amortized using the straight line method based upon an estimated useful life of 40 to 60 years. Golf courses and related assets are amortized using the straight line method based upon their estimated useful lives at rates from 4% to 30%.

1. ACCOUNTING POLICIES (continued)

h) Capital assets

Capital assets are amortized using the declining balance method of amortization, over their estimated useful lives, at rates from 10% to 30%.

i) Deferred costs and other assets

Deferred costs and other assets includes prepaid expenses, sundry assets and tenant leasing cost. These assets are amortized on a straight line basis over the estimated useful lives or lease period and are recorded at the lower of cost less accumulated amortization and net realizable value.

j) Impairment of long lived assets

Long lived assets include investment properties, capital assets and tenant leasing costs. An impairment is recognized when the carrying value of an asset exceeds the total undiscounted cash flows expected from its use and eventual disposition. The impairment recognized, is measured as the amount by which the carrying value exceeds its fair value.

k) Income taxes

Future income taxes are recognized at substantively enacted tax rates for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period that includes the date of substantive enactment.

l) Foreign currency translation

The Company's foreign operation is of a self-sustaining nature. Assets and liabilities of the foreign operation are translated at the exchange rates in effect at the balance sheet date and revenues and expenses are translated at average exchange rates for the year. Gains or losses on translation are recognized as other comprehensive income or loss.

m) Per share amounts

The Company uses the treasury stock method for calculation of diluted earnings per share under which deemed proceeds from the exercise of stock options are considered to be used to reacquire common shares at an average share price.

n) Stock option plan

The Company uses the fair value based method of accounting for stock options issued to employees. Under this method, 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. The Company accrues compensation cost assuming all options granted will vest, and recognizes the effect of actual forfeitures as they occur.

o) Asset retirement obligation

The Company has a conditional asset retirement obligation relating to the removal of asbestos in one of its investment properties. The Company believes that there is insufficient information to estimate the fair value of the asset retirement obligation because the settlement date or the range of potential settlement dates has not been specified by others and information is not available to apply an expected present value technique. As a result, the Company has not recorded a conditional asset retirement obligation in these financial statements.

p) Financial instruments

The Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable and agreements receivable are classified as loans and receivables, which are measured at amortized cost subsequent to initial recognition at fair value. Bank operating loan, accounts payable and accrued liabilities, debt on land inventory and debt on investment properties are classified as other financial liabilities, which are measured at amortized cost subsequent to initial recognition at fair value. Transaction costs related to debt financing are expensed as incurred.

2. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

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

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

3. AGREEMENTS RECEIVABLE

Agreements receivable are due within one year except for $53,347,000 which is due in 2012 and $604,000 which is due in 2013 (2009 - $17,144,000 due in 2011). Subsequent to the interest adjustment date, which provides an interest relief period to qualifying registered builders, these receivables earn interest at prime plus two percent (5.0% at December 31, 2010 and 4.25% at December 31, 2009) and are secured by the specific real estate sold. A provision of $51,000 (2009 - $566,000) is recorded at December 31, 2010.

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

4. LAND INVENTORY

($000s)	2010	2009
Undeveloped land and carrying costs	**288,086**	245,409
Pre-development costs	**50,566**	54,701
Developed land inventory cost	**118,395**	113,557
	457,047	413,667

During the year the Company purchased 653 acres of land at a cost of $47,673,000 (2009 - $700,000) and received vendor financing in the amount of $32,452,000 (2009 - $275,000).

Land inventory expensed to cost of sales during the year was $78,969,000 (2009 - $56,269,000).

The net realizable value exceeds the carrying cost of all land inventory at December 31, 2010, such that no provisions for impairment are required.

5. INVESTMENT PROPERTIES

($000s)			2010			2009
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Commercial properties	**216,143**	**(26,967)**	**189,176**	175,608	(22,145)	153,463
Properties under development	**4,990**	**-**	**4,990**	5,353	-	5,353
Manufactured home community and related assets	**3,501**	**(798)**	**2,703**	3,497	(749)	2,748
Golf courses and related assets	**24,563**	**(6,889)**	**17,674**	24,114	(5,555)	18,559
	249,197	**(34,654)**	**214,543**	208,572	(28,449)	180,123

6. CAPITAL ASSETS

($000s)			2010			2009
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture	**873**	**(566)**	**307**	845	(494)	351
Computer hardware	**324**	**(279)**	**45**	290	(256)	34
Computer software	**254**	**(206)**	**48**	233	(179)	54
Other buildings and equipment	**31**	**(31)**	**-**	31	(31)	-
	1,482	**(1,082)**	**400**	1,399	(960)	439

7. DEFERRED COSTS AND OTHER ASSETS

($000s)	2010	2009
Tenant leasing costs	**17,056**	14,031
Other investments	**2,070**	2,070
Deposits	**590**	315
Sundry prepaids	**345**	172
Sundry inventory	**345**	367
	20,406	16,955

The Company incurred tenant leasing costs of $6,366,000 during the year (2009 - $7,305,000), and recorded $3,341,000 (2009 - $2,586,000) of amortization expense.

8. BANK OPERATING LOAN

The Company has an available credit facility with approved loan limits of $153,400,000 (2009 - $155,700,000) with a major chartered bank. The portion of these loan limits that pertain solely to the Company is $120,000,000 (2009 - $120,000,000) with the remaining balance pertaining to specific joint ventures.

The amount of the total credit facilities currently used is $53,651,000 (2009 - $68,026,000). The Company has pledged agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral for its credit facility. This facility may be terminated by the bank upon one year's notice. Depending on the form under which the credit facility is accessed, rates of interest will vary between prime plus 1.0% to prime plus 2.25% or banker's acceptance rates plus a 3.0% stamping fee resulting in interest rates ranging from 4.00% to 5.25% at December 31, 2010 (2009 – 3.25% to 4.50%).

9. DEBT ON LAND INVENTORY

($000s)	2010	2009
Agreements payable with interest at the following contractual rates:		
Fixed rates of 0.00% - 6.25%	**56,573**	42,876
Variable rates of prime plus 1.25% to prime plus 1.50%		
(4.25% - 5.00% at Dec. 31/10 and 3.25% - 3.50% at Dec. 31/09)	**19,914**	22,680
	76,487	65,556

During the year, the Company received vendor financing on land purchases of $32,452,000 (2009 - $275,000), obtained bank financing of $nil (2009 - $2,763,000) and made debt repayments of $21,879,000 (2009 - $17,170,000). Debt on land is initially recorded at fair value and subsequently recorded at amortized cost calculated using the effective interest rate method.

Specific land inventory with a book value of $189,162,000 (2009 - $177,021,000) has been pledged as collateral for the above debt. The weighted average effective interest rate of agreements payable, based on year end balances, is 5.03% (2009 – 4.78%).

The fair value of debt on land inventory is estimated based on quoted market rates for similar instruments with similar terms. There is no significant difference between the weighted average effective interest rate on fixed rate debt and the rates currently available to the Company; therefore the carrying value approximates fair value.

The agreements mature from 2011 to 2017 and the minimum contractual payments due within each of the next five years are as follows:

($000s)	
2011	23,449
2012	18,226
2013	6,237
2014	5,957
2015	2,694
Thereafter	23,275
	79,838

Included in the thereafter portion above is $18,000,000 due July 29, 2020. The principal payments for the agreement are based on the number of acres developed by the Company. The first eighty acres developed trigger a principal repayment of $75,000 per acre; the remaining acres trigger a principal repayment of $60,000 per acre, not to exceed the total payment of $18,000,000. There is uncertainty regarding the timing of the future repayments, and as a result repayments have been determined based on the contractual obligation to repay the full amount when due.

10. DEBT ON INVESTMENT PROPERTIES

($000s)	2010	2009
Mortgage amortized over 10 years with interest at prime plus 1.25%		
(4.25% at Dec. 31/10 and 3.50% at Dec. 31/09), maturing March 2012	**1,254**	1,439
Mortgage, maturing July 2011, with interest at prime plus 1.10%		
(4.10% at Dec. 31/10)	**2,709**	-
Project loan, maturing October 2011, with interest at prime plus 2.0%		
(5.0% at Dec. 31/10 and 4.25% at Dec. 31/09)	**5,000**	5,000
Mortgages amortized over 15 to 30 years at fixed rates varying from		
3.94% - 7.53% (2009: 4.80% - 7.53%)	**202,275**	158,671
	211,238	165,110

10. DEBT ON INVESTMENT PROPERTIES (continued)

Debt on investment properties is initially recorded at fair value and is subsequently recorded at amortized cost calculated using the effective interest rate method.

As at December 31, 2010 $15,992,000 (2009 - $nil) of debt on investment properties was payable in US dollars (US$16,078,000) (2009 – US$nil).

Specific investment properties with a net book value of $184,407,000 (2009 - $157,095,000) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above debt. The weighted average effective interest rate for the above debts, based on year end balances, is 5.4% (2009 – 5.50%).

The fair value of the debt on investment properties at December 31, 2010 is $223,527,000 (2009 - $165,110,000). Fair values are determined by discounting the future cash flows associated with the debt at market interest rates.

The agreements mature from 2011 to 2020 and the minimum contractual principal payments due within each of the next five years are as follows. In the table below, "With renewal" assumes repayments are based on similar terms at the time of the renewal of debt:

($000s)	With Renewal	Without Renewal
2011	11,073	21,974
2012	6,403	35,562
2013	6,751	42,746
2014	7,116	29,298
2015	7,501	81,658
Thereafter	172,394	-
	211,238	**211,238**

11. INCOME TAXES

($000s)	2010	2009
Future income tax liabilities consist of the following:		
Investment property book values in excess of tax values	**6,765**	6,264
Reserve on amounts due in subsequent years	**11,400**	10,711
Interest and other costs deducted for tax purposes	**444**	476
Tenant leasing costs	**6,130**	4,930
	24,739	22,381
Future income tax assets consist of the following:		
Loss carryforward (expires in 2028)	**(179)**	(251)
Total net future income tax liability	**24,560**	22,130

The reversal of future income taxes is primarily dependent upon the timing of development and sale of the related assets and on the timing of the receipt of cash relating to agreements receivable.

Income tax expense is calculated as follows:

($000s)	2010	2009
Income tax at statutory rate (2010 – 28.0%; 2009 – 29.0%)	**17,021**	9,047
Increase (decrease) resulting from:		
Benefit recorded for capital gains realized during the year	**(232)**	(44)
Benefit of substantively enacted future tax rate reductions	**(1,099)**	(1,082)
Non deductible expenses and other	**137**	51
Income tax expense	**15,827**	7,972

Income taxes paid during the year were $7,425,000 (2009 - $4,163,000).

12. SHARE CAPITAL

a) Common Shares

	2010		2009	
	Number of Shares Issued	**Amount ($000s)**	Number of Shares Issued	Amount ($000s)
Common shares, beginning of the year	**30,283,730**	**13,003**	29,779,830	11,199
Share options exercised	**103,400**	**472**	503,900	1,804
Shares purchased and cancelled	**(277,500)**	**(121)**	-	-
Common shares, end of the year	**30,109,630**	**13,354**	30,283,730	13,003

Authorized:

Unlimited Common Shares
Unlimited Common Shares, Non-Voting
Unlimited First Preferred Shares
Unlimited First Preferred Shares, Non-Voting

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

b) Stock-Based Compensation Plans

On September 28, 2000, the Company's Board of Directors approved a stock-based compensation plan (the "2000 Plan"). Under the 2000 Plan, the Company may grant options to full-time, salaried employees and designated contractors after one year of service. The 2000 Plan requires that the option price shall not be less than the weighted average trading price for the 20 consecutive days during which shares traded on the TSX immediately prior to the granting of the stock option. The options vest at 20% per year and expire seven (7) years from the date of issuance. The 2000 Plan was approved by the Company's shareholders at the Shareholders Annual Meeting in May 2001. The Company has 254,600 shares reserved for issuance under the 2000 Plan (2009 – 294,500).

On February 23, 2007 the Company's Board of Directors approved a stock-based compensation plan (the "2007 Plan"). Under the 2007 Plan, the Company may grant options to full-time, salaried employees and designated contractors after one year of service. The 2007 Plan requires that the option price shall not be less than the weighted average trading price for the 20 consecutive days during which shares traded on the TSX immediately prior to the granting of the stock option. At the discretion of the board, the options vest over a period of three years and expire no longer than seven (7) years from the date of issuance. The 2007 Plan was approved by the Company's shareholders at the Shareholders Annual Meeting in April 2007. The Company has 2,903,600 shares reserved for issuance under the 2007 Plan (2009 – 2,967,100).

c) Stock Options Available for Granting

2000 Plan	**2010**	2009
Stock options available, beginning of the year	**77,400**	71,400
Stock options granted	**-**	-
Stock options forfeited	**-**	6,000
Stock options available, end of the year	**77,400**	77,400

2007 Plan	**2010**	2009
Stock options available, beginning of the year	**2,154,900**	2,428,800
Stock options granted	**(506,500)**	(286,900)
Stock options forfeited	**9,333**	13,000
Stock options available, end of the year	**1,657,733**	2,154,900

12. SHARE CAPITAL (continued)

d) Stock Options Outstanding Under the 2000 & 2007 Plans

	2010		2009	
	# of Options	**Weighted Average Option Price**	# of Options	Weighted Average Option Price
Stock options outstanding, beginning of the year	**1,029,300**	**9.185**	1,265,300	6.553
Stock options granted	**506,500**	**13.614**	286,900	10.940
Stock options exercised	**(103,400)**	**4.564**	(503,900)	3.580
Stock options forfeited	**(9,333)**	**10.291**	(19,000)	9.063
Stock options outstanding, end of the year	**1,423,067**	**11.089**	1,029,300	9.185

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

Stock Option Expiry Date	Outstanding Stock Options (#)	Exercise Price Per Share ($)	Stock Options Exercisable at Dec. 31, 2010
July 27, 2011	2,400	4.624	2,400
July 26, 2012	133,800	7.064	133,800
December 17, 2012	158,500	19.34	158,500
July 27, 2013	41,000	16.60	32,800
December 15, 2013	300,300	3.71	168,400
December 17, 2014	280,567	10.94	94,633
November 4, 2015	100,000	13.10	-
December 13, 2015	406,500	13.74	-
	1,423,067		590,533

f) Stock-Based Compensation Expense

The following weighted-average assumptions were used in the Black-Scholes calculations for stock options granted:

	2010	2009
Expected volatility	**52%**	54%
Risk-free interest rate	**1.82%**	1.92%
Annual dividend rate	**4.04%**	3.81%
Expected life of options in years	**4.5**	3

The weighted average grant date fair value of stock options granted during the year was $4.52 per stock option (2009 - $3.35). Current year vesting of options resulted in a $443,000 (2009 - $136,000) charge to stock-based compensation expense and corresponding credit to contributed surplus.

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

($000s)	**2010**	2009
Balance, beginning of the year	**(1,512)**	(230)
Other comprehensive loss	**(467)**	(1,282)
Balance, end of the year	**(1,979)**	(1,512)

This adjustment represents the net unrealized foreign currency translation loss on the Company's net investment in its self-sustaining foreign operation.

14. PER SHARE AMOUNTS

(#)	2010	2009
Basic weighted average common shares outstanding during the year	**30,234,889**	29,847,538
Dilutive effect of options	**293,264**	211,853
Diluted weighted average common shares	**30,528,153**	30,059,391

Basic net earnings per share is calculated by dividing the Company's net earnings by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated to give dilutive effect to share options.

Stock options expiring on December 17, 2012 and July 27, 2013, totalling 199,500 options (2009 – 200,500 options), have been excluded from the calculation of 2010 diluted earnings per share due to their anti-dilutive effect.

15. FINANCIAL GUARANTEES

In the normal course of operations, the Company issues letters of credit as security for the completion of obligations pursuant to development agreements signed with municipalities. At December 31, 2010 the Company had $32,248,000 (December 31, 2009 - $30,437,000) in letters of credit outstanding and recorded a net liability of $50,265,000 (December 31, 2009 - $43,154,000) 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.

The Company enters into joint venture agreements and, in doing so, may take on risk beyond its proportionate interest in the joint venture. These situations generally arise where preferred financing terms can be arranged on the condition that the strength of the Company's covenant will backstop that of the other joint venture participant(s) who also provide similar guarantees. The Company will have to perform on its guarantee only if a joint venture participant was in default of their guarantee. At December 31, 2010 the Company had guaranteed $3,081,000 (2009 - $6,268,000) in loans and $10,026,000 (2009 - $6,597,000) in letters of credit in support of other participant's 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, the Company is diligent in its selection of joint venture participants. As well, the Company has 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.

16. INTEREST EXPENSE

($000s)	2010	2009
Interest on bank operating loan	**2,597**	3,960
Interest on debt – land and properties under development	**3,075**	3,277
Interest on debt – investment properties	**10,145**	7,531
	15,817	14,768
Less capitalized interest	**(3,075)**	(3,277)
	12,742	11,491

Cumulative interest capitalized on land inventory at the end of the year is $19,483,000 (2009 - $17,700,000). Interest paid during the year was $15,189,000 (2009 - $14,893,000).

17. JOINT VENTURES

The table below discloses the Company's proportionate share of the assets, liabilities, revenue, earnings and cash flow information of twenty-two joint ventures (2009 – twenty) that are proportionately consolidated in these financial statements. The Company's proportionate interest of these joint ventures ranges from 30% - 75% ownership.

					CASH FLOWS FROM (USED IN)		
($000s)	Assets	Liabilities	Revenue	Earnings	Operating Activities	Investing Activities	Financing Activities
2010	**263,705**	**100,265**	**59,513**	**19,137**	**10,739**	**(31,848)**	**24,060**
2009	183,970	68,790	25,553	6,510	15,427	(4,039)	(12,033)

18. SEGMENTED INFORMATION

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business unit requires different management skills and marketing strategies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

In the following schedules, earnings from operations before income tax expense has been calculated for each segment by deducting from revenues of the segment all direct costs and administrative expenses which can be specifically attributed to the segment, as this is the basis for measurement of segment performance. Common costs, which have not been allocated, are the costs of corporate debt and general corporate expenses.

The allocation of these costs on an arbitrary basis to the segments would not assist in the evaluation of the segments' contributions.

Inter-segment transactions are entered into under terms and conditions similar to those with unrelated third parties. Any inter-segment sales and the unrealized profits therefrom, have been eliminated.

Community Development

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

Property Development

This division develops investment properties which, when constructed and at least 75% leased, are transferred to the Investment Property Division which will hold and manage the asset. The transfer is at the Company's estimate of fair value and is recorded as revenue in the Property Development Division.

Investment Property

This division owns 54 leasable commercial and retail buildings (2009 – 45 buildings) and other rental income producing assets such as residential property, parking lots and land leases.

Recreation Property

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

FOREIGN SUBSIDIARY

The Company has a wholly owned subsidiary with operations in southern United States, which includes a Community Development division and an Investment Property division. The subsidiary's related balances are below.

($000s)	**2010**	2009
External revenue	**2,101**	302
Land inventory	**2,703**	-
Investment properties	**25,354**	4,182

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

The amounts of revenue and net loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period are $1,540,000 and $41,000 respectively.

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

OTHER SEGMENTED INFORMATION

	Amortization		Capital Expenditures		Total carrying value of identifiable assets	
($000s)	**2010**	2009	**2010**	2009	**2010**	2009
Community development	**-**	-	**-**	-	**569,877**	502,038
Property development	**-**	-	**13,902**	9,625	**5,121**	6,080
Investment property	**8,269**	6,963	**33,219**	10,141	**208,831**	173,692
Recreation property	**1,370**	1,145	**497**	4,050	**18,085**	19,310
Common	**122**	133	**83**	77	**7,341**	7,083
	9,761	8,241	**47,701**	23,893	**809,253**	708,203

18. SEGMENTED INFORMATION (continued)

REVENUE ($000s)	**Segment Revenue** (For the year ended December 31, 2010)	**Intersegment Eliminations** (2010)	**External Revenue** (2010)	Segment Revenue (For the year ended December 31, 2009)	Intersegment Eliminations (2009)	External Revenue (2009)
Community development	**145,128**	**(3,253)**	**141,875**	91,839	(67)	91,772
Property development	**29,053**	**(28,998)**	**55**	36,825	(36,750)	75
Investment property	**45,247**	**(952)**	**44,295**	39,443	(970)	38,473
Recreation property	**6,884**	**(82)**	**6,802**	6,393	(105)	6,288
	226,312	**(33,285)**	**193,027**	174,500	(37,892)	136,608

EARNINGS ($000s)	**Segment Earnings** (2010)	**Intersegment Eliminations** (2010)	**External Earnings** (2010)	Segment Earnings (2009)	Intersegment Eliminations (2009)	External Earnings (2009)
Community development	**62,290**	**(816)**	**61,474**	30,102	41	30,143
Property development	**7,593**	**(8,463)**	**(870)**	10,712	(11,387)	(675)
Investment property	**9,073**	**-**	**9,073**	7,862	-	7,862
Recreation property	**74**	**-**	**74**	262	-	262
	79,030	**(9,279)**	**69,751**	48,938	(11,346)	37,592
Non-allocated items:						
Interest income			**75**			172
Interest expense			**(1,958)**			(2,676)
General and administrative expenses			**(6,985)**			(4,249)
Foreign exchange gain			**-**			357
Earnings before income tax expense			**60,883**			31,196
Income tax expense			**(15,827)**			(7,972)
Net earnings for the year			**45,056**			23,224

INTEREST ($000s)	**Per Segment** (2010)	**Intersegment Eliminations** (2010)	**Per Financial Statement** (2010)	Per Segment (2009)	Intersegment Eliminations (2009)	Per Financial Statement (2009)
Interest Income:						
Community development	**2,030**	**-**	**2,030**	1,719	-	1,719
Property development	**-**	**-**	**-**	-	-	-
Investment property	**25**	**-**	**25**	15	-	15
Recreation property	**-**	**-**	**-**	-	-	-
Non-allocated	**194**	**(119)**	**75**	172	-	172
	2,249	**(119)**	**2,130**	1,906	-	1,906
Interest Expense:						
Community development	**(758)**	**119**	**(639)**	(831)	-	(831)
Property development	**-**	**-**	**-**	-	-	-
Investment property	**(9,875)**	**-**	**(9,875)**	(7,773)	-	(7,773)
Recreation property	**(270)**	**-**	**(270)**	(211)	-	(211)
Non-allocated	**(1,958)**	**-**	**(1,958)**	(2,676)	-	(2,676)
	(12,861)	**119**	**(12,742)**	(11,491)	-	(11,491)

19. MANAGEMENT OF CAPITAL RESOURCES

The Company defines capital as share capital, contributed surplus, accumulated other comprehensive income and retained earnings. The Company's objective when managing capital is to manage and utilize debt to improve the performance of the Company, support the growth of its assets, and finance capital requirements arising from the cyclical nature of the Company's business. Specifically, the Company plans to utilize shorter term debt for financing infrastructure, land inventory, receivables and development activities and to utilize longer term debt and equity for the purchase of property and land assets.

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

There were no changes to the way the Company defines its capital, its objectives, and its policies and processes for managing capital from the prior fiscal period.

The Company is subject to financial covenants on its $120,000,000 credit facility. The covenants include a maximum debt to total capital ratio, a minimum interest coverage ratio, and a minimum book value of shareholder's equity. The Company has financial covenants on certain mortgages for investment property. At December 31, 2010 the Company was in compliance with its financial covenants. Management prepares financial forecasts to monitor the changes in its debt and capital levels and ability to meet its financial covenants.

20. RISK MANAGEMENT

The Company is exposed to the following risks as a result of holding financial instruments:

a) Credit Risk

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

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

The Company manages its credit risk in the Investment Property Division through careful selection of tenants and looks to obtain national tenants or tenants in businesses with a long standing history, or performs financial background checks including business plan review for smaller tenants. The Company manages its credit concentration risk in the Investment Property Division by renting to an expansive tenant base, with no dependency on rents from any one specific tenant.

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

Management has reviewed all agreements receivable balances as at December 31, 2010 and considered the following in assessing credit risk:

(1) The credit quality of agreements receivable that are neither passed due nor impaired is determined based on whether balances are due from builders on the Company's approved builder list, and based on geographical location. The approved builder list contains those builders which have a long standing track record, good volumes, positive perception in the industry, and a strong history of repayment. At December 31, 2010, 97% of agreements receivable are due from approved builders (2009 – 91%).

(2) At December 31, 2010, the Company has identified $2,068,000 (2009 - $6,806,000) in agreements receivable which have indications of possible impairment. The factors that were considered in determining that these assets may be impaired were primarily the geographic location in which the receivables were associated and agreements receivable in arrears. Management has determined on a loan by loan basis that an impairment provision of $51,000 is sufficient to cover any further collection risk on these loans (2009 – $566,000).

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

($000s)	**2010**	2009
0 - 6 months past due	**644**	3,270
Greater than 6 months past due	**1,373**	614

The Company has reviewed these agreements and expects full repayment in respect of these balances.

(3) Total loans included in agreements receivable that would have otherwise been past due or impaired at December 31, 2010, but whose terms have been renegotiated is $2,875,000 (2009 - $19,860,000). Concessions provided have been written off against the provision.

20. RISK MANAGEMENT (continued)

A summary of the movement in the provision for impairment and restructuring write off made during the year is as follows:

($000s)	2010	2009
Balance, beginning of the year	**566**	1,200
Provisions recorded during the year	**-**	1,060
Write off based on concessions provided	**(515)**	(1,694)
Balance, end of the year	**51**	566

b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk to ensure it has sufficient liquid financial resources to finance operations and meet long-term debt repayments. Management monitors rolling forecasts of the Company's liquidity, which includes cash and cash equivalents and the undrawn portion of the operating loan, on the basis of expected cash flows. In addition, management monitors balance sheet liquidity ratios against loan covenant requirements and maintains ongoing debt financing plans. The Company believes that it has access to sufficient capital through internally generated cash flows, external sources and undrawn committed borrowing facilities to meet current spending forecasts.

c) Market Risk

The Company is subject to interest rate cash flow risk as its operating credit facilities and certain of its debts on land inventory and investment properties bear interest at rates that vary in accordance with prime borrowing rates in Canada. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately $825,000 (2009 - $971,000) based upon applicable year end debt balances. This amount is partially offset by the interest earned on agreements receivable which is also subject to interest rate fluctuations. The Company is not subject to other significant market risks pertaining to its financial instruments.

The Company has net assets of a US subsidiary which are exposed to foreign currency translation risk. The Company does not actively manage this risk. A $0.01 change in US exchange rates would result in a change in other comprehensive income of approximately $74,000 (2009 - $77,000).

21. DEFINITIONS FOR STATEMENT OF CASH FLOWS

Development activities is defined as the net change of land inventory and the provision for land development costs and excludes the purchase of land inventory. Purchase of land inventory is the cost of land net of vendor financing received (see Note 4 – Land Inventory).

Operating assets and liabilities is defined as the net change of accounts receivable, deferred costs and 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 accounts payable as at year end.

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year presentation.

23. SUBSEQUENT EVENTS

On February 8, 2011, the Company completed the issue and sale of $40,000,000, 6.25% convertible unsecured subordinated debentures with a maturity date of February 8, 2017. The debentures are 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, the Company will have the option to redeem the Debentures at a price equal to their principal amount, plus any accrued and unpaid interest, provided the weighted average trading price of the common shares is 125% of the conversion price for a specified period of time. Commencing February 1, 2016, the Company will have the option of redeeming the Debentures at a price equal to their principal amount plus any accrued and unpaid interest.

The convertible debenture will be included in the Company's definition of capital and will impact the Company's policies and processes for managing capital for subsequent fiscal periods.

Of the total $40,000,000 issued, $22,000,000 of the convertible debenture was issued to companies controlled by two directors of the Company who are also management of the 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.

FIVE YEAR REVIEW

BALANCE SHEET ($000s)	**2010**	2009	2008	2007	2006
ASSETS					
Cash and cash equivalents	**6,391**	3,947	1,788	10,466	11,564
Accounts receivable	**12,992**	10,306	9,139	6,366	5,696
Income taxes recoverable	**-**	1,450	5,705	-	-
Agreements receivable	**97,474**	81,316	90,056	140,625	127,178
Land inventory	**457,047**	413,667	424,668	384,974	255,570
Investment properties	**214,543**	180,123	163,432	172,565	115,581
Capital assets	**400**	439	495	478	331
Deferred costs and other assets	**20,406**	16,955	12,699	11,291	7,007
	809,253	708,203	707,982	726,765	522,927
LIABILITIES					
Bank operating loan	**53,651**	68,026	79,502	85,629	29,599
Accounts payable and accrued liabilities	**30,243**	17,707	31,698	28,642	26,563
Income taxes payable	**4,592**	-	-	3,689	3,997
Provision for land development costs	**50,265**	43,154	35,725	51,103	39,805
Debt on land inventory	**76,487**	65,556	79,688	106,565	72,440
Debt on investment properties	**211,238**	165,110	148,634	135,413	89,869
Future income taxes	**24,560**	22,130	22,576	29,240	24,744
	451,036	381,683	397,823	440,281	287,017
SHAREHOLDERS' EQUITY	**358,217**	326,520	310,159	286,484	235,910
	809,253	708,203	707,982	726,765	522,927

STATEMENT OF EARNINGS ($000s)	**2010**	2009	2008	2007	2006
Revenue	**193,027**	136,608	108,436	207,024	203,402
Cost of sales	**(98,551)**	(77,224)	(55,581)	(96,613)	(114,286)
	94,476	59,384	52,855	110,411	89,116
Interest income	**2,130**	1,906	6,633	6,772	4,439
Interest expense	**(12,742)**	(11,491)	(12,031)	(8,968)	(6,427)
General and administrative expenses	**(14,884)**	(11,101)	(11,749)	(13,814)	(11,786)
Amortization expense	**(9,761)**	(8,241)	(7,335)	(5,178)	(3,840)
	59,219	30,457	28,373	89,223	71,502
Other gains	**1,664**	739	23,174	121	11,118
Earnings before income taxes	**60,883**	31,196	51,547	89,344	82,620
Income taxes	**(15,827)**	(7,972)	(10,526)	(25,674)	(24,849)
Net earnings for the year	**45,056**	23,224	41,021	63,670	57,771

STATISTICAL ($)		**2010**	2009	2008	2007	2006
Earnings per share	- basic	**1.49**	0.78	1.32	2.05	1.87
Earnings per share	- diluted	**1.48**	0.77	1.31	2.00	1.83
Number of shares	- year end (000s)	**30,110**	30,284	29,780	31,190	31,056
Shareholders' equity	- book value per share	**11.90**	10.78	10.42	9.19	7.60
	- total (000s)	**358,217**	326,520	310,159	286,484	235,910
Dividends	- per share	**0.35**	0.25	0.42	0.40	0.30
Share price range		**9.77-15.20**	4.00-11.49	3.25-20.27	16.51-30.47	11.50-22.25

MELCOR 2010 PERFORMANCE MEASURES (SELECTED)

	2010	% change	2009	% change	2008	% change	2007	% change	2006
ASSETS ($000s)	**809,253**		708,203		707,982		726,765		522,927
Five year change = 54.8%		14.3%		0.0%		-2.6%		39.0%	
SHAREHOLDERS' EQUITY ($000s)	**358,217**		326,520		310,159		286,484		235,910
Five year change = 51.8%		9.7%		5.3%		8.3%		21.4%	
REVENUE ($000s)	**193,027**		136,608		108,436		207,024		203,402
Five year change = -5.1%		41.3%		26.0%		-47.6%		1.8%	
GROSS MARGIN	**48.9%**		43.5%		48.7%		53.3%		43.8%
Five year average = 47.9%									
ADMIN. EXPENSES/REVENUE	**7.7%**		8.1%		10.8%		6.7%		5.8%
Five year average = 7.5%		-5.1%		-25.0%		62.4%		15.2%	
EARNINGS BEFORE TAXES ($000s)	**60,883**		31,196		51,547		89,344		82,620
Five year change = -26.3%		95.2%		-39.5%		-42.3%		8.1%	
BASIC EARNINGS PER SHARE ($)	**1.49**		0.78		1.32		2.05		1.87
Five year change = -20.3%		91.0%		-40.9%		-35.6%		9.6%	
AVERAGE SHARE PRICE ($)	**12.09**		7.49		9.43		24.21		17.90
Five year change = -32.5%		61.4%		-20.6%		-61.0%		35.3%	
DIVIDEND PER SHARE ($)	**0.35**		0.25		0.42		0.40		0.30
Five year change = 17.0%		41.4%		-40.9%		5.0%		33.3%	
DIVIDEND YIELD	**2.9%**		3.3%		4.5%		1.7%		1.7%
Five year average = 2.4%									
BOOK VALUE PER SHARE ($)	**11.90**		10.78		10.42		9.19		7.60
Five year change = 56.6%		10.3%		3.5%		13.4%		20.9%	
AVG. BOOK VALUE PER SHARE ($)	**11.34**		10.60		9.80		8.39		7.60
Five year change = 49.3%		7.0%		8.1%		16.8%		10.5%	
AVG. MARKET/AVG. BOOK	**1.07**		0.71		0.96		2.89		2.36
Five year average = 1.49									
PRICE EARNINGS RATIO	**8.1**		9.6		7.1		11.8		9.6
Five year average = 9.5									
RETURN ON EQUITY	**17.8%**		9.8%		17.3%		34.2%		39.1%
Five year average = 22.2%									
RETURN ON ASSETS	**8.0%**		4.4%		7.2%		14.3%		18.0%
Five year average = 9.8%									
DEBT/EQUITY RATIO	**1.26**		1.17		1.28		1.54		1.22
Five year average = 1.29									
ASSET TURNOVER	**23.9%**		19.3%		15.3%		28.5%		38.9%
Five year average = 24.4%									

CALCULATIONS:

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

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

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

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

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Stock Exchange Listing:
The Toronto Stock Exchange (Stock symbol: MRD)

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PricewaterhouseCoopers LLP, Chartered Accountants, Edmonton

Corporate Lawyers:
Field LLP, Calgary

Notice of Annual Meeting
The annual meeting of Shareholders will be held at the Art Gallery of Alberta (Earnest Manning Hall, Main Level, 2 Sir Winston Churchill Square, Edmonton, Alberta, Canada) on Tuesday, the 19th day of April, 2011 at 11:00 am MDT.

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