MELCOR DEVELOPMENTS LTD.

2011 Annual Report

About Melcor Developments Ltd.

We are a diversified real estate development and management company with a rich heritage of integrity and innovation in real estate since 1923.

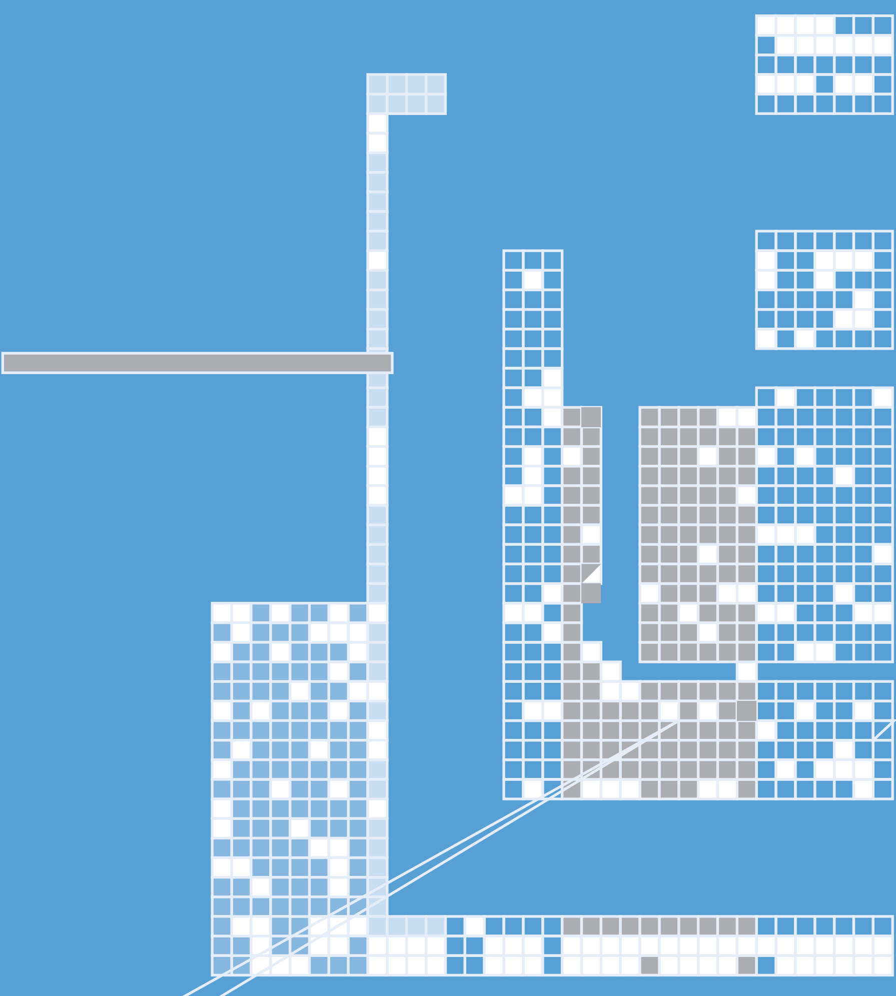
Through four integrated operating divisions, we manage the full life cycle of real estate development: from acquiring raw land, to community planning, to construction and development, to managing leasable office, retail and residential sites. We develop and manage mixed-use residential communities, business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

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

Our headquarters are in Edmonton, Alberta, with regional offices throughout Alberta and British Columbia. Our developments span western Canada and the US.

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

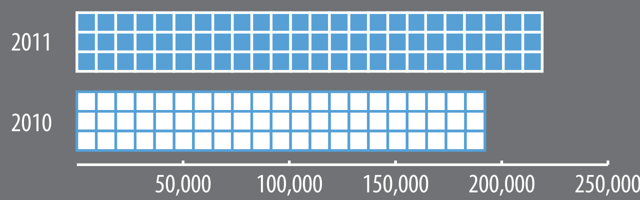
honesty respect **integrity**
dependability
quality heritage
commitment
performance
diversified **innovation**
integrated
sustainable growth
results



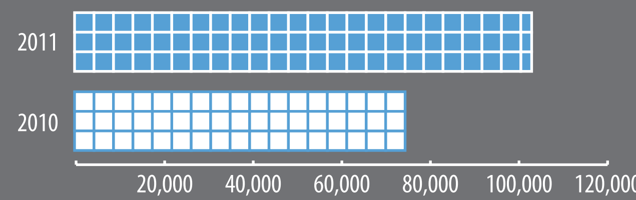
Inside

Key Metrics

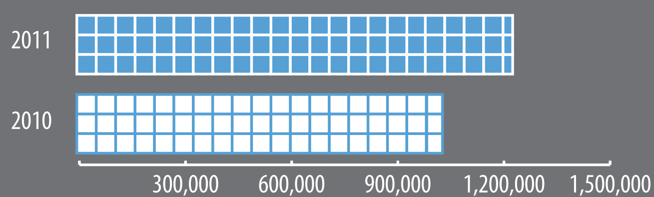
Revenue ($000s)



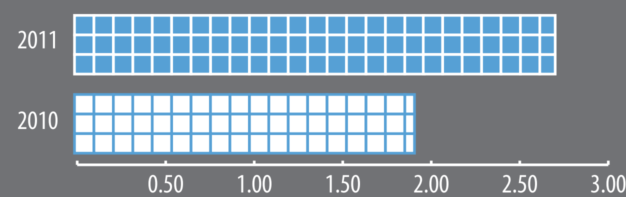
Earnings Before Tax ($000s)



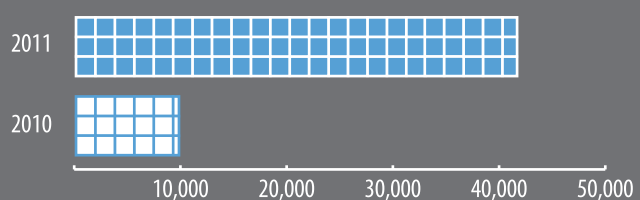
Assets ($000s)



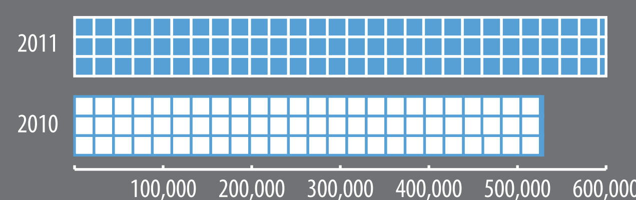
Basic Earnings Per Share ($)



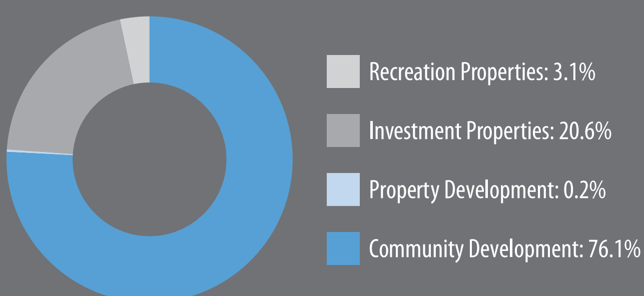
Fair Value Gains ($000s)



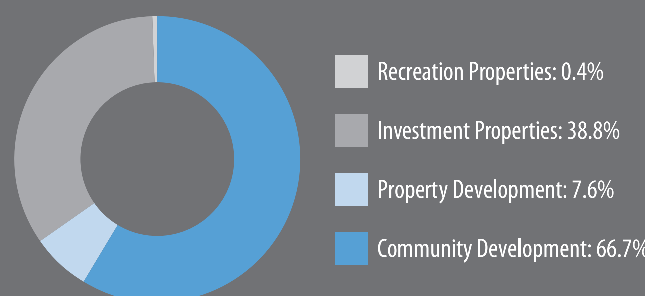
Shareholders' Equity ($000s)



Divisional Revenue Mix



Divisional Earnings Before Tax Mix



Financial Highlights

$000s	**2011**	2010	change
Revenue	**220,349**	189,911	16%
Earnings before tax	**102,855**	74,080	39%
Assets	**1,218,885**	1,027,754	18%
Shareholders' equity	**598,763**	528,693	13%

$ per share	**2011**	2010	change
Basic earnings	**2.70**	1.88	44%
Book value	**19.94**	17.56	14%
Average share price	**13.91**	12.09	15%
Dividends paid	**0.40**	0.35	14%

Timothy C. Melton
Chairman of the Board

A Year of Records

It is my pleasure to report to you on behalf of Melcor's board of directors. Our exceptional results in 2011 included record revenue of $220 million (16% growth over 2010) and net income of $81 million (35% growth over 2010). I wish to draw to shareholder attention that the company's 2011 record earnings were positively impacted by fair value gains on investment properties as required under IFRS. Further details are provided in the management's discussion and analysis on page 13.

A Plan for Success

The excellent results of 2011 confirm that our strategy is on track. At the outset of the year, we forecast that 2011 would be similar to the results achieved in 2010. Clearly, the management team surpassed these expectations and delivered outstanding results in executing the strategy.

Our strategy continues to focus on organic growth and diversification of our holdings, both geographically and across our operating divisions. In 2011, we achieved organic growth with a number of long-term land holdings coming online, and we diversified our real estate assets with strategic acquisitions of residential units and raw land.

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

Return on Shareholder Investment

We have been paying dividends to shareholders since 1969. Our 2011 dividend grew to $0.40 per share, a 14% increase over 2010 and a 60% increase over the payout of 2009. We remain committed to protecting and growing our shareholders' investments, offering both the potential for share price appreciation as a growth company and return on investment to our shareholders through consistent dividends.

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Building Caring Communities

While building a sustainable business, we also focus on building sustainable communities by sharing our time and resources to make them stronger. Our 2011 community giving exceeded $670,000. Our charitable donations focus on the organizations that provide good stewardship of funds to improve the communities in which we operate.

Outlook

Our outlook for 2012 remains positive, driven by strong fundamentals in the Alberta economy and the gradual recovery in the United States economy, which will further benefit recent investments made there. With the assets and financial strength we have today, Melcor is well positioned for continued growth and diversification.

In Appreciation

On behalf of the board and all shareholders, I would like to thank Melcor's staff and leadership team for delivering outstanding results and for their commitment to our ongoing growth and success. I also thank our board of directors for their guidance and counsel, our customers and suppliers for sharing our commitment to quality and innovation, and our shareholders for your continued support and confidence.

Corporate Governance

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

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

Independence

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

Integrity: the Heart of our Business

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

Alignment with Shareholder Interests

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

Protecting Shareholder Value

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

Additional information on our governance practices can be found in our 2011 Information Circular.

William D. Grace, FCA - Lead Director

Corporate Director

Independent		Shareholdings:	21,000
Since:	1994	Compensation:	$39,300
Attendance:	100%	Committees:	Audit, Governance

Ross A. Grieve

Chairman, PCL Construction Holdings Ltd.

Independent		Shareholdings:	78,000
Since:	2003	Compensation:	$30,800
Attendance:	100%	Committees:	Governance

Catherine M. Roozen

Chair, Cathton Investments Ltd.

Independent		Shareholdings:	125,600
Since:	2007	Compensation:	$30,800
Attendance:	100%	Committees:	Audit

Allan E. Scott

Corporate Director

Independent		Shareholdings:	3,000
Since:	2007	Compensation:	$37,000
Attendance:	100%	Committees:	Governance (Chair)

Gordon J. Clanachan, FCA

Corporate Director

Independent		Shareholdings:	7,000
Since:	2009	Compensation:	$40,700
Attendance:	92%	Committees:	Audit (Chair)

Timothy C. Melton, Executive Chairman

Executive Chairman, Melcor

Related		Shareholdings:	1,619,660
Since:	1973	Compensation:	$1,330,216
Attendance:	88%	Committees:	-

Andrew J. Melton, Executive Vice Chairman

Executive Vice Chairman, Melcor

Related		Shareholdings:	53,600
Since:	1985	Compensation:	$613,481
Attendance:	100%	Committees:	-

Ralph B. Young

President & CEO, Melcor

Related		Shareholdings:	1,381,900
Since:	1976	Compensation:	$1,609,948
Attendance:	100%	Committees:	-

Building on a legacy of 88 years of *Integrity in Real Estate*

I am pleased to report that 2011 was another successful year for Melcor. Building on our legacy of 88 years of *Integrity in Real Estate,* we continued to create value by developing, managing and growing our real estate assets for the benefit of all of our stakeholders.

Our passion is converting raw real estate into superior products and services to meet customer demand.

Based on years of knowledge and experience, we leverage the value of land and transform it through its life cycle from raw land to complex managed real estate products.

Our Purpose

We strive to meet or exceed our stakeholders' expectations. Achieving this objective requires balancing the interests of our varying stakeholder groups, including shareholders and other financial stakeholders, customers, suppliers, our employee team, and the communities that we build and where we operate.

Our Passion

At Melcor, our passion is converting raw real estate into superior products and services to meet customer demand. Based on years of knowledge and experience, we leverage the value of land and transform it through its life cycle from raw land to complex managed real estate products.

Our Operations

Melcor has been headquartered in Edmonton, Alberta since 1923. We operate across Alberta and in strategic growth locations in Saskatchewan, British Columbia, Texas, Arizona & Colorado. In 2011, we significantly expanded our US assets to $111 million (9% of total assets).

Our Team

Melcor's team of professionals bring passion, skill and experience to delivering on our business model. In 2011, we welcomed two employees to the Melcor Quarter Century Club and recognized 11 team members with long service awards totalling 160 years of service. Of the 16 employees in the Quarter Century Club, 10 are active team members.

We continued to plan for the future through active leadership development. We promoted Brian Baker to the new position of Chief Operating Officer. We also promoted Peter Daly and Darin Rayburn to Executive Vice Presidents of their respective divisions.

At Melcor, success is a team effort requiring collaboration from operating, administrative, human resource, finance and accounting professionals. The contributions of the entire team and their dedication and loyalty are essential to our long-term success.

On behalf of the management team, I thank all of our team members for their dedication and commitment to quality, integrity and customer service.

Our Results

Supported by our corporate functions, each division delivered exceptional results in 2011 to contribute to revenue growth of 16% to $220 million, a 19% increase in assets to $1.22 billion and a dividend increase of 14% to $0.40 over 2010.

The Community Development division had an exceptionally strong year with revenue of $175.90 million, an increase of 21% over 2010. Community Development owns over 9,500 acres of raw land in strategic growth corridors.

The Property Development division had a very active year, completing 9 buildings during the year and recording fair value gains of $8.56 million. They continue to expand existing and start new development initiatives across the province of Alberta.

The Investment Properties division achieved revenue of $47.60 million, an increase of 13% over 2010. New assets under management were added during the year to bring the total assets to over 3 million square feet across 5 asset classes in 3 provinces and 2 states.

In spite of the challenges of a late spring and inclement weather throughout the early and mid golf season, the Recreation Properties division grew revenue to $7.14 million, an increase of 4% over 2010.

Our Future Prospects

While achieving strong results, Melcor was also positioning for future growth by expanding our team and our asset base. We:

- Built capacity for future growth by adding 14 new positions, which represents growth of 19%.
- Extended our reach in the US to capitalize on a future economic recovery, investing over US$60 million in investment properties and raw land in strategic markets.
- Expanded our financing capacity through the issuance of a convertible debenture, achieving an expanded operating loan facility, obtained USA financing facilities and renewed termed mortgages at higher levels.

Our Outlook

The economic indicators for Alberta, Melcor's largest market, remain favorable with continued investment in the energy sector (and related strength in engineering, manufacturing and construction) resulting in net in-flows of workers, low unemployment rates, and higher than average household incomes. We also see early indications of a recovery in the US market.

With our inventory of raw and developed land, our financial resources and our strong management group, we are well positioned to take advantage of market opportunities.

We remain committed to organic growth in 2012. We will continue to focus on delivering quality land and real estate products and adding and creating value from our land inventory in the form of sellable lots and leasable buildings.

$1.22 billion

ASSETS

Our assets under management grew by 19% over 2010.

$111 million

US ASSETS AT 9% OF TOTAL

Melcor significantly expanded its US presence in 2011 and purchased raw land inventory – our first US development project since 1988.

$220 million

REVENUE

Revenue grew by 16% over 2010.

$103 million

EARNINGS BEFORE TAXES

Earnings before taxes grew by 39% over 2010.

$0.40

DIVIDEND PER SHARE

Melcor has been paying dividends to shareholders since 1969

Management's Discussion & Analysis

Inside

March 14, 2012

The following discussion of Melcor's financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2011.

The financial statements underlying this MD&A, including 2010 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted. Details regarding the adoption of IFRS can be found note 7 in the 2011 annual consolidated financial statements.

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.

Melcor's Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on March 14, 2012.

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

Other Information

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

Non-standard Measures

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

For a definition of these measures, please refer to the section "Non-standard Measures" on page 27.

Forward-looking Statements

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

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

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent Melcor's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Future-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2012 and beyond, future development plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

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

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

Core Business

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

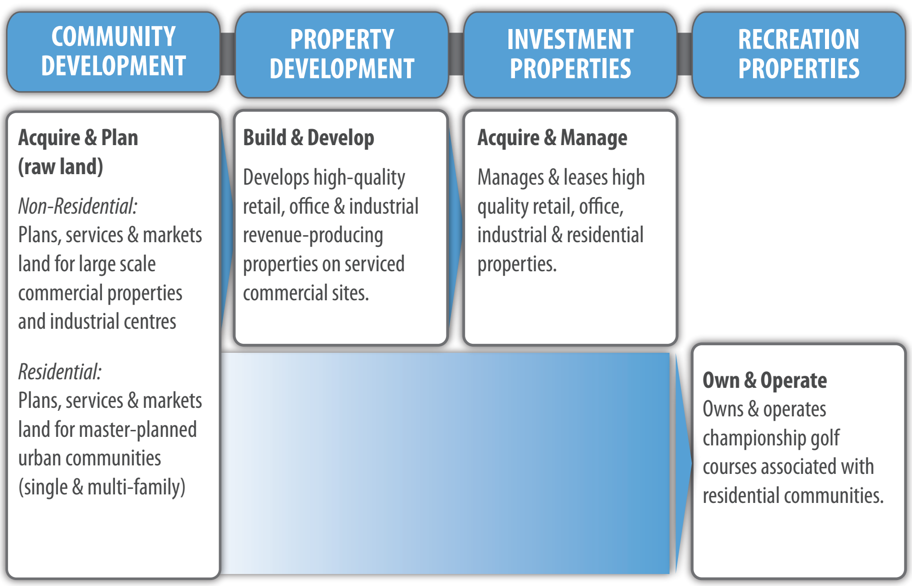
Shares of the company began trading in 1968 to provide employees with an opportunity to own a piece of the company they work for and to provide access to capital to finance continued growth.

Our rich real estate heritage and tradition of strong core values – quality, integrity, loyalty, honesty, respect and products we can be proud of – serve as the solid foundation for the company Melcor Developments Ltd. has evolved to today, with over $1 billion in assets.

As a real estate development and management company, we operate four integrated divisions. Through these operating divisions, we manage the full life cycle of real estate development:

- acquiring raw land (Community Development)
- residential community and commercial planning (Community Development)
- development and construction project management (Property Development)
- managing leasable office, retail and residential sites (Investment Properties)

We develop and manage mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres and golf courses. The following diagram illustrates how each of our operating divisions complement one another to create and enhance value from our real estate assets.



In addition to extending the value of our asset base, these diversified operating divisions enable us to manage our business through real estate cycles (both general market strength and the seasonality associated with construction and development) and diversify our revenue base.

While building a sustainable business, we also focus on building sustainable communities by sharing our time and resources to make them stronger.

Our headquarters are in Edmonton, with regional offices throughout Alberta and British Columbia. Our developments span western Canada and the US. We have been publicly traded since 1968 **(TSX:MRD)**.

88 years

CONSISTENT OWNERSHIP & CONTINUOUS REAL ESTATE FOCUS

$1.22 billion

ASSETS UNDER MANAGEMENT

4 divisions

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

23 consecutive years

OF DIVIDENDS TO SHAREHOLDERS

16 team members

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

Our Business at a Glance

Community Development

What we do:	Acquire raw land for future development in strategic growth corridors Commercial & Industrial: plan, service & market acquired land for large scale commercial and industrial centres Residential: plan, service & market land for master-planned urban communities (single & multi-family dwellings)
Key Assets:	9,500+ acres of raw land inventory in strategic growth corridors
Principal Markets:	Revenue Mix: Alberta 99%, BC 1% Land Inventory: Alberta 79%, BC 5%, Saskatchewan 7%, US 9%
2011 Achievements:	Record revenues of $175.90 million.
Strategy:	Maintain right mix of inventory, available at the right time; Grow market share
2012 Objectives:	Increase and diversify short term "shovel ready" assets Maintain 3-5 year inventory of immediately developable land Projecting 4 project starts in 2012
Key Data:	2011 Revenue: 175,896,000 (growth of 21% over 2010) Percentage of total revenue: 76% Gross Margin: 41.4% Percentage of income before taxes: 67%

Property Development

What we do:	Develop high-quality retail, office and industrial revenue producing properties on serviced commercial sites.
Key Assets:	Prospects for 5.25 million square feet of new development over 5-15 years based on existing plans
Principal Markets:	Alberta 100%
2011 Achievements:	Completed nine buildings (eight fully leased and transferred to Investment Properties)
Strategy:	Create additional value by acquiring and developing commercial land from Community Development.
2012 Objectives:	Develop strong relationships with national/multinational anchor tenants Continue to advance land use approvals to support new projects (two projected to begin in 2012) Continue developing existing projects
Key Data:	2011 Fair Value Gains: 8,556,000 (1% growth) Percentage of income before taxes: : 8%

Investment Properties

What we do:	Manage and lease high-quality commercial developments produced by the Property Development division, as well as an externally purchased portfolio of commercial, retail and residential assets
Key Assets:	Over 3,000,000 square feet under management, diversified across 5 asset classes in 3 provinces and 2 states New buildings coming online as Property Development completes projects
Principal Markets:	Alberta, British Columbia, Saskatchewan – Canada Arizona, Texas – US
2011 Achievements:	Significantly increased US residential assets
Strategy:	Provide and grow stream of reliable annuity income
2012 Objectives:	Be the landlord of choice by providing consistent, high-quality service Improve existing assets with value-added investments and enhanced quality to achieve higher occupancy rates and increase rent / square foot
Key Data:	2011 Revenue: 47,603 (growth of 13% over 2010) Percentage of total revenue: 21% Gross Margin: 53.90% Percentage of income before taxes: 39% Occupancy: 87% (2010: 88%) NOI: 25,647 (growth of 9% over 2010)

Recreation Properties

What we do:	Own and operate championship golf courses associated with our residential communities.
Key Assets:	4 championship golf courses
Principal Markets:	Alberta (3 courses) BC (1 course)
2011 Achievements:	Generated positive cash flow in spite of difficult weather through efficient operations.
Strategy:	Maintain strong reputation through consistent course quality and player experience
2012 Objectives:	Complete new clubhouse at The Links in Spruce Grove Increase number of rounds played
Key Data:	2011 Revenue: 7,135 (growth of 4% over 2010) Percentage of total revenue: 3% Gross Margin: 46.5% Rounds Played: • 12% decrease at Alberta courses due to late season start and unfavorable weather conditions • 9% increase in BC due to increase in market share

Strategy

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

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

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

Sustain & Improve

Execute our proven business model for sustainable results:

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

Grow & Diversify

Build for future growth:

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

Develop Assets

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

Division	Assets	Strategy
Community Development	9,500+ acres of raw land inventory in strategic growth corridors	Maintain right mix of inventory, available at the right time Increase market share
Property Development	Prospects for 5.25 million square feet of new development over 5-15 years based on existing plans	Develop strong relationships with national/ multinational anchor tenants Ongoing development of first class retail, business and industrial centres

Division	Assets	Strategy
Investment Properties	Over 3,000,000 square feet under management, diversified across 5 asset classes in 3 provinces and 2 states New buildings coming online as Property Development completes projects	Improve existing assets with value-added investments and enhanced quality to achieve higher occupancy rates and increase rent / square foot Be the landlord of choice by providing consistent, high-quality service
Recreational Properties	4 championship golf courses	Maintain strong reputation through consistent course quality and player experience

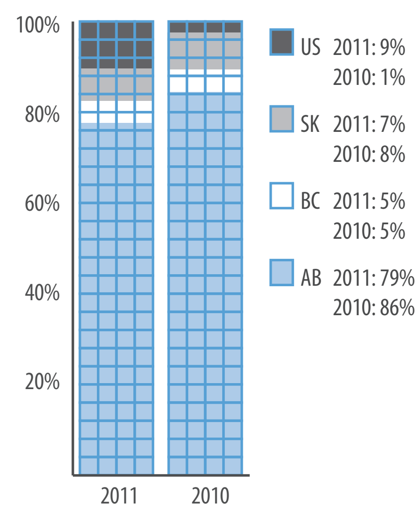
Diversify Holdings

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

- The mix of land and property types held (residential, commercial, retail)
- The regional profile of our assets (Alberta, Saskatchewan, BC & US)
  In 2011, we significantly grew our US residential holdings (tripled residential units with the addition of 607 units, acquired 776 acres of raw land for development)
- The type of revenue (lot and parcel sales, annuity income, value creation which feeds annuity income, green fees) each asset generates

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

Community Development Regional Inventory Profile (acres)



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

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

Investment Properties provides consistent annuity income and cash flows and is well diversified across asset classes, property mix and regions. The regional asset mix is primarily commercial and industrial in Canada, where economic conditions create a favorable environment for commercial development and primarily residential in the US where the economy has created a thriving rental market.

We expect our growth over the short term to be primarily organic as we develop raw land inventory to feed into our Property Development and Investment Properties divisions, however we continue to seek opportunities to diversify our business to insulate against real estate cycles and to acquire undervalued assets to diversify our portfolio geographically.

Key Performance Drivers

A High Performance Team

The 16 team members (10 active) on Melcor's Quarter Century Club are a reflection of the values at the heart of our business. While the average tenure at most companies these days is right around 4 years, many of Melcor's team members have been with us about 5 times that long. We believe that this is a reflection of finding employees whose personal values mirror our corporate values, and thus contribute to our enduring success.

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

We are focused on building capacity to help us achieve our business objective of efficient and effective growth. To do so, we added 14 new positions, representing a 19% increase over 2010.

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

Financial Resources

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

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

We use fixed rate, long-term mortgage financing on our revenue producing assets to raise capital to deploy for acquisitions, development activities, and other business expenditures. As such, most of our borrowings are in the form of long-term, property specific financings such as mortgages or project financings secured by specific assets.

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

For additional information on our financial resources, please refer the Financing and Liquidity & Capital Resources sections on pages 20 - 23.

Real Estate Inventory

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

- 9,500+ acres of developable land in regions with above average growth forecasts.
- 3,000,000+ square feet of leasable property under management in 65 assets covering 5 asset classes in 3 provinces and 2 states.
- Potential to develop over 5,250,000 square feet of new leasable property over the next five to ten years (based on existing planned development).

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

2011 Highlights

($000s except as noted)	Year ended December 31, 2011	December 31, 2010	Change
Revenue	**220,349**	189,911	16.0%
Gross margin (%)	**42.9%**	47.9%	(10.5%)
Net income	**81,394**	56,852	43.2%
Margin on net income	**36.9%**	29.9%	23.4%
Shareholders' equity	**598,763**	528,693	13.3%
Total assets	**1,218,885**	1,027,754	18.6%
Cash from (used in) operations	**5,458**	61,627	(91.1%)
Per Share Data			
Basic earnings	**2.70**	1.88	43.6%
Diluted earnings	**2.57**	1.86	38.2%
Book value	**19.94**	17.56	13.5%

A Record Year

We set several records in 2011:

- Record consolidated revenues of $220.35 million.
- Record basic earnings per share of $2.70 (positively impacted by fair value gains of $1.21 per share).
- Our assets grew 18.6% to $1.22 billion.

Higher revenues across all divisions contributed to record revenues in 2011, resulting from increased activity and growth in all regions. Record earnings per share was positively impacted by fair value gains on investment properties as we adopted International Financial Reporting Standards (IFRS) in 2011.

The transition to reporting under IFRS increased our opening retained earnings on January 1, 2010 by $157.17 million, primarily due to accounting for our investment properties at fair value under the new standards. Refer to Note 7 to our consolidated financial statements for a breakdown of the total transition effect.

Investing in the future

We issued a $40.00 million convertible debenture in a private placement on February 8, 2011. This additional capital provided us with the resources to execute on our growth plans within all divisions.

We made significant investments in inventory acquisitions and investment property additions and improvements.

We considerably increased our investment in the US with the following acquisitions:

- Investment Properties acquired a 240 unit multi-family complex in North Dallas, Texas for US$19.80 million and a 264 unit multi-family complex near Houston, Texas for a purchase price of US$21.50 million. These acquisitions bring our Texas multi-family portfolio to 744 units.
- Community Development acquired a 75% interest in approximately 1,000 acres of raw land in Denver, Colorado for US$14.63 million.

Building Capacity

We appointed Brian Baker to Chief Operating Officer on June 1, 2011. Brian was previously Vice President, Property Development. We also welcomed Jonathan Chia, Chief Financial Officer, to our executive team on January 24, 2011.

We increased our management team and expanded overall resource capacity with the hiring of 14 new staff members (a 19% increase in staff). This positions us well to execute on our growth strategies.

Other

We purchased 304,300 shares for cancellation under the Normal Course Issuer Bid, at a total cost of $3.45 million.

We paid an annual dividend of $0.40 per share to shareholders. We have been paying dividends since 1969.

Investment Properties sold "The Market at Magrath" for proceeds of $34.50 million. The sale closed on September 1, 2011 and resulted in cash proceeds to the company of $15.42 million. The sale had no impact on earnings as the property was included in our Investment Properties portfolio, and as such, was recorded at fair value.

Revenue & Margins

Revenues of $220.35 million were earned in 2011 compared to $189.91 million last year. The Community Development division was the primary contributor to the increase, closing 1,307 lot sales in 2011 compared to 1,163 in 2010.

Gross margin have decreased from the prior year primarily due to lower land margins. Gross margin decreased due to the mix of land inventory sold and higher cost of sales as a result of higher development and raw land costs. Margin is primarily affected by the lot type sold, the timing of the original land purchase and the relative real-estate market strength at the time of sale. Land that has been in inventory for many years typically generates higher margins on sale.

Margin on net income increased to 36.9% from 29.9% in the same period last year as a result of higher fair value gains in the current year compared to the prior year. This is partially offset by increases to:

- interest expense due to our higher debt base from the convertible debenture issued in the first quarter and draws on our credit facility; and
- general and administrative expenses as we invest in additional staff and infrastructure to support growth initiatives, and higher stock based compensation expense.

Fair value gains of $41.70 million were recorded in 2011 as a result of:

- the transfer of land inventory (measured at cost) to the Property Development division where they are classified as investment properties on the balance sheet (measured at fair value), resulting in fair value gains of $6.42 million;
- leasing activity and completion of construction on Property Development projects resulting in fair value gains of $8.56 million; and
- reduced capitalization rates on retail developments and capital improvements on office properties in the Investment Properties division resulting in fair value gains of $26.72 million.

Divisional Results

Our business is comprised of four integrated and complementary operating divisions:

- Community Development, which acquires raw land for future commercial and residential community development;
- Property Development, which develops high-quality retail, office and industrial revenue-producing properties on serviced commercial sites developed by Community Development;
- Investment Properties, which manages and leases the commercial developments produced by the Property Development division, as well as an externally purchased portfolio of assets; and
- Recreational Properties, which includes the operations of championship golf courses associated with Melcor residential communities.

Our Corporate division carries out support functions in the areas of accounting, treasury, information technology, administration, legal and human resources. The following table summarizes our divisional results (shown before inter-segment eliminations):

	Community Development		Property Development		Investment Properties		Recreational Properties		Corporate	
	Year ended		Year ended		Year ended		Year ended		Year ended	
($000s except as noted)	31-Dec-11	31-Dec-10	31-Dec-11	31-Dec-10	31-Dec-11	31-Dec-10	31-Dec-11	31-Dec-10	31-Dec-11	31-Dec-10
Revenue	175,896	145,128	367	55	47,602	42,131	7,135	6,884	-	-
Portion of total revenue	76.1%	74.7%	0.2%	0.0%	20.6%	21.7%	3.1%	3.5%	-	-
Cost of sales	(103,010)	(79,272)	-	-	(21,956)	(18,522)	(3,814)	(3,432)	-	-
Gross margin	72,886	65,856	367	55	25,646	23,609	3,321	3,452	-	-
Gross margin %	41.4%	45.4%	100.0%	100.0%	53.9%	56.0%	46.5%	50.1%	-	-
Portion of total margin	71.3%	70.8%	0.4%	0.1%	25.1%	25.4%	3.2%	3.7%	-	-
General and administrative expense	(6,057)	(5,141)	(1,091)	(926)	(1,704)	(1,212)	(1,701)	(1,752)	(9,245)	(6,864)
Depreciation expense	-	-	-	-	-	-	(968)	(1,127)	(152)	(133)
Gain on disposal	-	-	-	-	-	-	(24)	14	-	-
Net fair value adjustment	-	-	8,556	8,463	26,725	349	-	-	-	-
Interest income	2,406	2,030	-	-	50	25	-	-	58	75
Interest expense	(596)	(590)	(27)	-	(10,859)	(9,875)	(266)	(270)	(4,470)	(1,958)
Divisional income before tax	68,639	62,155	7,805	7,592	39,858	12,896	362	317	(13,809)	(8,880)

Community Development

Our Community Development division acquires raw land in strategic urban corridors and subsequently plans, develops and markets this land as builder-ready urban communities and large-scale commercial and industrial centres. This process includes identifying and evaluating land acquisitions, site planning, obtaining approvals from municipalities, developing the land, construction, marketing and ultimately selling the lots to home builders (for residential communities) or developers (for commercial/industrial centres). The division also sells sites to our Property Development division, who in turn develops the land into commercial developments.

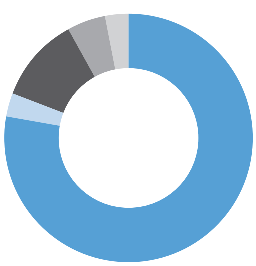
Master planned mixed-use residential communities comprise the majority of Community Development's portfolio. We create efficient and sustainable urban communities by establishing an overall vision for each community and the amenities that will make it a desirable place to live. Residential lots and parcels are sold to homebuilders who share our passion for quality and with whom we have long-standing relationships.

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

We currently hold over 9,500 acres of raw land for future development which positions the division well for future growth. Our developed land inventory at December 31, 2011 includes 997 single-family lots, 95.4 acres for multi-family unit development, and 177.4 non-residential acres.

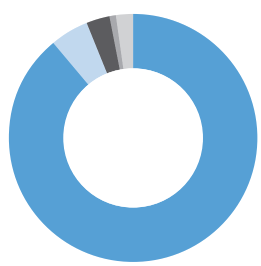
Sales Activity

2011 Revenue by Type ($000s)



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

2010 Revenue by Type ($000s)



- Management fees: $2,853 - 2%
- Industrial/Other: $1,935 - 1%
- Commercial: $4,883 - 3%
- Multi-family: $7,288 - 5%
- Single-family: $128,169 - 88%

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

Our operations span several regions, with a primary focus on the Alberta real estate market. The following table summarizes our activity in 2011 and 2010:

Consolidated	2011	2010
Sales data:		
Single family sales (number of lots)	1,307	1,163
Gross average revenue per single family lot ($)	142,800	146,900
Multi-family sales (acres)	9.73	19.96
Gross average revenue per multi-family acre ($)	750,500	660,600
Commercial sales (acres)	52.62	7.07
Gross average revenue per commercial land acre ($)	716,100	681,600
Other land sales - Industrial, Other (acres)	57.80	32.98
Gross average revenue per other land acre ($)	218,500	83,600
Financial results:		
Revenue ($000s)	175,896	145,128
Earnings ($000s)	68,639	62,155

The division produced strong results in 2011, with 1,307 single-family lot sales, 9.73 acres sold for multi-family projects, and 110.42 acres sold for commercial or industrial use. Our primary market is Alberta, Canada, where overall market conditions remain strong.

Regional Highlights

Edmonton & Region	2011	2010
Sales data:		
Single family sales (number of lots)	672	587
Multi-family sales (acres)	9.73	7.05
Commercial sales (acres)	17.86	1.52
Other land sales - Industrial, Other (acres)	0.99	0.22
Financial results:		
Revenue ($000s)	82,965	81,691
Earnings ($000s)	32,143	34,036

The Edmonton region showed continued success in all municipalities. The city of Spruce Grove showed a strong demand with a 67% increase in lot sales over the prior year. The city of Leduc also showed positive improvements with a 40% increase in lot sales over 2010 and the sale of a multi-family site. Edmonton saw the development of two brand new communities and we continue to experience success in our Lewis Estates development.

Commercial sales in Edmonton includes a 6.58 acre sale in Leduc to our Property Development division at a price of $4.90 million for a gain to the region of $3.65 million.

Red Deer	2011	2010
Sales data:		
Single family sales (number of lots)	**142**	208
Multi-family sales (acres)	**-**	12.91
Commercial sales (acres)	**17.85**	-
Other land sales - Industrial, Other (acres)	**46.00**	6.07
Financial results:		
Revenue ($000s)	**30,596**	21,212
Earnings ($000s)	**11,399**	11,042

Red Deer continues to be a strong performer. A new community, Vanier Woods East, was developed, producing 115 single family lots, and we also completed and almost sold out of our last phase in our Southbrook community. The region also closed on a 46-acre sale of an industrial site in the last quarter of 2011.

Commercial sales in Red Deer include an 11.11 acre sale to our Property Development division at a price of $7.35 million for a gain to the region of $4.27 million, before joint arrangement eliminations (net of joint arrangement interest, these amounts are $2.45 million and $1.42 million respectively.)

Calgary & Region	2011	2010
Sales data:		
Single family sales (number of lots)	**433**	284
Commercial sales (acres)	**16.91**	5.55
Other land sales - Industrial, Other (acres)	**10.81**	-
Financial results:		
Revenue ($000s)	**55,126**	32,025
Earnings ($000s)	**24,221**	14,829

Calgary continues to gain momentum, as we develop within the city. A new phase was added to our Valley Ridge development and through a joint arrangement we brought on 192 lots in northwest Calgary pre-selling 70% of this phase. We also produced our first development in Cochrane, through a joint arrangement, and the 64 lots developed sold out.

Commercial sales in the region include a 5.9 acre sale to our Property Development division in Chestermere at a price of $4.11 million for a gain to the region of $2.67 million, before joint arrangement eliminations (net of joint arrangement interest, these amounts are $2.05 million and $1.34 million respectively.)

Lethbridge	2011	2010
Sales data:		
Single family sales (number of lots)	**51**	74
Other land sales - Industrial, Other (acres)	**-**	26.69
Financial results:		
Revenue ($000s)	**5,406**	8,095
Earnings ($000s)	**1,830**	2,738

Legacy Ridge, our community in north Lethbridge produced results on par with 2010 and continues to be a consistent seller. We completed on our first phase of the Canyons in south Lethbridge which was met with positive feedback.

Kelowna	2011	2010
Sales data:		
Single family sales (number of lots)	**9**	10
Financial results:		
Revenue ($000s)	**1,803**	2,105
Earnings ($000s)	**(954)**	(490)

Activity in Kelowna continues to be slow. This largely recreational market is adversely affected by the depressed economy in the US as people continue to head south for warmer climates to purchase second homes. Our sales in Kelowna continue to fall below budget.

Inventory

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

Developed lot inventory

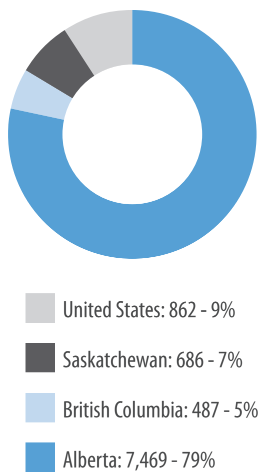
A summary of the movement in our developed lot inventory is as follows:

	December 31, 2011		
including joint arrangements at 100%	Single-family (lots)	Multi-family (acres)	Non-residential (acres)
Open	732	74.5	144.3
Purchases	143	-	-
New developments	1,429	30.5	172.4
Internal sales	-	-	(23.6)
Sales	(1,307)	(9.7)	(24.9)
	997	95.3	268.2
	December 31, 2010		
including joint arrangements at 100%	Single-family (lots)	Multi-family (acres)	Non-residential (acres)
Open	561	68.7	94.4
Purchases	-	-	-
New developments	1,334	25.8	30.3
Internal sales	-	-	(4.9)
Sales	(1,163)	(20.0)	24.5
	732	74.5	144.3

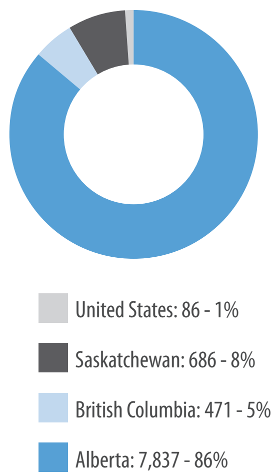
Raw land inventory

To support future growth, we acquire land in strategic growth corridors and maintain an inventory of land for future development in our primary markets. Land inventory acquisitions are based on management's anticipation of market demand and development potential. The markets we operate in require significant infrastructure development and heavy capital investment, creating a barrier to entry. We continually investigate high potential new lands that complement our existing land holdings or provide attractive projects that are consistent with our overall strategy and management expertise. We acquire land when we find a good fit within these criteria.

2011 Raw Land Inventory (acres)



2010 Raw Land Inventory (acres)



(net of joint arrangement interests)

Summary of land acquisitions during the year:

Land Purchases *(in acres, net of joint arrangement interests)*	**2011**	2010
Edmonton & Region	-	101.42
Red Deer	-	144.94
Calgary & Region	**28.50**	252.79
Lethbridge	-	74.13
British Columbia	**15.98**	-
United States	**776.00**	79.85
Total land purchases	**820.48**	653.13

Our land acquisitions in 2011 were primarily focused in the United States, where we believe economic conditions provide opportunities for future growth. We purchased 774 acres of land in Aurora, Colorado, a suburb of Denver. The lands have municipal development approvals and offsite infrastructure in place for residential development. Development is anticipated to commence in the next two years as market conditions improve. This will be our first major land development project in the US since 1988.

Property Development

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

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

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

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

Earnings

	2011	2010
Square footage developed (sq. ft.)	**69,480**	65,800
Number of buildings constructed	**9**	9
Fair value gains ($000s)	**8,556**	8,463

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

The Property Development division was very active in 2011, completing nine buildings throughout Alberta. Eight of these buildings were transferred to our Investment Properties division for active management in 2011, while one remains in the Property Development division to be leased.

Regional Highlights

Northern Alberta	**2011**	2010
Leduc Common - Leduc, Alberta		
Square footage developed (sq. ft.)	**22,700**	13,400
Number of buildings constructed	**2**	2
Fair value gains ($000s)	**3,984**	1,855
Miller Crossing - Edmonton, Alberta		
Square footage developed (sq. ft.)	**15,650**	-
Number of buildings constructed	**2**	-
Fair value gains ($000s)	**2,040**	-
Westgrove Common - Spruce Grove, Alberta		
Square footage developed (sq. ft.)	**8,400**	6,400
Number of buildings constructed	**1**	1
Fair value gains ($000s)	**561**	1,050

Construction continues at Leduc Common, a 64 acre regional power centre which started in 2001. In 2011, we completed construction on a 16,700 sq. ft. Commercial Retail Unit (CRU) and a 6,000 sq. ft. restaurant. We are currently developing the final phase of Leduc Common, with construction of a 38,000 sq. ft. CRU underway.

We completed the construction of two CRUs in Miller Crossing in northeast Edmonton. These two buildings added 15,650 sq. ft. in commercial space to the development. This marks the completion of development in Miller Crossing.

In Westgrove Common, we completed an 8,400 sq. ft. CRU and are currently marketing the space for lease. Planning is underway for an additional CRU in this development.

In the fourth quarter of 2011, we executed a joint arrangement (30% ownership, project management) with a third party to purchase land and construct the Stonecreek Shopping Centre in Fort McMurray, Alberta. This project is our first development in the region. Planning is currently underway and we expect construction to begin in the spring of 2012.

Central Alberta	2011	2010
Clearview Market - Red Deer, Alberta		
Square footage developed (sq. ft. - at 100%)	16,600	-
Number of buildings constructed	3	-
Fair value gains ($000s - net of joint arrangement interests)	1,399	-

Clearview Market is our first commercial development in the city of Red Deer. We completed three bank buildings in 2011 and a fourth is nearing completion. We are completing the planning and leasing for five additional buildings to be constructed in 2012.

Southern Alberta	2011	2010
Chestermere Station - Chestermere, Alberta		
Square footage developed (sq. ft. - at 100%)	6,130	10,000
Number of buildings constructed	1	3
Fair value gains ($000s - net of joint arrangement interests)	572	975
Kingsview Market - Airdrie, Alberta		
Square footage developed (sq. ft.)	-	36,000
Number of buildings constructed	-	3
Fair value gains ($000s)	-	4,583

We completed the construction of a bank building in Chestermere Station in 2011 and are currently planning and leasing for two additional CRUs (14,725 sq. ft.) and one pad sites.

In 2010, we completed Phase 1 of Kingsview Market. Activity in 2011 was focused primarily on servicing and site preparation for Phase 2 of the development, along with planning and leasing. We expect to begin construction of three additional buildings in 2012, adding approximately 24,100 sq. ft. to our commercial portfolio.

Future development opportunities

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

Project	Location	Type	Square Feet	Expected Start
Village at Blackmud Creek	Southeast Edmonton	Regional business park	256,000	2012
West Henday Promenade	West Edmonton	Regional mixed-use commercial centre	300,000	2012
The Shops at Jagare Ridge	Southeast Edmonton	Regional shopping centre	105,000	2013
The District at North Deerfoot	Northeast Calgary	Regional business / industrial park	1,750,000	2013
Greenwich	West Calgary	Regional shopping centre	419,000	2014
Sweet Lands	West Calgary	Regional power centre	800,000	2014
Pole Lands	Calgary	Regional power centre	775,000	2014
The Canyons	Lethbridge	Regional shopping centre	100,000	2014
Denecky III	Lethbridge	Regional power centre	750,000	2014

Investment Properties

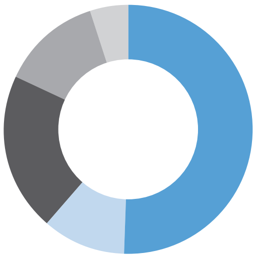
Our Investment Properties division manages and leases our portfolio of high-quality residential, office, retail and industrial properties, which are located across western Canada and the US.

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

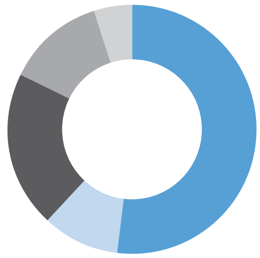
Our Investment Properties portfolio includes over three million square feet of leasable space across seven different asset classes. Our portfolio has high occupancy rates with long-term tenancies from high-quality retail and commercial clients.

In 2011, our acquisitions focused on residential units in Arizona and Texas to support our strategy of increasing multi-family revenue producing assets in the US.

2011 Commercial Square Feet



2010 Commercial Square Feet



(at December 31, ownership at 100%)

Operating Results

($000s except as noted)	2011	2010
Revenue	47,602	42,131
Net operating income (NOI)	25,646	23,609
Same asset NOI	24,521	23,106
Occupancy	87%	88%
Fair value of portfolio	479,681	407,048
Funds from operations	16,628	15,663
Funds from operations per share	0.55	0.52

The division has grown through acquisitions and properties transferred from the Property Development division in 2011. This positively impacted operating results, with revenues increasing 13.0% to $47.60 million in 2011 compared to $42.13 million last year. Occupancy levels remain consistent with the prior year.

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

($000s except as noted)	2011	2010	Change
Same properties	24,521	23,106	6%
2010 acquisitions	2,589	1,348	
2010 dispositions	-	75	
2011 acquisitions	883	-	
2011 dispositions	1,148	2,196	
NOI before adjustments	29,141	26,725	9%
Amortization of operating lease incentives	(3,495)	(3,116)	
NOI	25,646	23,609	9%

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

Fair Value of Investment Portfolio

	2011	2010
Number of commercial properties	62	54
Total commercial area (sq. ft.)	2,066,000	2,091,000
Total area (Melcor owned %)	1,766,000	1,789,000
Total residential units	1,240	689
Total parking stalls	516	516
Fair value of portfolio ($000s)	479,681	407,048
Value per square foot	$271.62	$227.53
Weighted average discount rate	6.88%	7.28%
Weighted average terminal cap rate	7.14%	7.55%

Our investment properties were valued by independent valuation professionals as at January 1, 2010, December 31, 2010 and December 31, 2011. This resulted in fair value gains of $41.70 million in 2011 and $9.75 million in 2010 being recognized in the statement of income. Fair values are determined by discounting the expected future cash flows over ten years plus a terminal value determined by applying a capitalization rate to estimated year eleven cash flows.

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

A 50 basis point decrease in capitalization rates would positively impact the fair value of investment properties by $35.95 million. A 50 basis point increase in capitalization rates would negatively impact the fair value of investment properties by $31.07 million.

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

($000s)	2011	2010
Northern Alberta	16,327	(3,076)
Southern Alberta	4,842	595
Saskatchewan	4,289	1,850
British Columbia	629	980
United States	638	-
	26,725	349

Portfolio Transactions

Acquisitions

We added 61,000 leasable square feet to our portfolio in 2011 through the transfer of eight completed commercial properties from Property Development, as discussed in the "Property Development" section above. The total value of these properties was $13.35 million.

We added 617 residential units to our portfolio through the following strategic acquisitions:

- Lakeside 121, a 240 unit multi-family project in Lewisville, Texas (near Dallas) for US$19.80 million;
- Augusta Meadows, a 264 unit residential complex in Tomball, Texas (near Houston) for US$21.50 million;

- 9 additional units in the Dakotas at Camelback, a condominium reversion project in Phoenix, Arizona where we already own 64 units;
- 93 units in The Edge at Greyhawk, a condominium reversion project in Scottsdale, Arizona; and
- 11 other residential units throughout the Phoenix area.

Dispositions

In the third quarter, we sold "The Market at Magrath", a 78,400 sq. ft. commercial and office development in southwest Edmonton for $34.50 million, which represents a return on investment (ROI) of 59.5%.

We also sold two industrial warehouse buildings in Saskatchewan for $4.35 million, which represents a ROI of 96.3%.

Recreational Properties

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

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

Our golf courses aspire to achieve consistent course conditions and quality, and to be recognized as championship public golf courses. Achieving these goals enables us to find the appropriate balance between the revenue levers of course fees, number of rounds played and customer satisfaction and enjoyment.

Operating Results

($000s except as noted)	**2011**	2010
Revenue	**7,135**	6,884
Gross margin	**3,321**	3,452
Gross margin %	**47%**	50%
Earnings	**362**	317

The financial performance of our golf courses is greatly influenced by the weather conditions during the golf season. Late course openings and unfavorable weather conditions early in the season resulted in a substantial reduction in rounds played at our Alberta courses during the 2011 golf season. This was partially offset by our Black Mountain golf course, which experienced increased rounds as we continue to gain market share in Kelowna.

	2011			
	Ownership interest	Season Opened	Season closed	Rounds of golf*
Managed by Melcor:				
Lewis Estates (Edmonton)	60%	April 28	Nov. 12	24,940
The Links (Spruce Grove)	100%	April 29	Nov. 12	21,665
Black Mountain (Kelowna)	100%	April 1	Nov. 12	26,833
Managed by a Third Party:				
Jagare Ridge (Edmonton)	50%	May 6	Oct. 16	23,256

	2010			
	Ownership interest	Season Opened	Season closed	Rounds of golf*
Managed by Melcor:				
Lewis Estates	60%	April 28	Nov. 15	28,458
The Links	100%	April 29	Nov. 15	24,561
Black Mountain	100%	April 1	Nov. 8	24,566
Managed by a Third Party:				
Jagare Ridge	50%	May 6	Oct. 17	26,238

The Links at Spruce Grove is currently building a new clubhouse scheduled to be open for the 2012 golf season. Once completed, all clubhouses at courses managed by the division will be considered state of the art, contributing to our ability to attract tournaments and events.

Financing

As at December 31, 2011, our total general debt outstanding was $429.69 million. This compares to $342.19 million on the same date last year. The financing function is managed by our corporate division and decisions on how to deploy operating and acquisitions funds is a centrally managed corporate decision. We use various forms of financing to fund our development and acquisition activities. We are often able to leverage the assets in one division to fund development opportunities in others.

A summary of our debt is as follows:

($000s)		**2011**	2010
Bank operating loan	a	**91,094**	53,797
Debt on land inventory	b	**66,378**	77,153
Debt on investment properties	c	**233,268**	211,239
Convertible debenture	d	**38,949**	-
		429,689	342,189

a) Bank operating loan

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

Due to the low interest rates experienced in 2011, we have benefited by being able to borrow at rates fluctuating with prime. Our current cost of borrowing on a floating basis is low when compared to historical cost of funds.

Under the terms of this facility, Melcor pledges specific agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral. This credit facility may be terminated by the bank upon one year's notice and may be modified to meet our needs.

A summary of the credit facility is as follows:

($000s)		2011	2010
Credit limit approved	i)	**161,900**	153,400
Supportable credit limit	ii)	**153,960**	146,330
Credit used		**91,094**	53,797
Credit available		**62,866**	92,533

i) The portion of these loan limits that pertain solely to Melcor Developments Ltd. is $120.0 million (2010 - $120.0 million) with the remaining balance pertaining to specific joint arrangements.

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

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

($000s)	2011	2010
Total letter of credit facility	**60,494**	61,674
Letters of credit issued	**35,118**	32,248
Available for issue	**25,376**	29,426

b) Debt on land inventory

This debt is primarily comprised of loans on the acquisition of land that are held by the land vendor (fixed rate financing with repayments over 3 to 10 years) or from financial institutions (variable rate financing with repayments over 3 to 5 years). Current debts mature from 2012 to 2017. In addition, we may obtain financing from a financial institution in order to commence major infrastructure in a new community or obtain project financing when the borrowing requirement falls outside the normal parameters of our line of credit. This type of loan usually has floating rates of interest tied to prime.

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

($000s)	2011	2010
Agreements payable (Fixed rates of 0.0% to 6.0%)	**57,686**	57,239
Variable rate financing (Prime + 0.75% to prime + 1.5%)	**8,692**	19,914
	66,378	77,153
Weighted average effective interest rate	**4.2%**	5.0%

As at December 31, 2011, $9,858 of debt was payable in US dollars. There was no US debt on land inventory in 2010.

c) Debt on investment properties and golf course assets

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

Debt on investment properties in the amount of $233.27 million reflects financing placed on investment properties that have a fair value of $434.59 million.

These mortgages are normally fixed rate and long-term in nature. Rates are negotiated at a pre-agreed benchmark bond rate plus a spread and are negotiated with different lenders to ensure competitive terms and multiple sources. New mortgage rates from Canadian lending institutions ranged from 2.90% to 5.13% in 2011. We also assumed a loan from a US bank at 5.21%.

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

($000s)	2011	2010
Canadian mortgages at fixed rates (2011: 2.9% to 7.53%, 2010: 3.94% to 7.53%)	**184,167**	186,284
Canadian mortgages at variable rates (2011 & 2010: Prime + 1.10% to Prime + 1.25%)	**3,547**	3,963
Project loan (Prime + 2.00%)	**5,000**	5,000
US mortgages at fixed rates (5.00% to 6.06%)	**40,554**	15,992
	233,268	211,239
Weighted average effective interest rate	**5.1%**	5.4%

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 nine years:

Year	Loan renewal amount ($000s)	Weighted average interest rate	Number of loans
2012	46,818	5.25%	12
2013	38,132	5.34%	8
2014	8,786	5.86%	1
2015	38,694	4.81%	5
2016	35,787	4.80%	5
2018	9,518	5.31%	2
2020	12,797	5.23%	4

d) Convertible debenture

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

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

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

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

Liquidity & Capital Resources

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

($000s except as noted)	**2011**	2010
Cash & cash equivalents	**10,703**	6,391
Accounts receivable	**14,205**	12,992
Agreements receivable	**139,840**	97,474
Operating loan	**91,094**	53,797
Accounts payable	**41,749**	35,374
Total assets	**1,218,885**	1,027,754
Total liabilities	**616,141**	499,061
Debt to equity ratio	**1.02**	0.94

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

- Fund recurring expenses;
- Meet debt service requirements;
- Make dividend payments;
- Fund land development; and
- Fund investing activities such as the discretionary purchase of land inventory and/or investment property purchases.

We are able to meet our capital needs through a number of sources, including cash generated from operations, long and short-term borrowings from our syndicated credit facility, mortgage financings, convertible debentures, and the issuance of common shares. Our primary use of capital includes paying operating expenses, sustaining capital requirements on land and property development projects, completing real estate acquisitions, debt principal and interest payments, and paying dividends when declared by our board of directors.

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

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

Cash requirements

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

Contractual obligations include:

	Payments due by period				
($000s)	Total	<1 year	1-3 years	4-5 years	5+ years
Debt on investment properties	345,830	32,354	39,053	37,036	237,387
Debt on land inventory	57,584	38,648	10,968	3,914	4,054
Debenture interest	10,267	2,500	5,000	2,767	-
Operating leases	1,012	221	506	285	-
Contractual commitments	-	-	-	-	-
Total contractual commitments	414,693	73,723	55,527	44,002	241,441

Sources and uses of cash

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

($000s)	**2011**	2010
Cash flows from (used in) operating activities	**5,458**	61,627
Cash flows from (used in) investing activities	**(56,234)**	(39,629)
Cash flows from (used in) financing activities	**55,070**	(19,544)

Cash from operations was lower in the current year as a result of significant investments in development activities and preparing land inventory for sale. Due to large fourth quarter sales in 2011, we ended the year with a high agreements receivable balance, which also had a negative impact on cash from operations.

Cash used in investing activities was primarily for purchases of land and investment properties, as we made significant purchases in the US in 2011. We also utilized cash for our properties under development and for tenant work on several investment properties. We also received cash of $15.95 million from the sale of the Magrath property.

Cash from financing was positive in the current year. This was primarily the result of the issuance of a convertible debenture generating $39.64 million as well as additional draws on our bank operating loan totaling $37.30 million. These positive inflows were offset partially by dividend payments.

Share Data

Melcor has been a public company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. As at December 31, 2011 there were 30,033,297 common shares issued and outstanding and 1,603,767 options, each convertible to one common share upon exercise or exchange. There is only one class of common shares issued.

Please refer to Note 16 to the consolidated financial statements for information pertaining to our outstanding shares and options.

Off Balance Sheet Arrangements

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

A discussion of our letter of credit facility arrangement can be found on pages 20 and 21. Refer to Note 19 to the consolidated financial statements for information pertaining to our guarantees and letters of credit.

Joint Arrangement Activity

We record only our proportionate share of the assets, liabilities, revenue and expenses of our joint arrangements. Refer to Note 24 to the consolidated financial statements for a listing of our current joint arrangements. The following table illustrates selected financial data related to joint arrangements at 100% as well as the net portion relevant to Melcor.

Joint arrangement activity at 100% *($000s)*	**2011**	2010
Revenue	**188,893**	116,472
Earnings	**68,072**	40,711
Assets	**648,853**	554,818
Liabilities	**209,473**	186,121

Joint arrangement activity at Melcor's ownership % *($000s)*	**2011**	2010
Revenue	**102,889**	59,513
Earnings	**40,811**	20,569
Assets	**334,175**	286,738
Liabilities	**114,363**	100,265

*(*ownership in joint arrangements varies from 6% - 75%)*

Quarterly Results

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

	2011			
($000s)	Q4	Q3	Q2	Q1
Revenue	129,429	41,446	24,615	24,859
Net income	51,820	21,140	4,494	3,940
(Per Share)				
Basic earnings	1.72	0.70	0.15	0.13
Diluted earnings	1.62	0.67	0.15	0.13
Book value	19.94	18.54	17.77	17.84

	2010			
($000s)	Q4	Q3	Q2	Q1
Revenue	84,588	40,921	34,834	29,568
Net income	32,028	11,646	6,280	6,898
(Per Share)				
Basic earnings	1.06	0.39	0.20	0.23
Diluted earnings	1.05	0.38	0.20	0.23
Book value	17.56	16.80	16.37	16.33

We have historically experienced variability in our results of operations from quarter to quarter due to the seasonal nature of the development business and the timing of plan registrations with the municipalities. We typically experience the highest sales in our Community Development division in the fourth quarter, as this is when the majority of plans register. The fair value gains in our Property Development division are also seasonally affected, as the majority of construction in Alberta takes place during the spring and summer months.

Fourth Quarter

Three Months Ended December 31 *($000s)*	**2011**	2010
Revenue	**129,429**	84,588
Cost of sales	**(77,898)**	(40,421)
	51,531	44,167
General & administrative expense	**(6,806)**	(4,996)
Depreciation expense	**(204)**	(253)
	44,521	38,918
Fair value adjustment on investment properties	**24,913**	5,069
Gain on sale of assets	**(29)**	-
	69,405	43,987
Interest income	**835**	532
Interest expense	**(4,323)**	(3,984)
Net finance costs	**(3,488)**	(3,452)
Income before income taxes	**65,917**	40,535
Income tax expense	**(14,097)**	(8,507)
Net income for the period	**51,820**	32,028
Earnings per share		
Basic earnings per share	**1.72**	1.06
Diluted earnings per share	**1.62**	1.05

Segmented information for the fourth quarter is as follows:

Three Months Ended December 31, 2011	*Community Development*	*Property Development*	*Investment Properties*	*Recreational Properties*	*Corporate*	*Intersegment Elimination*	*Total*
Segment revenue	120,965	327	12,768	586	-	(5,217)	129,429
Cost of sales	(72,189)	-	(6,249)	(705)	-	1,245	(77,898)
	48,776	327	6,519	(119)	-	(3,972)	51,531
Depreciation expense	-	-	-	(161)	(43)	-	(204)
General and administrative	(2,115)	(216)	(740)	(247)	(3,805)	317	(6,806)
	46,661	111	5,779	(527)	(3,848)	(3,655)	44,521
Net fair value adjustment	-	281	20,977	-	-	3,655	24,913
Gain on disposal	-	-	-	(29)	-	-	(29)
	46,661	392	26,756	(556)	(3,848)	-	69,405
Interest income	801	-	14	-	20	-	835
Interest expense	-	(27)	(2,823)	(68)	(1,405)	-	(4,323)
Income before tax	47,462	365	23,947	(624)	(5,233)	-	65,917
Income tax							(14,097)
Net income							51,820

Three Months Ended December 31, 2010	*Community Development*	*Property Development*	*Investment Properties*	*Recreational Properties*	*Corporate*	*Intersegment Elimination*	*Total*
Segment revenue	72,779	19	11,459	594	-	(263)	84,588
Cost of sales	(34,731)	-	(5,052)	(664)	-	26	(40,421)
	38,048	19	6,407	(70)	-	(237)	44,167
Depreciation expense	-	-	-	(223)	(30)		(253)
General and administrative	(1,493)	(311)	(488)	(254)	(2,687)	237	(4,996)
	36,555	(292)	5,919	(547)	(2,717)	-	38,918
Net fair value adjustment	-	2,733	2,336	-	-	-	5,069
Gain on disposal of equipment	-	-	-	-	-	-	-
	-	-	-	-	-		-
Interest income	535	-	(3)	-	-	-	532
Interest expense	(336)	-	(3,060)	(61)	(527)	-	(3,984)
Income before tax	36,754	2,441	5,192	(608)	(3,244)	-	40,535
Income tax							(8,507)
Net income							32,028

Outlook

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

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

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

Business Environment & Risks

A discussion of credit risk, liquidity risk and market risk can be found in Note 27 to the consolidated financial statements.

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

General Risks

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

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

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

Industry Risk

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

Financing Risk

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

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

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

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

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

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

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

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

Community Development

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

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

Property Development

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

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

Investment Properties

The Investment Properties division is subject to the market conditions in the geographic areas where we own and manage properties. As these market conditions improve, the ability to achieve higher occupancy rates also improves. These market conditions are influenced by outside factors such as government policies, demographics and employment patterns, the affordability of rental properties, competitive leasing rates and long-term interest and inflation rates.

Recreational Properties

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

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

Other Financial Information

Related Party Transactions

Please refer to Note 23 to the consolidated financial statements for information pertaining to transactions with related parties.

Critical Accounting Estimates

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

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

Changes in Accounting Policies and Adoption of IFRS

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

We applied IFRS as of January 1, 2010 and retrospectively applied all effective IFRS, meaning that the comparative financial information provided uses the same accounting policies throughout all periods. The changes in our reported results were the results of our adoption of IFRS and not an underlying change in our business. We also applied certain optional and mandatory exemptions. The effects of the changes on our accounting policies and financial results are outlined in Note 7 to the consolidated financial statements.

Internal Control over Financial Reporting and Disclosure Controls

Melcor's management, including the President & Chief Executive Officer and the Vice-President Finance & Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in National Instrument 52-109 of the Canadian Securities Administrators) as of December 31, 2011.

Management has concluded that, as of December 31, 2011, the disclosure controls and procedures were effective to provide reasonable assurance that material information relating to Melcor and its consolidated subsidiaries and joint arrangements would be made known to them by others within those entities, particularly during the period in which this report was being prepared. Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

During the year ended December 31, 2011, there has been no change in Melcor's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Melcor's internal control over financial reporting.

In accordance with NI 52-109, management designed and assessed the effectiveness of internal controls over financial reporting as of December 31, 2011, 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, 2011, internal control over financial reporting was effective.

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

Non-standard Measures

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

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

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

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

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

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

Calculations

We use the following calculations in measuring our performance.

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

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

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

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

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

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

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

Management's Responsibility for Financial Reporting

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

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

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

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

Ralph Young

Ralph B. Young
President & Chief Executive Officer

Jonathan Chia
Vice President, Finance & Chief Financial Officer

Edmonton, Alberta
March 14, 2012

Auditors' Report to Shareholders

To the Shareholders of Melcor Developments Ltd.

We have audited the accompanying consolidated financial statements of Melcor Developments Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Melcor Developments Ltd. and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Edmonton, Alberta
March 14, 2012

Consolidated Statements of Income

For the years ended December 31 ($000s)	2011	2010
Revenue (note 21)	**220,349**	189,911
Cost of sales (note 21)	**(125,792)**	(98,854)
	94,557	91,057
General and administrative expense (note 21)	**(18,550)**	(14,914)
Depreciation expense (note 11)	**(1,120)**	(1,260)
	74,887	74,883
Fair value adjustment on investment properties (notes 10, 21)	**41,696**	9,746
Gain (loss) on sale of assets	**(24)**	14
	116,559	84,643
Interest income	**2,514**	2,130
Interest expense (note 20)	**(16,218)**	(12,693)
Net finance costs	**(13,704)**	(10,563)
Income before income taxes	**102,855**	74,080
Income tax expense (note 22)	**(21,461)**	(17,228)
Net income for the year	**81,394**	56,852
Earnings per share (note 17)		
Basic earnings per share	**2.70**	1.88
Diluted earnings per share	**2.57**	1.86

Consolidated Statements of Comprehensive Income

For the years ended December 31 ($000s)	2011	2010
Net income for the year	**81,394**	56,852
Other comprehensive income		
Currency translation differences (note 18)	**514**	(467)
Comprehensive income	**81,908**	56,385

Approved on behalf of the board:

Gordon J. Clanachan, FCA
Chair, Audit Committee

Timothy C. Melton
Executive Chairman

Consolidated Statements of Financial Position

($000s)	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Cash and cash equivalents	**10,703**	6,391	3,947
Accounts receivable	**14,205**	12,992	10,306
Income taxes recoverable	**1,208**	-	1,450
Agreements receivable (note 8)	**139,840**	97,474	81,316
Land inventory (note 9)	**529,803**	481,344	437,151
Investment properties (note 10)	**493,520**	401,429	350,920
Property and equipment (note 11)	**12,942**	13,017	13,715
Other assets (note 12)	**16,664**	15,107	13,282
	1,218,885	1,027,754	912,087
LIABILITIES			
Accounts payable and accrued liabilities (note 13)	**41,749**	35,374	22,808
Income taxes payable	**-**	4,592	-
Provision for land development costs (note 14)	**92,946**	72,255	63,755
General debt (note 15)	**429,689**	342,189	299,504
Deferred income tax liabilities (note 22)	**51,757**	44,651	40,820
	616,141	499,061	426,887
SHAREHOLDERS' EQUITY			
Equity attributable to owners of Melcor			
Share capital (note 16)	**14,446**	13,354	13,003
Contributed surplus	**2,810**	1,015	572
Convertible debenture	**639**	-	-
Accumulated other comprehensive income (AOCI) (note 18)	**47**	(467)	-
Retained earnings	**580,821**	514,791	471,625
	598,763	528,693	485,200
Non-controlling interest (NCI) (note 9)	**3,981**	-	-
	602,744	528,693	485,200
	1,218,885	1,027,754	912,087

Consolidated Statements of Changes in Equity

($000s)	Share Capital	Contributed Surplus	Convertible Debenture	AOCI	Retained Earnings	NCI	Total Equity
	Equity attributable to owners of Melcor						
Balance at January 1, 2011	**13,354**	**1,015**	**-**	**(467)**	**514,791**	**-**	**528,693**
Net income for the year	-	-	-	-	81,394	-	81,394
Cumulative translation adjustment (note 18)	-	-	-	514	-	-	514
Formation of subsidiary (note 9)	-	-	-	-	-	3,981	3,981
Transactions with equity holders							
Dividends	-	-	-	-	(12,052)	-	(12,052)
Issuance of convertible debenture	-	-	639	-	-	-	639
Share repurchase (note 16a)	(142)	-	-	-	(3,312)	-	(3,454)
Employee share options						-	-
Value of services recognized	-	1,885	-	-	-	-	1,885
Share issuance	1,234	(90)	-	-	-	-	1,144
Balance at December 31, 2011	**14,446**	**2,810**	**639**	**47**	**580,821**	**3,981**	**602,744**

	Share Capital	Contributed Surplus	Convertible Debenture	AOCI	Retained Earnings	NCI	Total Equity
	Equity attributable to owners of Melcor						
Balance at January 1, 2010	13,003	572	-	-	471,625	-	485,200
Net income for the year	-	-	-	-	56,852	-	56,852
Cumulative translation adjustment (note 18)	-	-	-	(467)	-	-	(467)
Transactions with equity holders							-
Dividends	-	-	-	-	(10,573)	-	(10,573)
Share repurchase (note 16a)	(121)	-	-	-	(3,113)	-	(3,234)
Employee share options							-
Value of services recognized	-	443	-	-	-	-	443
Share issuance	472	-	-	-	-	-	472
Balance at December 31, 2010	13,354	1,015	-	(467)	514,791	-	528,693

Consolidated Statements of Cash Flows

For the years ended December 31 ($000s)	2011	2010
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the period	**81,394**	56,852
Non cash items:		
Amortization of operating lease incentives	**3,495**	3,115
Depreciation of property and equipment (note 11)	**1,120**	1,260
Stock based compensation expense	**1,885**	443
Non cash interest	**899**	-
Loss (gain) on disposal of assets	**24**	(14)
Fair value adjustment on investment properties (notes 10, 21)	**(41,696)**	(9,746)
Deferred income taxes (note 22)	**6,893**	3,831
	54,014	55,741
Agreements receivable	**(42,366)**	(16,158)
Development activities (note 3s)	**(4,420)**	10,261
Operating assets and liabilities (note 3s)	**(1,770)**	11,783
	5,458	61,627
INVESTING ACTIVITIES		
Purchase of land inventory	**(11,462)**	(15,221)
Payment of tenant lease incentives	**(5,453)**	(5,286)
Net proceeds from disposal of investment properties	**19,515**	1,944
Purchase of investment properties	**(57,768)**	(20,508)
Proceeds from disposal of assets	**14**	22
Purchase of property and equipment (note 11)	**(1,080)**	(580)
	(56,234)	(39,629)
FINANCING ACTIVITIES		
Bank operating loan	**37,297**	(14,375)
Proceeds from debt secured by specific land and investment properties	**29,258**	46,150
Repayment of debt secured by specific land and investment properties	**(36,765)**	(37,984)
Proceeds from convertible debenture	**39,642**	-
Dividends paid	**(12,052)**	(10,573)
Share capital issued	**1,144**	472
Common shares purchased	**(3,454)**	(3,234)
	55,070	(19,544)
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN A FOREIGN CURRENCY	**18**	(10)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**4,312**	2,444
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**6,391**	3,947
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**10,703**	6,391

1. DESCRIPTION OF THE BUSINESS

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

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

2. BASIS OF PRESENTATION AND ADOPTION OF IFRS

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

Our consolidated financial statements have been prepared in accordance with IFRS. Subject to certain transition elections disclosed in note 7, we have consistently applied the same accounting policies in our opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 7 discloses the impact of the transition to IFRS on our previously disclosed shareholders' equity and comprehensive income, including the nature and effect of significant changes in accounting policies from those used in our annual financial statements for the year ended December 31, 2010. Figures for fiscal 2010 in these financial statements have been restated for comparative purposes.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 14, 2012, the date the Board of Directors approved the statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of measurement

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

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

b. Basis of consolidation

These consolidated financial statements include:

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

ii. The accounts of Melcor T/C Aurora, LLC, 75% owned by Melcor Developments Arizona, Inc. Non-controlling interest has been recorded to reflect the equity interest held by outside parties.

iii. Investments in 24 joint arrangements (2010 – 23) with interests ranging from 6% to 75%. These arrangements are undivided interests and we record our proportionate share of the assets, liabilities, revenue and expenses in accordance with the agreements. Refer to note 24 for details on joint arrangements.

All intercompany transactions and balances are eliminated on consolidation.

c. Cash and cash equivalents

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

d. Land inventory

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

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

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

e. Investment properties

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

Acquired investment properties are measured initially at cost, including related transaction costs associated with the acquisition. Costs capitalized to properties under development include direct development and construction costs, borrowing costs, and property taxes.

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

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

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

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

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

f. Property and equipment

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

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

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

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

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

g. Other assets

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

h. Borrowing costs

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

i. Provision for land development

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

j. Provision for decommissioning obligations

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

k. Recognition of revenue

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

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

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

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

l. *Income taxes*

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

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

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

m. *Stock based compensation*

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

n. *Earnings per share*

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

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

o. *Foreign currency*

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

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

p. *Financial instruments*

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to third parties and receivables are initially recognized at fair value plus transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment, if necessary. Loans and receivables are comprised of accounts receivable, agreements receivable and cash and cash equivalents.

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

Other liabilities

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

q. *Convertible debenture*

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

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

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

r. *Operating segments*

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

s. Statement of cash flows

Development activities is defined as the net change of land inventory and the provision for land development costs and excludes the purchase of land inventory. Purchase of land inventory is the cost of land net of vendor financing received (see note 9 – 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 at year end.

4. ACCOUNTING STANDARDS CHANGES

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

a. IFRS 9, Financial Instruments, was issued in November 2009 and addressed classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new missed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive indefinitely.

   Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

   This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted.

b. IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and the ability to affect them through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation – Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.

c. IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interest in Joint Ventures, and SIC-13, Jointly Controlled Entities – Non-monetary Contributions by Venturers.

d. IFRS 12, Disclosures of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associates with an entity's interest in other entities.

e. IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

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

g. IAS 12, Income Taxes, was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery of settlement. SIC 21, Income Taxes – Recovery of Revalued Non-Depreciable Assets, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

The accounting policy change relating to deferred income taxes has been early adopted starting as at January 1, 2010. We are currently assessing the impact of adopting the other standards on our consolidated financial statements.

5. CRITICAL ACCOUNTING ESTIMATES

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

a. Valuation of agreements receivable

We review our agreements receivable on a regular basis to estimate the risk of default on outstanding balances. Factors such as the related builder's reputation and financial status, the geographic location of the lot, and length of time the agreement receivable has been outstanding are all considered when estimating any impairment on agreements receivable. Refer to note 27a for further information related to credit risk associated with agreements receivable.

b. Valuation of land inventory

We review our land inventory on a regular basis to estimate the net realizable value. Factors such as current market conditions and recent sales activity are considered when estimating the net realizable value of land. Refer to note 9 for further information related to land inventory.

c. Fair value of investment properties

Investment properties are valued using a discounted cash flow approach, as completed by qualified valuators. Key estimates and assumptions regarding the discounted cash flows include expected occupancy rates and lease payments, as well as expenditures for operating costs and capital expenditures. Refer to note 10 for further information about methods and assumptions used in determining fair value.

d. Determination of the provision for land development costs

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

e. Income taxes

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

The deferred tax assets recognized at December 31, 2011 have been based on future profitability assumptions over a five-year horizon. In the event of changes in these profitability assumptions the tax assets recognized may be adjusted.

6. SIGNIFICANT JUDGMENTS

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

a. Capitalization of borrowing costs

IAS 23, Borrowing Costs, requires the capitalization of borrowing costs to qualifying assets. IAS 23 also requires the determination of whether the borrowings are specific to a project or general in calculating the capitalized borrowing costs. Judgment is involved in this determination. Capitalization to land inventory occurs when the land is classified to land under development and ceases when the land is considered developed and ready for sale. Borrowing costs are capitalized to investment properties when under active development. We have determined that all of our borrowings are general as the decision on how to deploy operating and acquisition funds is a centrally managed corporate decision.

b. Transfer of land to investment property

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

c. Classification of tenant payments

Payments are often made to tenants of our commercial properties when new leases are signed. When the payments add future value to the space independent of the lease in place, such costs are capitalized to the investment property. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight line basis over the lease term in accordance with IAS 17, Leases.

d. Investment properties

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

7. TRANSITION TO IFRS

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

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

a. Business combinations

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

b. Borrowing costs

IAS 23, Borrowing Costs, requires an entity to capitalize the borrowing costs related to all qualifying assets. IFRS 1 allows an entity to apply the requirements related to borrowing costs to qualifying assets for which the commencement date for capitalization is on or after its transition date or an earlier designated date. We elected to apply IAS 23 prospectively from our transition date.

($000s except per share and acre amounts)

c. Cumulative translation differences

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

d. Share-based payment

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

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

						December 31, 2010
	Note	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
As reported under Canadian GAAP - December 31, 2010		13,354	1,015	(1,979)	345,827	358,217
Differences increasing (decreasing) reported amount:						
Investment properties	i				201,405	201,405
Property and equipment	ii				(5,454)	(5,454)
Decommissioning obligation	iii				(5,130)	(5,130)
Cost of sales	iv				(303)	(303)
Interest expense	v				49	49
Deferred income tax impact	vi				(20,091)	(20,091)
Cumulative translation differences	vii			1,512	(1,512)	-
As reported under IFRS - December 31, 2010		13,354	1,015	(467)	514,791	528,693

						January 1, 2010
	Note	Share capital	Contributed surplus	AOCI	Retained earnings	Total equity
As reported under Canadian GAAP - December 31, 2009		13,003	572	(1,512)	314,457	326,520
Differences increasing (decreasing) reported amount:						
Investment properties	i				188,151	188,151
Property and equipment	ii				(5,681)	(5,681)
Decommissioning obligation	iii				(5,100)	(5,100)
Deferred income tax impact	vii				(18,690)	(18,690)
Cumulative translation differences	vii			1,512	(1,512)	-
As reported under IFRS - January 1, 2010		13,003	572	-	471,625	485,200

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

December 31, 2010		
Net earnings as reported under Canadian GAAP		45,056
Differences increasing (decreasing) reported amount:	Note	
Fair value gains	i	8,096
Reversal of amortization on investment properties	i	5,158
Property and equipment amortization	ii	227
Accretion of decommissioning obligation	iii	(30)
Capitalized borrowing costs expensed through cost of sales	iv	(303)
Capitalized borrowing costs	v	49
Deferred income taxes	vi	(1,401)
Net income under IFRS		56,852

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

December 31, 2010	
Comprehensive income as reported under Canadian GAAP	44,589
Differences increasing (decreasing) reported amount:	
Differences in net earnings	11,796
Comprehensive income under IFRS	56,385

Our explanatory notes are as follows:

i. Investment properties

IFRS requires that an entity choose either the cost or fair value model to account for investment properties. We have elected to measure investment properties at fair value with changes to fair value recorded in the statement of income. Under Canadian GAAP, investment properties were recorded at cost and amortized over their useful life. This resulted in an increase to the value reported for investment properties of $188,151 at January 1, 2010. In accordance with IFRS and under the fair value model, we revalue our investment properties on a quarterly basis and the change in fair value is recorded in net income. Investment property is not subject to amortization or impairment under the fair value method. Fair value gains of $9,746 were recorded for the year ended December 31, 2010, along with the reversal of a gain on sale of investment properties of $1,650 and the reversal of amortization expense of $5,158.

Certain tenant incentives previously recorded as other assets have been reclassified to investment properties.

ii. Property and equipment

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

Golf course assets were valued by qualified independent external valuation professionals as at January 1, 2010 which resulted in an impairment of $5,681, which was not reflected under Canadian GAAP. Under IFRS, the recoverable amount used in recognizing and measuring impairment is the higher of the asset's fair value less costs to sell and value in use. The recoverable amount was primarily determined by discounting the expected future cash flows over ten years plus a terminal value determined by applying a capitalization rate to estimated year eleven cash flows. Future cash flows were estimated based on current operating cash flows and projected market conditions. An estimated capitalized rate of 10% and a terminal capitalization rate of 12% were key assumptions used in determining the recoverable amount. Under Canadian GAAP, the recoverable amount used to determine whether recognition of an impairment loss is required is the undiscounted future cash flows expected from its use and eventual disposition.

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

iii. Recognition of decommissioning obligation

Under Canadian GAAP, we had previously disclosed a contingent liability related to asbestos in two of our investment properties as the ultimate settlement date was not reasonably estimable. As a result of applying IFRS, which presumes a reasonable estimate can be made, we have recognized the liability as an adjustment in our opening statement of financial position.

iv. Cost of sales

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

v. Borrowing costs

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

vi. Deferred income tax impact

The increase to the deferred income tax liability at January 1, 2010 was $18,690. This was comprised of the following: an increase of $15,830 to the liability due to the increase of investment property values greater than tax values including the impact of the amendment to IAS 12 as described in note 4g, decrease to the liability of $1,585 due to the impairment of property and equipment, an increase to the future income tax asset of $1,275 due to recognition of the provision for asbestos. A decrease of $1,401 to the deferred tax liability was recorded at December 31, 2010 due to changes in fair value of investment properties during the year. There was no impact of the adoption of IAS 12, Income Taxes, on our estimates.

vii. Cumulative translation differences

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

viii. Provision for land development

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

($000s except per share and acre amounts)

In process of preparing these annual financial statements, we have updated certain adjustments from those originally reported in our 2011 first quarter financial statements where we reported total equity under IFRS of $487,784 at January 1, 2010 and $532,818 at December 31, 2010, and comprehensive earnings of $57,926 for the year ended December 31, 2010. The adjustments resulted from final reconciliations of investment property fair values and deferred income tax schedules.

8. AGREEMENTS RECEIVABLE

Agreements receivable are due within one year except for $33,122 which is due in 2013 (2010 - $53,347 due in 2012 and $604 due in 2013). Subsequent to the interest adjustment date, which provides an interest relief period to qualifying registered builders; these receivables earn interest at prime plus two percent (5.0% at December 31, 2011 and December 31, 2010) and are collateralized by the specific real estate sold. A provision for impairment was not recorded at December 31, 2011 (2010 - $51).

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

9. LAND INVENTORY

As at December 31	2011	2010
Raw land held	**263,029**	264,086
Land under development	**96,694**	77,051
Developed land	**170,080**	140,207
	529,803	481,344

During the year, we purchased 44 acres of land in Canada at a cost of $2,959; and received vendor financing of $1,800. We also purchased 2 acres of land and 208 finished lots in the US for $4,263; no financing was obtained for these purchases.

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

During 2010, we purchased 663 acres of land at a cost of $47,673 and received vendor financing of $32,452.

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

The weighted average interest rate used for capitalization of borrowing costs to land under development is 5.23% for the year ended December 31, 2011 (2010 – 5.12%). Borrowing costs capitalized to land inventory during the year were $3,304 (2010 - $2,798).

Land inventory expensed to cost of sales during the year was $103,010 (2010 - $79,272).

The net realizable value exceeds the carrying cost of all land inventories at December 31, 2011 and 2010, such that no provisions for impairment are required.

10. INVESTMENT PROPERTIES

	2011	2010
January 1, 2010 (as stated under Canadian GAAP)		180,123
Reclassification to property and equipment (note 11)		(18,957)
Reclassification of tenant incentives (note 7i)		1,603
IFRS fair value adjustment (note 7i)		188,151
Balance - beginning of year	**401,429**	350,920
Additions		
Direct acquisition	**21,645**	2,829
Transfer from land inventory	**2,988**	-
Acquisition through business combination	**40,838**	21,607
Property improvements	**7,009**	5,254
Property development	**12,149**	13,759
Capitalized borrowing costs	**225**	327
Disposals	**(36,695)**	(1,650)
Net fair value adjustment on investment properties (note 21d)	**41,696**	9,746
Foreign currency translation	**2,236**	(1,363)
Balance - end of year	**493,520**	401,429

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

	2011	2010
Commercial properties	**384,375**	371,117
Residential properties	**81,393**	25,688
Properties under development	**27,752**	4,624
Balance - end of year	**493,520**	401,429

The cost of investment properties as at December 31, 2011 totalled $289,982 (2010 - $224,634)

Investment properties were valued by qualified independent external valuation professionals as at January 1, 2010, December 31, 2010 and December 31, 2011. This resulted in fair value gains in 2011 and 2010 of $41,696 and $9,746, respectively, being recognized in the statement of income. Fair values are primarily determined by discounting the expected future cash flows over ten years plus a terminal value determined by applying a capitalization rate to estimated year eleven cash flows. Properties under development are measured using a discounted cash flow model net of costs to complete.

Properties transferred from property under development to commercial properties during the year totalled $13,348 (2010 - $20,535).

Presented separately from investment properties is $14,000 (2010 - $13,827) in tenant incentives (included in note 12). The fair value of investment properties has been reduced by these amounts.

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

	December 31, 2011			December 31, 2010		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.75%	8.00%	6.88%	6.00%	8.50%	7.28%
Terminal capitalization rate	6.00%	8.50%	7.14%	6.25%	8.50%	7.55%

A change in capitalization rates by a 50 basis points increase or decrease would change the carrying amount of investment properties by $31,074 or $35,946 respectively.

The weighted average interest rate used for capitalization of borrowing costs to properties under development is 5.23% for the year ended December 31, 2011 (2010 – 5.12%).

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

	2011	2010
Within one year	**26,585**	26,171
Later than one year but not later than 5 years	**58,345**	68,284
Later than 5 years	**12,790**	18,845
Total	**97,720**	113,300

Amounts recognized in profit and loss for investment property:

	2011	2010
Rental income from investment property	**47,602**	42,131
Direct operating expenses		
Leased properties	**(23,294)**	(19,680)
Unlet properties	**(366)**	(54)
	(23,660)	(19,734)
Total	**23,942**	22,397

Acquisitions through business combination:

Augusta Meadows

On May 31, 2011, we acquired a 264 unit residential complex in Tomball, Texas, which has been accounted for using the acquisition method. The acquisition resulted in an increase to investment properties of $20,838 (US$21,500) with consideration consisting of a promissory note in the amount of $8,721 (US$9,000) and a cash payment of $12,875 (US$12,500). The property is pledged as collateral against the promissory note.

The amounts of revenue and net income before tax of the property since the acquisition date included in the consolidated statement of income for the reporting period are $1,294 and $158 respectively (US$1,308 and US$160 respectively).

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

Lakeside 121

On October 26, 2011, we acquired a 240 unit residential complex in Lewisville, Texas, which has been accounted for using the acquisition method. The acquisition resulted in an increase to investment properties of $20,000 (US$19,800) with consideration consisting of a mortgage in the amount of $15,152 (US$15,000) and a cash payment of $4,848 (US$4,800). The property is pledged as collateral against the promissory note.

The amounts of revenue and net loss before tax of the property since the acquisition date included in the consolidated statement of income for the reporting period are $416 and $220 respectively (US$420 and US$222 respectively)

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

($000s except per share and acre amounts)

11. PROPERTY AND EQUIPMENT

	Golf course assets					
	Land	**Buildings**	**Equipment**	**Greens and tees**	**Corporate**	**Total**
January 1, 2010 *(as stated under Canadian GAAP)*						
Cost	-	-	-	-	1,548	1,548
Accumulated depreciation	-	-	-	-	(1,109)	(1,109)
Net book value	-	-	-	-	439	439
Reclassification from investment properties (note 7ii)						
Cost	1,293	7,062	6,511	9,247	743	24,856
Accumulated depreciation	-	(973)	(3,455)	(1,126)	(345)	(5,899)
Impairment (note 7ii)	-	(1,862)	(326)	(3,493)	-	(5,681)
Net book value - IFRS	1,293	4,227	2,730	4,628	837	13,715
December 31, 2010						
Cost	1,293	5,200	6,185	5,754	2,291	20,723
Opening accumulated depreciation	-	(973)	(3,418)	(1,126)	(1,461)	(6,978)
Additions	-	8	297	192	83	580
Disposals	-	-	(48)	-	-	(48)
Depreciation	-	(206)	(691)	(231)	(132)	(1,260)
Net book value	1,293	4,029	2,325	4,589	781	13,017
December 31, 2011						
Cost	**1,293**	**5,207**	**6,447**	**5,946**	**2,375**	**21,268**
Opening accumulated depreciation	**-**	**(1,033)**	**(4,076)**	**(1,358)**	**(1,590)**	**(8,057)**
Additions	**-**	**378**	**375**	**95**	**232**	**1,080**
Disposals	**-**	**(181)**	**(48)**	**-**	**-**	**(229)**
Depreciation	**-**	**(191)**	**(557)**	**(219)**	**(153)**	**(1,120)**
Net book value	**1,293**	**4,180**	**2,141**	**4,464**	**864**	**12,942**

Refer to note 7ii for a description of the impairment recorded as at January 1, 2010.

12. OTHER ASSETS

	2011	2010
Tenant incentives	**14,000**	13,827
Deposits	**1,510**	590
Sundry prepaids	**769**	345
Sundry inventory	**385**	345
	16,664	15,107

During the year we provided tenant incentives of $5,453 (2010 - $4,514), recorded $3,495 (2010 - $3,116) of amortization expense and disposed of $1,785 (2010 - $nil) on sale of an investment property. In accordance with IAS 17, Leases, amortization of tenant incentives is recorded on a straight line basis over the term of the lease against rental revenue.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31	2011	2010
Trade accounts payable	**23,899**	17,166
Other payables	**12,690**	13,078
Decommissioning obligation	**5,160**	5,130
	41,749	35,374

We have determined that a decommissioning obligation exists to remove asbestos from two of our commercial properties (note10). We obtained an estimate from a remediation provider to estimate the financial impact of this obligation; however, due to uncertainty surrounding the nature and timing of this obligation amounts are subject to change.

14. PROVISION FOR LAND DEVELOPMENT

for the year ended	31-Dec-11	31-Dec-10
January 1, 2010 (as stated under Canadian GAAP)	-	43,154
IFRS transition adjustment (note 7 viii)	-	20,601
Balance - beginning of period	**72,255**	63,755
Additional provisions	**52,623**	44,831
Changes to estimate	**3,113**	(2,117)
Cost incurred	**(35,045)**	(34,214)
Balance - end of period	**92,946**	72,255

15. GENERAL DEBT

General debt consists of the following:

		2011	2010
Bank operating loan	a	**91,094**	53,797
Debt on land inventory	b	**66,378**	77,153
Debt on investment properties and golf course assets	c	**233,268**	211,239
Convertible debenture	d	**38,949**	-
		429,689	342,189

a. Bank operating loan

We have an available credit facility with approved loan limits of $161,900 (2010 - $153,400) with a syndicate of major chartered banks. The portion of these loan limits that pertain solely to Melcor Developments Ltd. is $120,000 (2010 - $120,000) with the remaining balance pertaining to specific joint arrangements.

The amount of the total credit facilities currently used is $91,094 (2010 - $53,797). We have pledged agreements receivable, specific lot inventory, undeveloped land inventory and a general security agreement as collateral for our credit facility. The carrying value of assets pledged as collateral is $312,512 (2010 - $257,571). The 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 1.5% to prime plus 2.25% or banker's acceptance rate plus a 2.75% (2010 – 3.00%) stamping fee resulting in interest rates ranging from 4.50% to 5.25% at December 31, 2011 (2010 - 4.00% to 5.25%).

b. Debt on land inventory

	2011	2010
Agreements payable with interest at the following contractual rates:		
Fixed rates of 0.00% - 6.0%	**57,686**	57,239
Variable rates of prime plus 0.75% - 1.50% (4.25% - 4.50% at 31-Dec-11 and 31-Dec-10)	**8,692**	19,914
	66,378	77,153

As at December 31, 2011 $9,858 (2010 - $nil) of debt was payable in US dollars (US$9,693) (2010 - $nil). The debts mature from 2012 to 2017.

Land inventory with a December 31, 2011 carrying value of $166,464 (2010 - $184,407), has been pledged as collateral for the above debt. The weighted average effective interest rate for the above debts, based on year end balances, is 4.24% (2010 – 5.03%).

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

2012	41,582
2013	4,586
2014	6,382
2015	9,081
2016	693
Thereafter	4,054
	66,378

c. Debt on investment properties and golf course assets

	2011	2010
Project loan, maturing October 2012, with interest at prime plus 2.00% (5.00% at 31-Dec-11 and 31-Dec-10), maturing March 2012	**5,000**	5,000
Mortgages amortized over 10 to 30 years at variable rates ranging from prime plus 1.10% - 1.25% (4.10% - 4.25% at 31-Dec-11 and 31-Dec-10)	**3,547**	3,963
Mortgages amortized over 15 to 30 years at fixed rates varying from 2.90% to 7.53% (2010: 3.94% to 7.53%)	**224,721**	202,276
	233,268	211,239

As at December 31, 2011 $40,554 (2010 - $15,992) of debt was payable in US dollars (US$39,876) (2010 - $16,078). The debts mature from 2012 to 2021.

The fair value of debt on investment properties at December 31, 2011 is $246,456 (2010 - $223,527). Fair values are determined by discounting the future cash flows associated with the debt at market interest rates.

Specific investment properties and golf courses with a carrying value of $434,586 (2010 - $394,323) 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 5.1% (2010 – 5.4%).

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

2012	22,116
2013	8,670
2014	10,216
2015	8,903
2016	9,361
Thereafter	174,002
	233,268

d. CONVERTIBLE DEBENTURE

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

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

The convertible debenture originally recognized is calculated as follows:

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

During the year ended December 31, 2011, we recognized $54 (2010 - $nil) of expense related to amortization of transaction costs and $2,305 (2010 - $nil) of interest expense.

16. SHARE CAPITAL

a. Common Shares

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

	2010	
(# of shares)	Number of Shares Issued	Amount ($000s)
Common shares, beginning of the year	30,283,730	13,003
Share options exercised	103,400	472
Shares purchased and cancelled	(277,500)	(121)
Common shares, end of the year	30,109,630	13,354

Authorized:

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

During the year, there were 304,300 common shares purchased for cancellation by the Company pursuant to Normal Course Issuer Bid (2010 – 277,500) at a cost of $3,454, (2010- $3,234). Share capital was reduced by $142 (2010 - $121) and retained earnings by $3,312 (2010 - $3,113). Under the current bid which expires August 2, 2012, an additional 1,208,000 shares may be repurchased by the Company.

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 203,800 shares reserved for issuance under the 2000 Plan (2010 – 254,600).

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 2,726,433 shares reserved for issuance under the 2007 Plan (2010 – 2,903,600).

c. *Stock Options Available for Granting*

2000 Plan	2011	2010
Stock options available, beginning of the year	77,400	77,400
Stock options granted	-	-
Stock options forfeited	2,000	-
Stock options available, end of the year	79,400	77,400
2007 Plan	**2011**	**2010**
Stock options available, beginning of the year	1,657,733	2,154,900
Stock options granted	(463,000)	(506,500)
Stock options forfeited	52,333	9,333
Stock options available, end of the year	1,247,066	1,657,733

d. *Stock Options Outstanding Under the 2000 & 2007 Plans*

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

	2010	
	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of the year	1,029,300	9.185
Stock options granted	506,500	13.614
Stock options exercised	(103,400)	4.564
Stock options forfeited	(9,333)	10.291
Stock options outstanding, end of the year	1,423,067	11.089

The weighted average share price at the date of exercise was $14.36 (2010 - $13.08). During the year, 463,000 (2010 - 506,500) stock options were issued to employees of the company. The options granted vest over three years and expire after five years.

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

	Outstanding Stock Options (#)	Exercise Price Per Share ($)	Stock Options Exercisable at Dec. 31, 2011
July 26, 2012	85,400	7.064	85,400
December 17, 2012	154,000	19.34	154,000
July 27, 2013	39,000	16.60	39,000
December 15, 2013	137,700	3.71	137,700
December 17, 2014	255,667	10.94	166,700
November 4, 2015	100,000	13.10	33,333
December 13, 2015	369,000	13.74	123,000
February 2, 2016	30,000	14.38	-
June 3, 2016	75,000	16.05	-
December 20, 2016	358,000	12.76	-
	1,603,767		739,133

f. *Stock Based Compensation Expense*

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

	2011	2010
Expected volatility	49%	52%
Risk-free interest rate	1.24%	1.82%
Annual dividend rate	4.28%	4.04%
Expected life of options in years	3.8	4.5

The weighted average grant date fair value of stock options granted during the year was $3.73 per stock option (2010 - $4.52). Current year vesting of options resulted in a $1,885 (2010 - $443) charge to stock-based compensation expense and corresponding credit to contributed surplus.

17. PER SHARE AMOUNTS

(# of shares)	2011	2010
Basic weighted average common shares outstanding during the period	30,125,641	30,234,889
Dilutive effect of options	325,189	293,264
Dilutive effect of convertible debenture	1,930,093	-
Diluted weighted average common shares	32,380,923	30,528,153

Stock options expiring on December 17, 2012, July 27, 2013 and June 3, 2016, totalling 268,000 options (2010 – 199,500 options), have been excluded from the calculation of 2011 diluted earnings per share due to their anti-dilutive effect.

($000s except per share and acre amounts)

Diluted earnings per share was calculated based on the following:

	2011	2010
Profit attributable to shareholders	**81,394**	56,852
Interest expense on convertible debenture, net of tax	**1,706**	-
Profit for computation of diluted earnings per share	**83,100**	56,852

18. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2011	2010
Balance, beginning of the year	**(467)**	-
Other comprehensive gain (loss)	**514**	(467)
Balance, end of the year	**47**	(467)

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

19. CONTINGENT LIABILITIES

In the normal course of operations, we issue letters of credit as collateral for the completion of obligations pursuant to development agreements signed with municipalities. As at December 31, 2011 we had $35,118 (December 31, 2010 - $32,248) in letters of credit outstanding and recorded a net liability of $92,946 (December 31, 2010 - $72,255) in provision for land development costs in respect of these development agreements.

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

We enter into joint arrangements and, in doing so, may take on risk beyond our proportionate interest in the joint arrangement. These situations generally arise where preferred financing terms can be arranged on the condition that the strength of our company's covenant will backstop that of the other joint arrangement participant(s) who also provide similar guarantees. We will have to perform on our guarantee only if a joint arrangement participant was in default of their guarantee. At December 31, 2011 we had guaranteed $3,481 (December 31, 2010 - $3,081) in loans and $5,605 (December 31, 2010 - $10,026) in letters of credit in support of other participants' interests.

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

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

20. INTEREST EXPENSE

	2011	2010
Interest on bank operating loan	**1,712**	2,597
Interest on convertible debenture	**2,305**	-
Interest on other debt	**15,731**	13,220
	19,748	15,817
Less: capitalized interest	**(3,530)**	(3,124)
	16,218	12,693

Cumulative interest capitalized on land inventory at the end of the year is $21,366 (2010 - $19,229). Interest paid during the year was $20,923 (2010 - $15,189).

21. REVENUE AND EXPENSE BY NATURE

a. *Revenue:*

The components of revenue are as follows:

	2011	2010
Sale of land	**165,245**	141,875
Rental income	**47,602**	41,379
Development revenue	**367**	55
Golf course revenue	**7,135**	6,602
Total revenue	**220,349**	189,911

b. *Cost of Sales:*

The components of cost of sales are as follows:

	2011	2010
Cost of land sold	**100,022**	76,900
Investment property direct operating expenses	**21,956**	18,523
Direct golf course expenses	**3,814**	3,431
Total cost of sales	**125,792**	98,854

c. *General and Administrative expenses:*

The components of general and administrative expenses are as follows:

	2011	2010
Employee salary & benefits		
Salaries and wages	**9,505**	8,455
Employee benefits	**1,225**	825
Stock based compensation	**1,885**	443
Finance Fees	**1,543**	1,249
Other	**4,392**	3,942
Total	**18,550**	14,914

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

	2011	2010
Salaries and wages	**5,214**	3,798
Employee benefits	**68**	53
Stock based compensation	**992**	231
Total	**6,274**	4,082

d. *Fair value adjustment on investment properties*

The components of the fair value adjustment are as follows:

	2011	2010
Land transferred to investment properties	**6,415**	934
Property under development	**8,556**	8,463
Commercial and residential properties	**26,725**	349
Total	**41,696**	9,746

22. INCOME TAX

Current tax expense:

	2011	2010
Current tax expense		
Current year	**13,504**	13,397
Adjustment to prior years	**1,064**	-
	14,568	13,397
Deferred tax expense		
Origination and reversal of temporary differences	**7,601**	4,902
Reduction in tax rate	**(708)**	(1,071)
	6,893	3,831
Total tax expense	**21,461**	17,228

Reconciliation of effective tax rate:

	2011	2010
Income before taxes	**102,855**	74,080
Statutory rate	**26.50%**	28.00%
	27,257	20,742
Impact of higher tax rates in subsidiary	**(51)**	(17)
Non-deductible expenses	**520**	137
Non-taxable portion of capital gains and fair value adjustment	**(5,750)**	(2,340)
Impact of substantively enacted tax rates	**(515)**	(1,294)
	21,461	17,228

The statutory rate was 26.5% (2010 – 28.0%). The decrease in rate is due to a previously legislated decrease in the federal statutory corporate income tax rate from 2010 to 2011.

Tax recognized directly in equity:

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

	December 31, 2010		
	Before Tax	Tax	Net of tax
Convertible debenture	-	-	-
Total tax recognized directly in equity	-	-	-

Movement in deferred tax balances during the year:

	December 31, 2011			
	Opening	Recognized in profit or loss	Recognized in equity	Closing
Investment property and capital assets	29,101	4,308	-	33,409
Reserves for tax purposes	11,400	3,417	-	14,817
Interest deducted for tax purposes	300	(753)	-	(453)
Tenant leasing costs	5,304	1,719	-	7,023
Provision for decommissioning obligation	(1,275)	-	-	(1,275)
Convertible debenture	-	(22)	213	191
Tax loss carry-forwards	(179)	(1,776)	-	(1,955)
Deferred tax liability	44,651	6,893	213	51,757

	December 31, 2010			
	Opening	Recognized in profit or loss	Recognized in equity	Closing
Investment property and capital assets	27,101	2,000	-	29,101
Reserves for tax purposes	10,710	690	-	11,400
Interest deducted for tax purposes	454	(154)	-	300
Tenant leasing costs	4,081	1,223	-	5,304
Provision for decommissioning obligation	(1,275)	-	-	(1,275)
Tax loss carry-forwards	(251)	72	-	(179)
Deferred tax liability	40,820	3,831	-	44,651

The above table includes a net deferred income asset of $231 (2010 - $nil) recorded by a wholly owned US subsidiary. Income tax paid during the year was $20,458 (2010 - $7,425).

($000s except per share and acre amounts)

23. RELATED PARTY TRANSACTIONS

During the year we issued $22,000 of the convertible debenture (note 15d) to companies controlled by two members of our executive management team who are also directors of our company.

At December 31, 2011, debenture coupon payments due to the two individuals of $346 (2010 - $nil) were accrued in other payables (note 13) , and payments of $882 (2010 - $nil) were made during the year.

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

24. JOINT ARRANGEMENTS

The table below discloses our proportionate share of the assets, liabilities, revenue, and earnings of 24 arrangements (2010 – 23) that are recorded in these financial statements as follows:

	Interest	Principal activity
Anders East Developments	33%	Active land development with investment property
Blackmud Communities	50%	Non-active land development
Capilano Investments	50%	Investment property
Chestermere Communities	50%	Active land development with investment property
Highview Communities	60%	Active land development activities
HV Nine	6%	Non-active land development
Inglewood Communities	75%	Non-active land development
Jagare Ridge Communities	50%	Active land development and recreational property
Jesperdale Communities	50%	Active land development activities
Kinwood Communities	50%	Active land development activities
Lakeside Communities	50%	Non-active land development
Larix Communities	50%	Active land development activities
Lethcentre	50%	Investment property
Lewis Estates Communities	60%	Active land development and recreational property
MLS Industrial Developments	50%	Active land development activities
Rosenthal Communities	50%	Active land development activities
Stonecreek Shopping Centre	30%	Investment property under development
Sunset Properties	60%	Active land development activities
Terwillegar Pointe Communities	50%	Non-active land development
Watergrove Developments	50%	Manufactured home community
West 33 Developments	50%	Non-active land development
Whitecap Communities	50%	Non-active land development
Windermere	50%	Active land development activities
Winterburn Developments	50%	Non-active land development

The following summarizes financial information about our share of assets, liabilities, revenue and earnings of our interest in joint arrangements that are recorded in our accounts for the year ended December 31, 2011.

	2011	2010
Assets	**334,175**	286,738
Liabilities	**114,363**	100,265
Revenue	**102,889**	59,513
Earnings	**40,811**	20,569

Contingent liabilities arising for liabilities of other venturers are disclosed in note 19.

25. SEGMENTED INFORMATION

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

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

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

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

Property Development
This division develops high-quality retail, office and industrial revenue-producing properties on serviced commercial sites developed primarily from our community development division. Once substantial completion of construction and leasing are complete, these properties are transferred to our investment property division at fair value (refer to note 10).

Investment Property
This division owns 62 leasable commercial and retail buildings (2010 – 54 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.

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

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

(in Canadian dollars)	2011	2010
External revenue	**5,878**	2,101
Net income (loss)	**(906)**	2,703
Assets	**111,428**	25,354
Equity	**11,315**	6,258

Our divisions reported the following results:

2011	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	175,896	367	47,602	7,135	-	(10,651)	220,349
Cost of sales	(103,010)	-	(21,956)	(3,814)	-	2,988	(125,792)
	72,886	367	25,646	3,321	-	(7,663)	94,557
Depreciation expense	-	-	-	(968)	(152)	-	(1,120)
General and administrative	(6,057)	(1,091)	(1,704)	(1,701)	(9,245)	1,248	(18,550)
	66,829	(724)	23,942	652	(9,397)	(6,415)	74,887
Net fair value adjustment	-	8,556	26,725	-	-	6,415	41,696
Gain on disposal	-	-	-	(24)	-	-	(24)
	66,829	7,832	50,667	628	(9,397)	-	116,559
Interest income	2,406	-	50	-	58	-	2,514
Interest expense	(596)	(27)	(10,859)	(266)	(4,470)	-	(16,218)
Income before tax	68,639	7,805	39,858	362	(13,809)	-	102,855
Income tax							(21,461)
Net income							81,394
Total assets	689,811	27,867	483,552	12,621	5,034		1,218,885

2010	Community Development	Property Development	Investment Properties	Recreational Properties	Corporate	Intersegment Elimination	Total
Segment revenue	145,128	55	42,131	6,884	-	(4,287)	189,911
Cost of sales	(79,272)	-	(18,522)	(3,432)	-	2,372	(98,854)
	65,856	55	23,609	3,452	-	(1,915)	91,057
Depreciation expense	-	-	-	(1,127)	(133)	-	(1,260)
General and administrative	(5,141)	(926)	(1,212)	(1,752)	(6,864)	981	(14,914)
	60,715	(871)	22,397	573	(6,997)	(934)	74,883
Net fair value adjustment	-	8,463	349	-	-	934	9,746
Gain on disposal of equipment	-	-	-	14	-	-	14
Interest income	2,030	-	25	-	75	-	2,130
Interest expense	(590)	-	(9,875)	(270)	(1,958)		(12,693)
Income before tax	62,155	7,592	12,896	317	(8,880)	-	74,080
Income tax							(17,228)
Net income							56,852
Total assets	592,104	5,446	409,835	12,647	7,722	-	1,027,754

26. MANAGEMENT OF CAPITAL RESOURCES

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

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

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

We are subject to financial covenants on our $120,000 (2010 - $120,000) credit facility. The covenants include a maximum debt to total capital ratio, a minimum interest coverage ratio, and a minimum net book value of shareholder's equity. We also have financial covenants on certain mortgages for investment properties. At December 31, 2011, and throughout the year, we were in compliance with our financial covenants. We prepare financial forecasts to monitor the changes in our debt and capital levels and ability to meet our financial covenants.

27. RISK MANAGEMENT

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

a. *Credit Risk*

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

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

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

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

Management has reviewed all agreements receivable balances as at December 31, 2011 and considered the following in assessing credit risk:

i. The credit quality of agreements receivable that are neither past due nor impaired is determined based on whether balances are due from builders on our approved builder list, and based on geographic location. The approved builder list contains those builders which have a long standing track record, good volumes, positive perception in the industry, and a strong history of repayment. At December 31, 2011, 97% of agreements receivable are due from approved builders (2010 – 97%)

ii. At December 31, 2011, we have identified $2,343 (2010 - $2,068) in agreements receivable which have indications of possible impairment. The factors that we considered in determining that these assets may be impaired was primarily the geographic location in which the receivables were associated and agreements receivable in arrears. We have determined on a loan by loan basis that there is no impairment provision required as balances are expected to be collected in full (2010 - $51).

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

	2011	2010
0 - 6 months past due	**1,983**	644
Greater than 6 months past due	**218**	1,373

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

iii. Total loans included in agreements receivable that would have otherwise been past due or impaired at December 31, 2011, but whose terms have been renegotiated is $3,056 (2010 - $2,875).

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

	2011	2010
Balance, beginning of the year	**51**	566
Write off based on concessions provided	**(51)**	(515)
Balance, end of the year	**-**	51

b. *Liquidity Risk*

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

Refer to note 15 for the maturity analysis of general debt details on the bank indebtedness. Accounts payable and accrued liabilities are expected to be repaid in the next twelve months.

c. *Market Risk*

We are subject to interest rate cash flow risk as our operating credit facilities and certain of our general debt bear interest at rates that vary in accordance with prime borrowing rates in Canada. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately $639 (2010 - $825) based upon applicable year end debt balances. We are not subject to other significant market risks pertaining to our financial instruments.

d. *Fair Value Estimation*

The carrying amounts of cash and cash equivalents, receivables and accounts payable and accrued liabilities approximate their fair values based on the short term maturities of these financial instruments.

The fair value of general debt at December 31, 2011 is $299,246 (2010 - $300,014). Fair values are determined by discounting the future cash flows associated with the debt at market interest rates.

Notes

Notes

Selected Five Year Performance Measures (unaudited)

	2011 (IFRS)	% change	2010 (IFRS)	% change	2009 (GAAP)	% change	2008 (GAAP)	% change	2007 (GAAP)	% change
Assets ($000s)	**1,218,885**	**18.6%**	1,027,754		708,203	0.0%	707,982	(2.6%)	726,765	39.0%
Shareholders Equity ($000s)	**598,763**	**13.3%**	528,693		326,520	5.3%	310,159	8.3%	286,484	21.4%
Revenue ($000s)	**220,349**	**16.0%**	189,911		136,608	26.0%	108,436	(47.6%)	207,024	1.8%
Gross Margin	**42.9%**		47.9%		43.5%		48.7%		53.3%	
Administrative Expenses/Revenue	**8.4%**	**6.3%**	7.9%		8.1%	(25.0%)	10.8%	62.4%	6.7%	15.2%
Earnings Before Taxes ($000s)	**102,855**	**38.8%**	74,080		31,196	(39.5%)	51,547	(42.3%)	89,344	8.1%
Basic Earnings Per Share ($)	**2.70**	**43.6%**	1.88		0.78	(40.9%)	1.32	(35.6%)	2.05	9.6%
Average Share Price ($)	**13.91**	**15.1%**	12.09	61.4%	7.49	(20.6%)	9.43	61.0%	24.21	35.3%
Dividend Per Share ($)	**0.40**	**14.3%**	0.35	41.4%	0.25	(40.9%)	0.42	5.0%	0.40	33.3%
Dividend Yield	**2.9%**		2.9%		3.3%		4.5%		1.7%	
Book Value Per Share ($)	**19.94**	**13.6%**	17.56		10.78	3.5%	10.42	13.4%	9.19	20.9%
Average Book Value Per Share ($)	**18.75**	**11.7%**	16.79		10.60	8.1%	9.80	16.8%	8.39	10.5%
Average Market/Average Book	**0.74**		0.72		0.71		0.96		2.89	
Price/Earnings Ratio	**5.1**		6.4		9.6		7.1		11.8	
Return on Equity	**18.2%**		14.6%		9.8%		17.3%		34.2%	
Return on Assets	**9.2%**		7.6%		4.4%		7.2%		14.3%	
Debt/Equity Ratio	**1.03**		0.94		1.17		1.28		1.54	
Asset Turnover	**18.1%**		18.5%		19.3%		15.3%		28.5%	

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.

Corporate Information

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Andrew J. Melton
Executive Vice-Chairman, Melcor

William D. Grace [1,2]
Lead Director
Corporate Director

Gordon J. Clanachan [1]
Corporate Director

Ross A. Grieve [2]
Chairman, PCL Construction Holdings Ltd.

Catherine M. Roozen [1]
Chair, Cathton Investments Ltd.

Allan E. Scott [2]
Corporate Director

Ralph B. Young
President & Chief Executive Officer, Melcor

1 Audit Committee 2 Governance Committee

Executive Officers

Timothy C. Melton, Executive Chairman

Andrew J. Melton, Executive Vice-Chairman

Ralph B. Young, President & CEO

Brian Baker
Executive Vice-President & COO

Jonathan Chia, CA
Vice-President, Finance & CFO

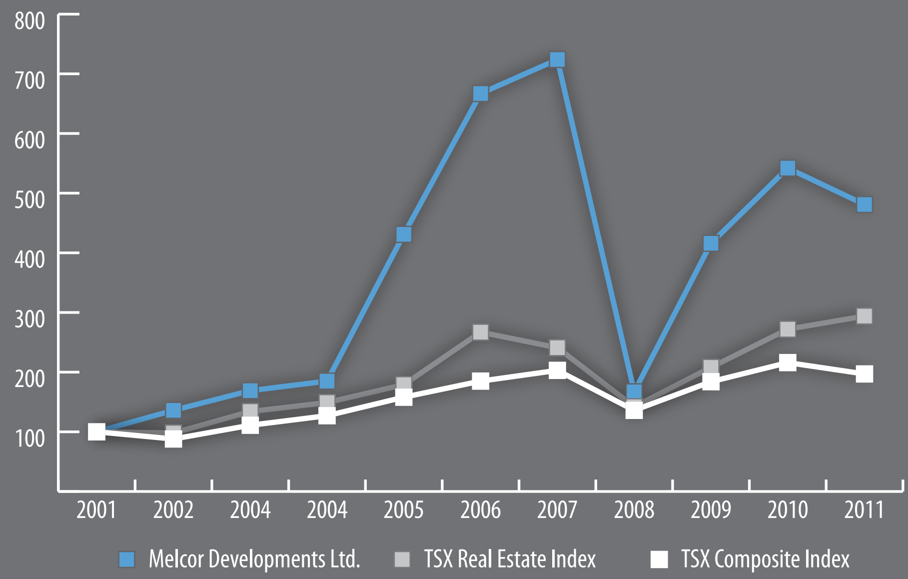
W. Peter Daly
Executive Vice-President,
Community Development

Darin Rayburn
Executive Vice-President, Investment Property

Brett A. Halford
Vice-President, Administration

Shareholder Information

Performance Graph



The graph above compares total shareholder return for $100 invested in MRD at December 31, 2001 (assuming all dividends are reinvested, adjusted for stock split), against the total return of the TSX Composite Index and the TSX Real Estate Index.

Key Dates for 2012

2011 Annual General Meeting 26-Apr-12
Q1 Earnings Announcement............10-May-12
Q2 Earnings Announcement..............1-Aug-12
Q3 Earnings Announcement..............6-Nov-12
Q4 Earnings Announcement..............6-Mar-13

Professional Services

Auditors ....PricewaterhouseCoopers LLP
Legal Counsel .... Bryan & Company LLP

Exchange Listing

Toronto Stock Exchange .... MRD

Annual Shareholders Meeting

Please join us for our Annual Shareholders Meeting on Thursday, April 26, 2012 at 11 am MDT

The Citadel Theatre | Zeidler Hall
9828 - 101A Avenue
Edmonton, Alberta

Who to Contact

Shareholder Services

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

Contact Valiant Trust

p 1-800-313-1872
f 1-403-233-2857
e inquiries@valianttrust.com

Investor Relations

for all other shareholder inquiries, including institutional investors and research analysts

Contact Melcor

Jonathan Chia, VP Finance & CFO
p 1-780-423-6931 e ir@melcor.ca

Customer Service

for all other inquiries

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Calgary, AB
Lethbridge, AB
Red Deer, AB
Kelowna, BC
Phoenix, AZ