

## Management Discussion & Analysis

### Nine Months ended September 30, 2005

Management's discussion and analysis of financial conditions and results of operations should be read in conjunction with the Unaudited Financial Statements for the six months ended September 30, 2005 and the Audited Financial Statements for the Year Ended December 31, 2004. Certain statements in this report may constitute "forward looking statements". While management believes that its expectations regarding future performance of the Corporation are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. Forward looking statements involve risk, uncertainties and other factors that might cause the actual results, performance, or achievements of the Corporation to vary significantly.

#### Overview

Strengthening land and building development, NewNorth Projects Ltd's (NewNorth's) core business, and optimizing profitability in development, the company has positioned itself to take full advantage of new opportunities.

- ☛ Land and housing achieved expectations, as the marketplace in Alberta remains strong and NewNorth brought to market products that are well received.
- ☛ Development projects that complement the body of work on hand are actively being sought to provide quality product to existing and new clients.
- ☛ Greenland turned over the final two six-plexes that were pre-sold to a commercial Greenlandic client. Management has determined that due to market change, it is in the best interest of NewNorth to not engage in further development in Greenland.
- ☛ Construction has undergone significant change. Refocused on the development arm of NewNorth, construction will no longer engage in further third party construction work.

#### Comparative Information for the Past Full Eight Quarters

<i>\$ 000's</i> <i>(except per share amounts)</i>	<u>Jul - Sep</u> <u>2005</u>	<u>Apr - Jun</u> <u>2005</u>	<u>Jan - Mar</u> <u>2005</u>	<u>Oct - Dec</u> <u>2004</u>	<u>Jul - Sep</u> <u>2004</u>	<u>Apr - Jun</u> <u>2004</u>	<u>Jan - Mar</u> <u>2004</u>	<u>Oct - Dec</u> <u>2003</u>
Sales	\$ 6,638	\$ 4,244	\$ 5,131	\$ 32,848	\$ 22,029	\$ 12,667	\$ 7,142	\$ 15,607
Gross Profit	376	645	763	1,650	617	1,475	448	1,665
Net Income (loss) before goodwill impairment	(580)	(202)	(115)	292	(139)	214	(302)	(38)
Goodwill impairment	-	-	-	623	-	-	-	-
Net Income (loss)	(580)	(202)	(115)	(331)	(139)	214	(302)	(38)
Per Share, basic	\$ (0.08)	\$ (0.02)	\$ (0.01)	\$ (0.03)	\$ (0.01)	\$ 0.02	\$ (0.03)	\$ 0.00
Per Share prior to impairment (a non- GAAP calculation)	\$ (0.08)	\$ (0.02)	\$ (0.01)	\$ 0.03	\$ (0.01)	\$ 0.02	\$ (0.03)	\$ 0.00

In the quarter ending December, 2003, Ninety North realized a receivable write down of \$186,000 on a Calgary project (Sunpark Plaza). Total write down to December, 2003 was \$1,035,000. NewNorth secured all assets of the project through sale or acquisition and retains two rental units with a collective value of \$0.7 million for future sale.

The quarter ending June, 2004 NewNorth realized strong housing and land sales with a complementary active period for construction. Ninety North Construction realized a bad debt of \$107,000 in this quarter due to a Yellowknife client going into receivership. Additional losses in respect to the Inuvik Hospital project were identified (\$186,000) and recognized in the quarters ending September and December, 2004 as well as cost adjustments for Ninety North's third party construction projects. Ninety North's proportionate losses on the Inuvik Hospital at December 31, 2004 was \$0.8 million.

The quarter ended December 31, 2004 reflects the result of the annual impairment test conducted to ensure intangible assets are supportable. For the year ended 2004, the test showed that a write down of goodwill was required in the amount of

\$623,000. This goodwill was specifically associated to the value of Ninety North and the amount was established at the time the Plan of Arrangements was completed. Management considers earnings per share before the impairment to be more representative of the operations of the corporation.

The quarters ending March and June, 2005 most specifically show the planned reduction of third party construction activity by the corporation, in comparison to prior periods. The quarter ending September, 2005 reflects losses in relation to the finalization and sales of two six-plex complexes in Greenland. Poor weather conditions resulted in damage to the structures, incurring unforeseen labour and material costs. In addition, shut down costs and warranty work on units sold in 2004, were realized in the period.

Other quarterly fluctuations and patterns are related to sales and revenue recognition and are reported in the following table:

**Comparative Information for the Past Full Eight Quarters by Division**

<i>\$ '000's</i>	Jul - Sep 2005	Apr - Jun 2005	Jan - Mar 2005	Oct - Dec 2004	Jul - Sep 2004	Apr - Jun 2004	Jan - Mar 2004	Oct - Dec 2003
<i>Land and housing</i>								
Sales	\$ 1,512	\$ 371	\$ 3,932	\$ 9,994	\$ 3,726	\$ 3,514	\$ 2,249	\$ 3,126
Gross Profit	600	123	492	1,171	591	741	228	833
<i>Property Development</i>								
Sales	\$ -	\$ -	\$ -	\$ 5,269	\$ 2,488	\$ -	\$ -	\$ 881
Gross Profit	-	-	-	287	126	-	-	176
<i>Foreign Operations</i>								
Sales	\$ 4,708	\$ 3	\$ (3)	\$ 6,463	\$ 2,784	\$ -	\$ -	\$ 24
Gross Profit	(645)	3	(3)	360	175	-	-	24
<i>Rental Properties</i>								
Sales	\$ 411	\$ 413	\$ 339	\$ 211	\$ 69	\$ 73	\$ 64	\$ 65
Gross Profit	333	296	237	61	36	53	47	9
<i>Construction</i>								
Sales	\$ 4	\$ 3,449	\$ 859	\$ 10,916	\$ 12,955	\$ 9,064	\$ 4,807	\$ 11,447
Gross Profit	85	215	33	(224)	(318)	665	151	616
<i>Corporate</i>								
Sales	\$ 3	\$ 8	\$ 4	\$ (5)	\$ 7	\$ 16	\$ 22	\$ 64

➤ **Land and housing** revenues were relatively consistent between quarters, however a notable increase in the quarter ending December 31, 2004 was a result of 35 closings in Riverview Heights (Fort McMurray, Alberta) combined with 11 sales in Sheep River. Wet ground and flood conditions constrained lot availability in the quarter ending June, 2005 resulting in a fluctuation in lot sales.

➤ **Property development** revenues are typically recognized upon final completion and turnover to the client, resulting in some periods in which little or no revenue may be recognized. The quarter ending December, 2004 includes the development sale of the Inuvik Capital Suites building to a Limited Partnership that NewNorth holds a 50% interest in. Revenues for the quarters ending December, 2003 through September, 2004 are primarily related to the construction of a multi family project in Yellowknife, NT. This development, due to the nature of the contract, was subject to percent complete revenue recognition.

➤ **Foreign operations** reflect the development sale of properties in Nuuk, Greenland. Revenues are recognized upon turnover to the client. In the quarter ending September, 2005 the final projects (two six-plexes) were turned over and contracts finalized in Greenland. Warranty work on previously sold units was completed in the quarter, and costs appropriately recognized. In the quarter ending December, 2004, 17 units were sold, with seven sales recognized in the quarter ending September, 2004.

➤ **Rental property** income typically fluctuates upon lease up or termination of leases. In the quarter ending December 31, 2004, an executive suites project (in Inuvik, NT) began operations resulting in increased revenues that continued to grow in the following quarters.

➤ **Construction revenues** are recognized on percent completion basis. In periods of less activity, typical in the first quarters of the fiscal year for northern construction (depicted in the quarters ending March 2005 and 2004) lower revenues directly reflect the construction activity. Third party estimates are compiled far in advance of execution of the work in the north, and though regular project reviews are conducted and a conservative revenue recognition approach taken,

corrections in anticipated profits can occur. The quarters ending September and December, 2004 show clearly the effects of such adjustments to anticipated profits, while the quarter ending September, 2005 reflects the reduction of anticipated construction costs. Quarters ending in 2005 reflect NewNorth's strategic decision to discontinue third party construction.

### *Land and Housing*

New land development projects include:

- ☛ 185 acres appropriate for country residential development a short distance northwest of Cochrane, Alberta, with each proposed lot having a mountain view and a highly desirable location. Approvals for this project are currently being sought and the project is expected to begin development in fiscal 2006.
- ☛ A large parcel, east of Airdrie, Alberta, and within easy commuting distance to Calgary, has been secured through a partnership agreement which NewNorth has a 50% interest.

Other land opportunities in Fort McMurray and in bedroom communities surrounding Calgary are currently being negotiated.

Land and housing revenues exceeded \$5.8 million for the nine month period. Riverview Heights, a land and housing development project in Fort McMurray, Alberta, sold 12 homes, while land development projects in Okotoks, Alberta sold 22 lots.

The Riverview Heights project in Fort McMurray enjoyed strong market conditions. A growing local economy excited by the activity and commitment of the oil and gas industry to the area, combined with a quality product focused on the move-up and starter single family housing market resulted in a successful development. Prior to our partner's interest (33.3%), the period realized a gross profit of \$0.38 million. Fully sold out, one hundred forty six (146) homes have been sold in the project (43 to December 31, 2002; 24 in 2003; 67 in 2004; 12 in the six months ending June, 2005).

Sheep River in Okotoks continues to be a premier project for the division, with Sheep River Cove Phase 2 selling 10 lots in the period (12 in 2004) and Sheep River Heights Phase 3 selling 12 lots in the quarter. Since 1993, 526 lots have been developed and sold in this growing community. The strong housing market in southern Alberta continues to perform well and we anticipate this trend continuing. Willowside Equestrian Estates, a 24 lot country residential estate development east of Okotoks is sold out, with the final two lots selling in the quarter ending March, 2005. In the quarter ending June, 2005 a review of costs to complete on the Willowside Project showed a reduction of costs was required.

### *Land & Housing Activity*

	\$ 000's	2005				2004	2003
		Q3	Q2	Q1	Total	Total	Total
<i>Riverview *</i>	<i>House Sales</i>	-	1	11	12	67	24
	Revenue	\$ -	\$ 371	\$ 3,127	\$ 3,498	\$ 16,577	\$ 5,186
	Costs	-	356	2,895	3,251	14,952	4,680
	Gross Profit	\$ -	\$ 15	\$ 232	\$ 247	\$ 1,625	\$ 506
<i>Sheep River</i>	<i>Lot Sales</i>	14	-	8	22	29	40
	Revenue	\$ 1,512	\$ -	\$ 642	\$ 2,154	\$ 2,756	\$ 2,930
	Costs	912	-	425	1,337	1,683	1,819
	Gross Profit	\$ 600	\$ -	\$ 217	\$ 817	\$ 1,073	\$ 1,111
<i>Willowside *</i>	<i>Lot Sales</i>	-	-	2	2	2	1
	Revenue	\$ -	\$ -	\$ 163	\$ 163	\$ 150	\$ 77
	Costs	-	(108)	120	12	117	62
	Gross Profit	\$ -	\$ 108	\$ 43	\$ 151	\$ 33	\$ 15
<i>Total Land &amp; Housing</i>	<i>Units</i>	14	1	21	36	98	65
	Revenue	\$ 1,512	\$ 371	\$ 3,932	\$ 5,815	\$ 19,483	\$ 8,193
	Costs	912	248	3,440	4,600	16,752	6,561
	Gross Profit	\$ 600	\$ 123	\$ 492	\$ 1,215	\$ 2,731	\$ 1,632

\* Net of partner's interest, project sold out 2005

After general and administration costs of \$401,000 (\$352,000 for the nine months ended September, 2004), land and housing realized before tax net income of \$806,000, compared to \$1,313,000 for the same period in 2004.

### ***Property Development***

Property Development revenues are generally realized only upon finalization and turnover to the client. Thus, there can be periods of little revenue recognition, followed by significant amounts of revenue recognition when large projects are turned over. Revenues are related to NewNorth developing rental real estate for sale to third parties or affiliates.

NewNorth has finalized negotiations on three multi family condominium projects in Fort McMurray. These projects are designed to bring affordable housing to the market and pre-tests indicate good reception to the proposed product, including:

- 144 unit multi-family, three phase condominium project in Fort McMurray, Alberta (Franklin & Penhorwood Limited Partnership or the "FPLP"). Land has been acquired and approvals on the site are currently being sought and phase 1 development is anticipated to begin in 2006. Through a limited partnership agreement, NewNorth holds a 40% interest. Land has been financed and acquired for the project.
- Two apartment "residential over commercial" projects are being undertaken in Fort McMurray:
  - Twenty-four residential units over commercial multi-family project, of which NewNorth has a 47% interest through the Queen & Gordon Limited Partnership ("OGLP").
  - Thirty-two residential units over commercial multi-family project, currently under construction, of which NewNorth holds a 90% interest through the King & Fraser Limited Partnership ("KFLP").

Land has been acquired and construction financing established for both projects. Construction began on these two projects in the quarter ending September 30, 2005.

### ***Foreign Operations***

Foreign operations are comprised of NewNorth's wholly owned subsidiary Ninety North Greenland A/S ("Greenland A/S"). Due to market change management has decided to not undertake further development activity in Greenland. Government regulation in 2004 resulted in NewNorth's anticipated primary client (NPR) being unable to enter the rental market, requiring the Greenland team to go to the open market. Though the product was well received, the sales market was not strong enough to support the development activity required to profitably operate in Greenland. Based on historical losses in Greenland, NewNorth will realize projected future overhead savings of approximately \$350,000 per year, commencing fiscal 2006.

A project (comprised of two six-plexes) recently completed and turned over to the client in the quarter ending September, 2005, provided disappointing results. Poor weather conditions resulted in significant delays and increased costs on the project, this in combination with warranty costs on units sold in 2004, resulted in a gross loss of \$645,000 year to date. Third party financing was secured for the completion of these two six-plexes, and the debt was fully retired upon closing. To date, shut down costs of approximately \$150,000 have been recognized and are included in overhead for the division. Further costs in relation to exiting the market are anticipated to be approximately \$250,000 in this fiscal year. Warranty work will be completed prior to finalizing the move-out and a warranty reserve will be made for warranties extending into fiscal 2006.

General and administration for the period was \$346,000 compared to \$181,000 in the same period in 2004 (fiscal 2004 \$579,000). After overhead Greenland A/S realized a before tax loss of \$1.1 million.

### ***Rental Property Operations***

Revenues associated with Rental Property Operations are generally rents received on rental projects developed by NewNorth that will ultimately be sold to third parties. The following table provides a summary of revenues and costs for 2005 in comparison to the fiscal year ended December 31, 2004. For comparative purposes only, an average monthly income and expense is provided

*Rental Property Activity*

<u>\$ 000's</u>	<u>2005</u>				<u>2004</u>	<u>Monthly Average</u>	
	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Total</u>	<u>Total</u>	<u>2005</u>	<u>2004</u>
Rental Revenue	\$ 411	\$ 413	\$ 339	\$ 1,163	\$ 417	\$ 129	\$ 35
Operating Cost	78	117	102	297	220	33	18
Rental income before mortgage interest and amortization	\$ 333	\$ 296	\$ 237	\$ 866	\$ 197	\$ 96	\$ 17

Three rental properties comprise NewNorth's rental portfolio:

<u>\$ 000's</u>		<u>2005</u>				<u>2004</u>	<u>Monthly Average</u>	
		<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Total</u>	<u>Total</u>	<u>2005</u>	<u>2004</u>
Inuvik Capital Suites, Inuvik, NT*	Revenue	\$ 328	\$ 332	\$ 267	\$ 927	\$ 147	\$ 103	\$ 49
	Operating	55	88	77	220	42	24	14
	Gross Profit	\$ 273	\$ 244	\$ 190	\$ 707	\$ 105	\$ 79	\$ 35
Nova Warehouse, Iqaluit, NU	Revenue	\$ 71	\$ 71	\$ 62	\$ 204	\$ 239	\$ 23	\$ 20
	Operating	20	26	23	69	170	8	14
	Gross Profit	\$ 51	\$ 45	\$ 39	\$ 135	\$ 69	\$ 15	\$ 6
Sunpark Plaza, Calgary, AB	Revenue	\$ 12	\$ 10	\$ 10	\$ 32	\$ 31	\$ 4	\$ 3
	Operating	3	3	2	8	8	1	1
	Gross Profit	\$ 9	\$ 7	\$ 8	\$ 24	\$ 23	\$ 3	\$ 2

*\*net of partner's 50% interest; 2004 three months operating income*

Inuvik Capital Suites represents NewNorth's 50% interest in the Inuvik Capital Suites Zheh Gwizu' Limited Partnership, formed to develop rental properties in the Inuvik market. The Inuvik Capital Suites is a 44 suite executive accommodation offering full service, long and short term accommodation to the public. Inuvik Capital Suites commenced operations in October, 2004.

An industrial warehouse complex in Iqaluit, Nunavut has five units in this eight unit complex currently under lease. Originally targeting clients in need of cold storage, the remaining four units now include tenant improvements to meet current market need for finished, heated warehousing. Northern Property Real Estate Investment Trust (NPR) has a right of first refusal on this industrial warehouse project pursuant to the Development and Services Agreement. If exercised, the property will be sold by NewNorth to NPR at its appraised value at the time the project is complete and fully rented.

In November, 2003 two rental properties in Calgary, Alberta (Sunpark Plaza) were acquired in consideration of a mortgage receivable held by Ninety North Construction and Development Ltd. One of these two commercial office units is currently leased. After amortization of \$357,000, mortgage interest of \$185,000, and administration in relation to the Inuvik Capital Suites of \$147,000, rental operations realized a before tax profit of \$177,000.

## Construction Operations

The effects of rapid growth and radical change from shorter term internal development construction to long term third party construction resulted in unprecedented losses for the construction division, and to mitigate further losses, discontinuation of the third party construction was necessary.

Refocused on the development arm of NewNorth, reduced overheads and streamlined systems have been implemented (an overhead reduction of 66% from the first quarter of 2004 versus the fourth). These changes leave an effective management team in place with a business plan that supports the NewNorth group. This refocus is supported by the success of historic projects as well as the recently completed Inuvik Capital Suites. Now nearing the completion of the \$53 million third party contracts awarded in 2003, revenues will be less than in the previous periods.

Construction in the north traditionally realizes most of its revenue in the quarters ending September and December (as depicted in these quarters in the "Comparative Information" table on page 2). Estimates are compiled far in advance of execution of the work in the north, and though regular project reviews are conducted and a conservative revenue recognition approach taken,

corrections in anticipated profits can occur. The quarters ending September and December, 2004 show clearly the effects of such adjustments to anticipated profits.

Subdivision of Ninety North's property in Yellowknife, and subsequent disposition of a portion of this property, resulted in a gain of \$138,000 in 2004. In 2005 disposition of equipment realized proceeds of \$132,000 with a loss on disposition of \$16,000. In the second quarter of 2004 a bad debt was realized in relation to a project in Yellowknife, which management determined the company will be unlikely to collect. Goodwill in the amount of \$623,000 was specifically associated to the value of Ninety North at the time the Plan of Arrangements was completed. Annually, an impairment test is conducted to ensure the intangible asset is supportable. For the year ended 2004, the test showed that a write down of the asset was required and it was appropriately recognized. In the quarter ending September, 2005, upon obtaining substantial completion, costs on specific projects were less than anticipated and cost recoveries appropriately recognized.

A strategic alliance was established in 2003 (KCL/NNC&D Joint Venture, owned 49% by Ninety North) to win and successfully execute the \$12 million contract for the Kitikmeot Regional Health Centre.

\$ 000's		2005				2004
		Q3	Q2	Q1	Total	YTD
Ninety North Construction	Sales	\$ 4	\$ 3,449	\$ 859	\$ 4,312	\$ 33,727
	Costs of Sales	(91)	3,209	826	3,944	33,445
	Gross Profit	95	240	33	368	282
Ninety North Partners Inc.	Sales	\$ -	\$ -	\$ -	\$ -	\$ 571
	Costs of Sales	10	25	-	35	751
	Gross Profit	(10)	(25)	-	(35)	(180)
KCL/NNC&D Joint Venture	Sales	\$ -	\$ -	\$ -	\$ -	\$ 3,444
	Cost of Sales	-	-	-	-	3,272
	Gross Profit	-	-	-	-	172
Total	Sales	\$ 4	\$ 3,449	\$ 859	\$ 4,312	\$ 37,742
	Cost of Sales	(81)	3,234	826	3,979	37,468
	Gross Profit	\$ 85	\$ 215	\$ 33	\$ 333	\$ 274

After general and administrative expenses for the period totalling \$521,000, averaging \$58,000 per month (average monthly 2004, \$89,000; 2003, \$122,750) and amortization of \$53,000, construction realized a net loss before tax of \$241,000.

### *Corporate*

Interest revenue in the amount of \$15,000 was earned on short term investments by the corporation during the period (compared to \$45,000 for the same period in 2004).

General and administrative expense of \$552,000, averaging \$61,000 per month (2004 average of \$50,000 per month) includes the costs of senior management compensation, office space, travel, and office operating costs.

When Urbco was reorganized in May, 2002, Urbco shareholders received cash, units in NPR, shares in NewNorth plus NewNorth debentures bearing interest at 10%. The debenture issue provides important working capital for the development and construction activities of NewNorth. The \$600,000 debenture interest expense for the reporting fiscal year is entirely related to this debenture issue. Interest is accrued on the debenture each quarter and paid by December 31.

### *Financial Position*

At September 30, 2005, NewNorth had a total of \$1.9 million in cash and \$0.7 million invested in marketable securities. NewNorth has an unused operating line of \$3.0 million secured by accounts receivable and certain capital assets. Ninety North has an operating line for the purpose of acquiring heavy equipment secured by specific assets (balance outstanding September 30 was \$86,000).

Cash requirements associated with current land and housing development are forecast to be minimal as sales are expected to offset servicing and construction costs in our subdivisions. In addition, third party development financing has been secured for:

- Sheep River Cove 2, with a maximum facility of \$1.8 million, the balance outstanding at September 30 was \$1.0 million.

- Sheep River Heights 3, with a maximum facility of \$1.2 million, the balance outstanding at September 30 was nil.
- FPLP has secured a development facility to a maximum of \$2.25 million, which has been fully drawn. NewNorth's proportionate share of the outstanding balance at September 30, 2005 was \$1.1 million.
- OGLP has secured construction financing with a maximum facility of \$4.0 million, balance outstanding on the facility at September 30, 2005 was nil.
- KFLP has obtained construction financing with a maximum facility of \$5.5 million (nil outstanding September 30, 2005).

Inuvik Capital Suites Limited Partnership has secured a third party mortgage with a maximum facility of \$6.9 million secured by General Security Agreement and certain capital assets. NewNorth's proportionate share of the outstanding balance was \$3.3 million on this facility at the end of the reporting period.

Projects under development in Greenland have been financed through a Greenlandic bank with maximum facilities of \$4.4 million and have been fully repaid. Most of the construction work this year is with government, historically a reliable payer of construction accounts.

Property development projects subject to mezzanine financing from NPR under the Development and Services Agreement include:

- Inuvik Capital Suites for up to \$4.0 million with \$2.5 million outstanding, including accrued interest, at period end. Pursuant to the Development and Services Agreement, mezzanine financing was provided by NPR and upon stabilization they enjoy the right of first refusal for the purchase of NewNorth's interest in the Inuvik Capital Suites Zheh Gwizu' Limited Partnership.

### ***Plan of Arrangements***

NewNorth Projects Ltd. was incorporated under the laws of the Province of Alberta and was publicly listed on the TSX Venture Exchange as NNP on May 30, 2002. NewNorth acquired the land and construction assets from Urbco Inc. as contemplated in the Plan of Arrangement in exchange for 10,516,524 NewNorth shares, the NewNorth debentures totalling \$6.0 million, and a cash payment of \$1.2936 per share. In November, 2003 said debenture was listed on the TSX Venture Exchange under the listing NNP.DB.