

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's discussion and analysis of financial conditions and results of operations should be read in conjunction with the audited consolidated financial statements for the seven months ended December 31, 2002. Certain statements in this discussion could be considered as forward-looking information. This forward-looking information is subject to certain risks and uncertainties which could result in actual results differing materially from these forward-looking statements.

OVERVIEW

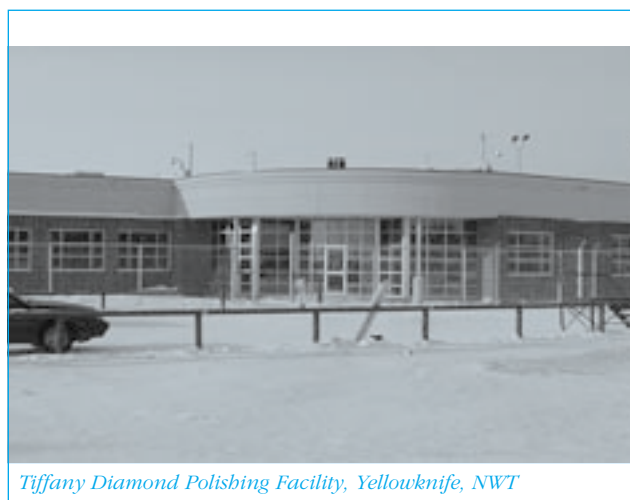
The first seven months of operations for NewNorth Projects Ltd. ("NewNorth") has been a blend of opportunities, disappointments and successes.

Several new opportunities have arisen over the past few months – the institutional and residential construction business in the Northwest Territories and Nunavut is extremely busy and is expected to remain so through 2004. The Development and Services Agreement between NewNorth and Northern Property Real Estate Investment Trust provides a pipeline of opportunities to both companies. NewNorth will enjoy the benefits of this relationship in 2003 with the contemplated development of two new projects – one in Inuvik and one in Yellowknife. Development is expected to commence in the next two months.

Three significant disappointments occurred in the last seven months. The costs to construct the Inuvik Hospital exceeded expectations resulting in a reversal of earnings recorded prior to the Plan of Arrangement. While the project is still expected to break even, it did not result in the construction fee that had been anticipated. One hundred percent of the reversal of fees is reflected in the results for the reporting period. In June, the Municipality of Iqaluit declined development approval for the Nunavut Suites – a project to be developed in the downtown core of Iqaluit – resulting in a write-off of the pre-development costs incurred. Finally, Ninety North (a wholly-owned subsidiary) has started legal action against a Calgary firm that has failed to satisfy its debts to Ninety North. It is not anticipated that this action will recover all of the costs for which Ninety North has

not been paid, and an allowance of \$649,000 has been included in the current period's results. This is in addition to a \$200,000 allowance for doubtful accounts recognized in the previous year.

While the disappointments had a negative impact on NewNorth's performance for its first year end, NewNorth's successes far outweighed the disappointments – Ninety North completed 30 townhomes in Pond Inlet, Cape Dorset and Pangnirtung for the Government of Nunavut and were



Tiffany Diamond Polishing Facility, Yellowknife, NWT

substantially complete 30 more townhomes in these communities for Northern Property REIT. The projects were completed ahead of schedule and under-budget. The construction projects at Diavik Diamond Mines were completed this year, earning fees on every phase of the development. Riverview Heights continues to show very good results in its house sales in Fort McMurray. Development commenced on Sheep River Cove in Okotoks. Each business line in the company – construction and development, land and housing sales, and property rental – earned positive returns for the period despite the setbacks experienced on three projects.

PLAN OF ARRANGEMENT

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.

Land and Housing Division

The Sheep River project in Okotoks continues to be a premiere project for the land division. Since it was started in 1993, a total of 431 lots have been developed and sold to builders and homeowners. During 2002, the builders absorbed the inventory they had acquired in 2001 and the land division took the opportunity to complete the design and approval process for Sheep River Cove, a 150 lot subdivision adjacent to Sheep



Inuvik Hospital, Inuvik, NWT



Cambridge Bay School structural steel, NWT

RESULTS OF OPERATIONS

Construction Division

With construction revenues of \$39.7 million, Ninety North Construction and Development Ltd., a wholly owned subsidiary of NewNorth, had its busiest season since it was incorporated in 1985. In addition, development fees of \$650,018 were earned on third-party projects. Construction costs of \$37.9 million, amortization costs of \$0.05 million and administration costs of \$0.9 million resulted in a normalized profit of \$0.9 million. After management fees of \$600,000 were reversed on the Inuvik Hospital and a bad debt allowance of \$649,000 was allowed for the Calgary project, construction reported a net loss of \$154,010 for the seven month period and development reported a \$487,962 profit.

River Ridge and Sheep River Heights. Servicing of the Cove commenced in the fall of 2002 with completion schedule for June of 2003. Option deposits for 35 of the first 36 lots have been received from builders.

Willowside Equestrian Estates, a 23-lot country residential estate development east of Okotoks, is substantially complete with only 2 of the 23 lots remaining to be sold. Prior to the Plan of Arrangement, 20 lots had been sold and in the current period 1 lot sale was recorded for this project, resulting in lot sales of revenue of \$77,393 and net income of \$7,462 on this project.

House sales in the Riverview Heights project in Fort McMurray have slowed since the announcement of the Kyoto Accord, but still continue at an average of one per week. A total of 43

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

houses have been sold, 10 prior to the Plan of Arrangement and 33 during the seven months of 2002. House sale revenues of \$6.7 million were recorded to December 31st with total development costs of \$6.1 million, resulting in a gross margin of \$0.6 million. Our partner in this project, Diamond Park Builders Ltd, owns 33.3% and NewNorth has a 66.7% interest. During 2003, NewNorth will continue its development of Phase 2 consisting of 50 lots and Phase 3 which has 50 lots.



View of Athabasca River from Riverview Heights, Fort McMurray, AB

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2002, NewNorth had a total of \$6.3 million in cash and \$471,376 invested in short-term marketable securities. Ninety North has an unused operating line of \$1.0 million secured by accounts receivables and certain capital assets. A bank development facility of \$10.2 million is available for the Riverview Heights project. At December 31st, a balance of \$2.36 million was outstanding.



NewNorth construction, Fort McMurray, AB

Rental Property Division

NewNorth currently owns two rental properties - an 8-bay warehouse project and a 3-bedroom house in Iqaluit. A portion of the warehouse is rented to the Government of Nunavut until 2006 and the Nunavut Legislature until 2007. Land is available for an additional 4 bay building. Once the bays are completed and leased, NewNorth will offer the stabilized building to Northern Property REIT. The house is rented on a month-to-month basis to an Iqaluit business firm. Total rental revenue for the seven months was \$161,868 and net operating income was \$103,066.