

# **NEW NORTH PROJECTS LTD.**

Report for the  
period ended  
September 30, 2002

## **Report to Shareholders and Management Discussion and Analysis**

On behalf of the Board of Directors of NewNorth Projects Ltd. ("NewNorth"), we are pleased to advise that the re-organization contemplated under the Plan of Arrangement has now been completed and NewNorth now possesses Urbco's construction and development business interests. Prior to its re-organization, Urbco Inc. was an integrated rental property, construction, land, and building development concern. Urbco's rental property went to Northern Property Real Estate Investment Trust as a result of the Plan of Arrangement. NewNorth Projects Ltd. was set up to continue Urbco's development business namely: land development, building development and building construction. The cost of this reorganization was \$461,433 and this cost is reflected in the current financial statements.

Ninety North Construction & Development Ltd. is having its biggest year ever. In the four months since the re-organization, Ninety North has generated \$25.8 million in revenue and a gross margin of \$1.1 million. General and administrative costs for construction totalled \$.2 million. Construction of the \$37.1 million Inuvik Hospital is nearing completion and the development of sixty townhomes in Pangnirtung, Pond Inlet and Cape Dorset is well underway. Plans are under way to establish a branch office in Nuuk, the capital of Greenland. The company is grappling with collection of a \$1.5 million receivable related to construction of an office building. As a result a \$400,000 allowance for doubtful accounts is included in the balance sheet.

NewNorth's land and housing division has also been enjoying a successful summer. Twenty-five houses have been sold and occupied in the company's 146 unit housing development in Fort McMurray, Alberta. Willowside Equestrian Estates north of Okotoks has sold 19 of 24 lots. NewNorth's Sheep River project in Okotoks continues apace, with all lots in the first phase of Sheep River Heights sold. Two additional phases in Sheep River Heights and phase 1 of Sheep River Cove will come to market in 2003. Total administrative costs for the land division were \$.18 million.

Pursuant to a Development and Services Agreement between NP REIT and NewNorth, NewNorth develops rental properties, which are sold to the REIT when completed and stabilized. NewNorth was awarded a contract to supply 60 town home units in Pond Inlet, Pangnirtung and Cape Dorset by the Government of Nunavut. Thirty (30) will be sold directly to the Nunavut Government when complete and thirty (30) will be leased to the government subject to twenty (20) year leases. The latter thirty (30) will be sold upon completion to NP REIT for lease to the Government of Nunavut.

As part of the Plan of Arrangement, each Urbco shareholder received a debenture worth \$0.57 per share issued by NewNorth. This debenture totalled \$6.0 million and bears interest at 10% per annum.

Ninety North Construction, a wholly-owned subsidiary, has an operating facility of \$1.0 million. A development facility of \$10.2 million provides capital for the development of the houses in Fort McMurray. A total of \$1.0 million and \$1.98 million respectively had been utilized as at September 30, 2002.

Our net earnings since our May 30, 2002 inception totalled \$205,406 or \$0.02 per share. The continuing success of Ninety North Construction and the profits from our housing sales contributed to this profitable start to NewNorth Projects Ltd. Continued strong construction and housing market conditions, development opportunities arising from our special relationship with Northern Property Real Estate Investment Trust, stewarded by a proven management team sets the stage for a prosperous future for our new company.

On behalf of the Board of Directors

B. James Britton  
President and Chief Executive Officer

**NEWNORTH PROJECTS LTD.**  
**Unaudited Consolidated Balance Sheet**  
**As at September 30, 2002**

**ASSETS**

Cash and cash equivalents	\$ 2,319,310
Accounts receivable	22,979,827
Real estate for development and sale (Note 2)	16,985,113
Capital assets, net book value (Note 3)	2,855,261
Other assets	404,129
Prepaid expenses	229,082
Goodwill	623,317
	<u>\$ 46,396,039</u>

**LIABILITIES**

Accounts payable and accrued liabilities	\$ 21,803,051
Financing payable (Note 4)	9,785,796
Deferred revenue	6,002,385
Land and property development service costs	696,583
Income taxes payable	146,225
	<u>38,434,040</u>
Future income tax payable	457,476
Minority interest (Note 5)	187,763

**SHAREHOLDERS EQUITY**

Share capital (Note 6)	7,111,354
Net earnings	205,406
	<u>7,316,760</u>
	<u>\$ 46,396,039</u>

**Approved by the Board of Directors:**

\_\_\_\_\_ Director

\_\_\_\_\_ Director

**NEWNORTH PROJECTS LTD.**  
**Unaudited Consolidated Statement of Earnings**  
**Period ended September 30, 2002**

	<b>3 Months Ended September 30, 2002</b>	Date of Inception May 30, 2002 to September 30, 2002
<b><u>INCOME</u></b>		
Construction revenue	\$ 23,326,671	\$ 25,807,192
Properties developed for sale	2,581,088	4,165,373
Rental properties income	59,139	83,047
Interest and other income	19,592	30,627
	<u>25,986,490</u>	<u>30,086,240</u>
<b><u>EXPENSES</u></b>		
Cost of construction	(22,471,240)	(24,664,243)
Cost of properties sales	(2,437,821)	(3,925,493)
Rental properties operating costs	(15,322)	(19,837)
General and administrative costs		0
- construction	(251,880)	(312,929)
- corporate overhead	(257,597)	(332,754)
- land development	(119,726)	(179,623)
Interest	(169,310)	(226,525)
Amortization	(32,786)	(43,714)
Loss on sale of land held for sale	(19,256)	(19,256)
	<u>(25,774,938)</u>	<u>(29,724,375)</u>
<b>Income before income taxes</b>	<b>211,552</b>	<b>361,865</b>
Income taxes		
-current	(88,851)	(151,983)
- future	(3,357)	(4,476)
	<u>(92,208)</u>	<u>(156,459)</u>
<b>Net earnings for the period</b>	<b>\$ <u>119,344</u></b>	<b>\$ <u>205,406</u></b>
Earnings per share		
Basic and fully diluted	\$ <u>0.01</u>	\$ <u>0.02</u>

**NEWNORTH PROJECTS LTD.**  
**Unaudited Consolidated Statement of Cashflow**  
**Period ended September 30, 2002**

	<b>3 Months Ended September 30, 2002</b>	<b>Date of Inception May 30, 2002 to September 30, 2002</b>
<b><u>Operating Activities</u></b>		
Net earnings	\$ 119,344	\$ 205,406
Addback items not affecting cash		
Loss on disposal of land held for sale	19,256	19,256
Future income taxes	3,357	4,476
Amortization	32,786	43,714
	<u>174,742</u>	<u>272,852</u>
Change in non-cash working capital	<u>(6,605,440)</u>	<u>(5,049,123)</u>
	<u>(6,430,698)</u>	<u>(4,776,271)</u>
<b><u>Financing Activities</u></b>		
Proceeds of financing	702,035	-
Repayment of financing	(7,800)	(1,027,604)
Advances to affiliates	-	(10,077)
	<u>694,235</u>	<u>(1,037,681)</u>
<b><u>Investing Activities</u></b>		
Acquisition of assets under Plan of Arrangement	-	7,665,210
Proceeds on disposal of land for sale	800,000	800,000
Acquisition of capital assets	(176,177)	(331,949)
	<u>623,823</u>	<u>8,133,261</u>
<b>Net increase (decrease) in cash</b>	<b>(5,112,640)</b>	<b>2,319,309</b>
Cash, beginning of period	7,431,949	-
<b>Cash, end of period</b>	<b>\$ <u>2,319,309</u></b>	<b>\$ <u>2,319,309</u></b>
Cashflow per share		
Basic and fully diluted	<b>\$ <u>0.02</u></b>	<b>\$ <u>0.03</u></b>

# NEWNORTH PROJECTS LTD.

## Notes to Unaudited Consolidated Financial Statements

### September 30, 2002

#### 1. SIGNIFICANT ACCOUNTING POLICIES

##### *Basis of presentation*

NewNorth Projects Ltd.'s ("NNP") financial statements are prepared in conformity with the Canadian generally accepted accounting principles ("GAAP").

##### *Principles of consolidation*

The consolidated financial statements include the accounts of NNP and its wholly-owned subsidiaries, together with the Company's proportionate share of the assets, liabilities, revenue and expenses of joint ventures.

##### *Real estate for development and sale*

- (i) Real estate for development and sale is valued at the lower of cost and net realizable value.
- (ii) The company capitalizes all direct costs relating to land under development and held for development. Indirect costs such as financing and property taxes are expensed as incurred.
- (iii) Costs capitalized to condominiums under development and held for sale include all direct costs relating to the project and all indirect costs such as financing, property taxes and general and administrative costs, as incurred.
- (iv) The total estimated servicing and development costs for land development are recorded as a liability at the time development begins on a project. The total estimated servicing, development and construction costs for condominium construction are recorded as a liability at the time of substantial completion of the project or when units have been recognized as sold. The unexpended portion of these costs are shown as "real estate development service costs". Whenever the estimate is determined to be materially different from the actual costs incurred or expected to be incurred, an adjustment is made to the provision with a corresponding adjustment to the cost of sales and real estate held for development and sale. However, until the municipality completely accepts the completed development, these costs are subject to uncertainty.

##### *Investments*

The company records investments in marketable securities using the cost method of accounting whereby the investment is initially recorded at cost and earnings from such investments are recognized only to the extent of dividends received or receivable.

The company uses the equity method to account for its interest in corporation in which the company owns 50% or less but over which the company has significant influence. Under this method, the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the company's pro-rata share of earnings and losses. Profit distributions received are recorded as a reduction to the amount of the investment.

Where there has been a permanent decline in value, the investment will be stated at estimated net realizable value.

##### *Amortization*

Capital assets are recorded at cost and are amortized using the following annual rates and methods:

Buildings and fixtures	30 - 40 years	sinking-fund basis
Office furniture, fixtures and equipment	20% - 30%	declining-balance
Vehicles	20% - 30%	declining-balance
Construction equipment	20% - 30%	declining-balance

##### *Income taxes*

Income taxes are accounted for using the liability method. Under this method, future income taxes are recognized for the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted corporate income tax rates for the years in which tax and accounting basis differences are expected to reverse.

##### *Revenue recognition*

- (i) Construction sales are based on contracts and are recorded on percentage of completion basis, whereby revenue and costs are recognized based on the ratio of actual cost of work performed to date to current estimated total contract costs. If a loss on the contract can be reasonably estimated, the estimated amount of the loss will be charged to income during the year.

**NEWNORTH PROJECTS LTD.**  
**Notes to Unaudited Consolidated Financial Statements**  
**September 30, 2002**

*Revenue recognition (continued)*

- (ii) Lot sales are recorded when a minimum of 15% of the sales price has been received, servicing is substantially complete, and the sale is unconditional.
- (iii) House sales are recorded when:
  - (a) the sale is unconditional and full sale proceeds have been received (either in the form of cash or an irrevocable assignment of mortgage proceeds in favour of the company); and
  - (b) a minimum of 95% of construction is completed on the condominium unit.

**2. REAL ESTATE FOR DEVELOPMENT AND SALE**

Land held for development and sale	\$ 1,878,206
Properties held for development and sale	15,106,907
	<u>\$ 16,985,113</u>

**3. CAPITAL ASSETS**

	Cost	Accumulated Amortization	Net Book Value
Land	77,800	-	77,800
Building	2,067,671	7,541	2,060,130
Furniture, fixtures and equipment	98,183	7,330	90,853
Vehicles	413,883	28,844	385,039
Leasehold improvements	241,439	-	241,439
	<u>\$ 2,898,976</u>	<u>\$ 43,715</u>	<u>\$ 2,855,261</u>

**4. FINANCING**

Bank loans	\$ 2,978,101
Debenture	6,000,000
Mortgage	807,695
	<u>\$ 9,785,796</u>

**Bank loans**

Demand revolving operating loan facility to a maximum of \$1.0 million bearing interest at the prime lending rate plus 0.75% per annum. The facility is secured by a general assignment of book debts, a \$500,000 demand debenture providing a first registered mortgage charge over a specific asset and a floating charge over specific other assets, and an assignment of insurance proceeds. As at September 30, 2002, the balance owing is \$1.0 million.

Demand construction facility to a maximum of \$10.2 million to finance land under development and housing for resale. The facility is due on demand, bear interest at the prime lending rate plus 1.0% per annum and secured by demand collateral mortgage/assignment of rents aggregating \$9.04 million creating first fixed charges over land under development, general security agreements over specific assets, and assignments of insurance proceeds. As at September 30, 2002, the balance owing is \$1.98 million.

**Debenture**

Debenture in the amount of \$6.0 million maturing May 30, 2012. The debentures bear interest at a rate of 10% per annum and interest is to be paid as may be determined by the board of directors of NewNorth, and in any event, not less than annually.

**NEWNORTH PROJECTS LTD.**  
**Notes to Unaudited Consolidated Financial Statements**  
**September 30, 2002**

**4. FINANCING (continued)**

**Mortgage**

Mortgage payable bearing effective interest rate of 9.75% and maturing December 1, 2004.

Minimum future principal payments required are as follows:

2002	\$	7,988
2003		33,921
2004		37,309
2005		41,036
2006 and thereafter		687,441
	\$	<u>807,695</u>

The fair value of the mortgages at September 30, 2002 approximates the carrying value. The mortgage is secured by the rental property associated with it.

**5. MINORITY INTEREST**

The consolidated financial statements include 100% of the assets and liabilities of Urbco Greenland AS and Riverview Heights Developments Inc. At September 30, 2002, the company owned 75% and 66 2/3% equity interest, respectively. The remaining 25% and 33 1/3% have been accounted for as minority interest.

**6. SHARE CAPITAL**

**Authorized**

Unlimited number of common voting shares

Unlimited number of non-voting, cumulative, preferred shares

**Issued**

Common shares

	Number of Shares	Stated Value
Issued	10,516,524	\$ 7,705,189
Issue cost		(461,433)
Future income tax adjustment		(132,402)
	<u>10,516,524</u>	<u>\$ 7,111,354</u>

**7. INVESTMENTS IN JOINT VENTURES**

The Company's share of assets, liabilities, revenue, expenses and cash flow from (used in) operating, financing and investing activities of joint ventures which have been proportionately considered in these consolidated financial statements, are as follows:

**Assets**

Cash and cash equivalents	\$	335,896
Accounts receivable and prepaids		213,905
Land held for development and sale		353,902
	\$	<u>903,703</u>

**Liabilities**

Accounts payable and accrued liabilities		8,884
Due to affiliates		10,347
Land development service costs		244,923
		<u>264,154</u>

**Net investments**

	\$	<u>639,549</u>
--	----	----------------

The Company is jointly and severally liable for obligations of its non-related ventures in the joint ventures, however, the assets in the joint ventures are available to satisfy these obligations.

**NEWNORTH PROJECTS LTD.**  
**Notes to Unaudited Consolidated Financial Statements**  
**September 30, 2002**

**8. SEGMENTED INFORMATION**

The company conducts its operations through three industry segments: rental of real estate properties, construction, and development and sale of real estate properties.

Earnings of industry segments exclude unallocated corporate expenses but includes, when applicable, gains from disposition of segment assets. Identifiable assets are those used in the operation of the segments. Corporate assets include corporate cash and cash equivalents, corporate accounts receivable, income taxes recoverable, corporate prepaids, and corporate investments and advances.

<b>INCEPTION TO SEPTEMBER 30, 2002</b>					
	Rental of real estate properties	Construction	Development and sale of real estate properties	Corporate and Eliminations	Total
Sales	\$ 83,047	\$ 25,807,192	\$ 4,165,373	\$ 0	\$ 30,055,612
Interest and other	-	8,726	5,118	16,784	30,628
<b>Total revenues</b>	<b>83,047</b>	<b>25,815,918</b>	<b>4,170,491</b>	<b>16,784</b>	<b>30,086,240</b>
Cost of sales	-	(24,664,243)	(3,925,493)	-	(28,589,736)
General and administrative costs	-	(312,929)	(179,623)	(332,754)	(825,307)
Rental operating costs	(19,837)	-	-	-	(19,837)
Interest	(26,525)	-	-	(200,000)	(226,525)
Amortization	(5,246)	(38,468)	-	-	(43,714)
Loss on sale of land	-	-	(19,256)	-	(19,256)
<b>Total expenses</b>	<b>(51,608)</b>	<b>(25,015,640)</b>	<b>(4,124,372)</b>	<b>(532,754)</b>	<b>(29,724,375)</b>
Income before income taxes	31,439	800,278	46,119	(515,970)	361,865
Income taxes	-	-	-	(156,459)	(156,459)
<b>Net income (loss)</b>	<b>\$ 31,439</b>	<b>\$ 800,278</b>	<b>\$ 46,119</b>	<b>\$ (672,429)</b>	<b>\$ 205,406</b>
<b>Identifiable assets</b>	<b>\$ 3,456,425</b>	<b>\$ 27,704,531</b>	<b>\$ 14,859,401</b>	<b>\$ 375,682</b>	<b>\$ 46,396,039</b>

<b>THREE MONTHS ENDED SEPTEMBER 30, 2002</b>					
	Rental of real estate properties	Construction	Development and sale of real estate properties	Corporate and Eliminations	Total
Sales	\$ 59,139	\$ 23,326,671	\$ 2,581,088	\$ 0	\$ 25,966,898
Interest and other	-	7,097	1,829	10,666	19,592
<b>Total revenues</b>	<b>59,139</b>	<b>23,333,768</b>	<b>2,582,917</b>	<b>10,666</b>	<b>25,986,490</b>
Cost of sales	-	(22,471,240)	(2,437,821)	-	(24,909,061)
General and administrative costs	-	(251,880)	(119,726)	(257,597)	(629,203)
Rental operating costs	(15,322)	-	-	-	(15,322)
Interest	(19,310)	-	-	(150,000)	(169,310)
Amortization	(3,935)	(28,851)	-	-	(32,785)
Loss on sale of land	-	-	(19,256)	-	(19,256)
<b>Total expenses</b>	<b>(38,567)</b>	<b>(22,751,971)</b>	<b>(2,576,804)</b>	<b>(407,597)</b>	<b>(25,774,938)</b>
Income before income taxes	20,572	581,797	6,113	(396,931)	211,552
Income taxes	-	-	-	(92,208)	(92,208)
<b>Net income (loss)</b>	<b>\$ 20,572</b>	<b>\$ 581,797</b>	<b>\$ 6,113</b>	<b>\$ (489,139)</b>	<b>\$ 119,344</b>