

NEWNORTH PROJECTS LTD.



LAND DEVELOPMENT

PROJECT DEVELOPMENT

RENTAL PROPERTIES

CONSTRUCTION

2004 Annual Report

NEWNORTH PROJECTS LTD. (NewNorth) is a land and property development company focused on markets in northern Canada, Greenland and niche markets in southern Canada.



Nuuk, Greenland

ANNUAL GENERAL MEETING

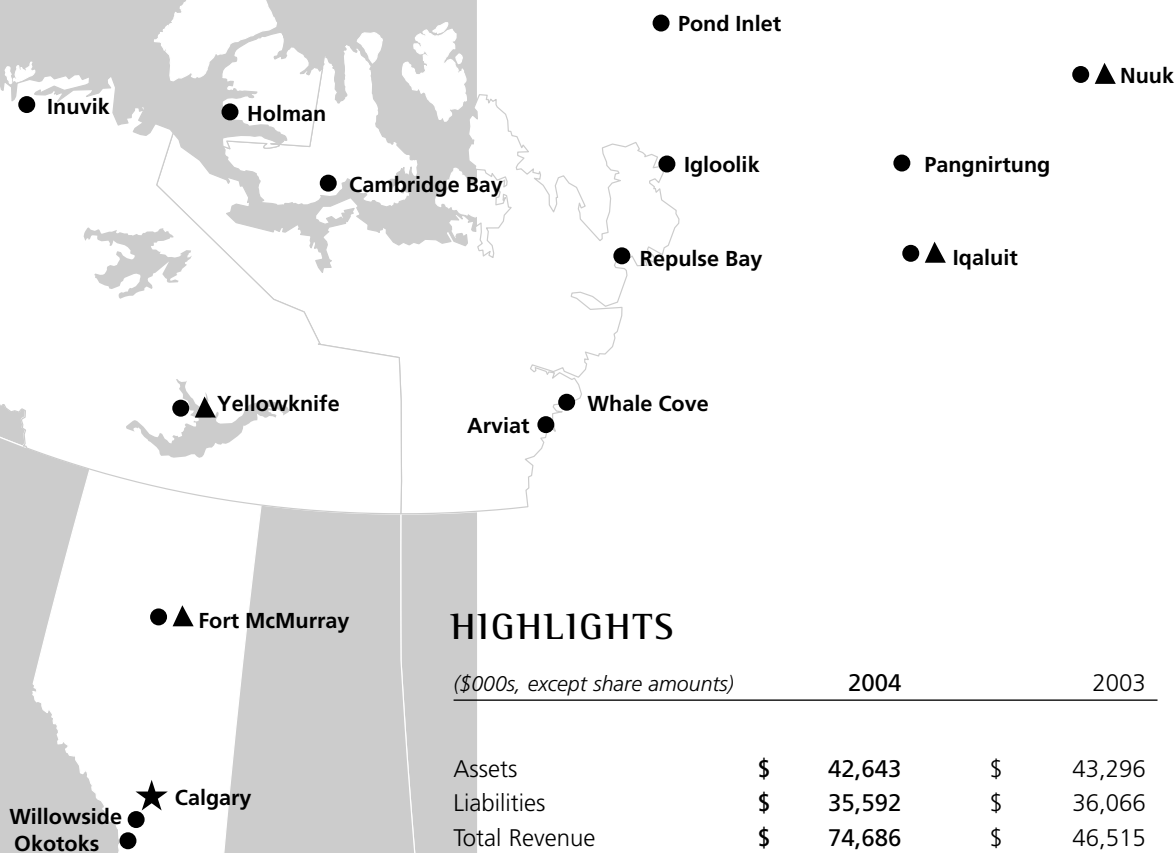
The Annual General Meeting will be held on Wednesday, May 11, 2005, at 9:00 a.m. in the Sierra Room at the Blackfoot Inn in Calgary, Alberta.

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GREENLAND



HIGHLIGHTS

(\$'000s, except share amounts)

	2004	2003
Assets	\$ 42,643	\$ 43,296
Liabilities	\$ 35,592	\$ 36,066
Total Revenue	\$ 74,686	\$ 46,515
Net Income (Loss) before goodwill impairment	\$ 65	\$ (307)
Net Loss	\$ (558)	\$ (307)
Weighted Average Shares	10,516,524	10,516,524
Construction Sales	\$ 37,601	\$ 35,371
Project Development	\$ 17,004	\$ 2,047
Property Sales	\$ 16,577	\$ 5,186
Lots Sales	\$ 2,889	\$ 2,986
Rental Revenue	\$ 414	\$ 301
Other Revenue	\$ 201	\$ 624

FORWARD LOOKING STATEMENTS

This annual report contains forward looking statements that involve risks and uncertainties. These forward looking statements are based on the company's current expectations and assumptions in light of its experience and perception of trends in our markets and in our industry generally. The statements are not guarantees of future performance.

PRESIDENT'S MESSAGE



Nuuk, Greenland

DEAR SHAREHOLDERS,

Financial results for NewNorth Projects Ltd. (NewNorth) in 2004 could best be described as marginal – with a silver lining. The year's profit before tax and recognition of goodwill impairment was \$19,000, a significant improvement compared to a pretax loss of \$392,000 in 2003.

Early in January, 2004, I assumed the position of President of our construction company and, with direction from the Board of Directors, it was determined that no additional third party construction work would be tendered during 2004 as typically the margins are low in relation to the risk and capital invested. Reorganization of the construction division will realize overhead cost savings of \$960,000 per annum (based on average monthly overhead being reduced from \$122,000 to \$42,000) in future years. In 2004, approximately \$450,000 in overhead savings were realized due to the reorganization. Management has transformed the construction division back to a development company which will concentrate on building development projects for the NewNorth group of companies.

Exemplary results in the remaining NewNorth ventures reflect the true viability of the development division of the company.

Riverview Heights in Fort McMurray had a remarkable year. Sales and profits both exceeded management's expectations. A total of 67 sales, booked with a profit of \$1,600,000 (exceeding budget by \$979,000), contributed to NewNorth's bottom line. The Fort McMurray market place continues to remain very strong.

NewNorth Land operations, which included Sheep River Ridge in Okotoks and Willowside Estates - a country residential development, had another successful year. Sheep River is in its 14th year of development and has provided consistent profit each year. Anticipated profits exceeded budget expectations by 10% through increased sales value.

Management entered the Greenland market place in anticipation of building residential housing with long term leases to Governmental agencies. NewNorth constructed and finished the first 12 units in April of 2004. The project was very well received by the Greenlandic people; however, the Greenland Government changed policy whereby no further residential leases would be executed. The Government's goal now is to encourage home ownership. This change in policy moved our closing date for this project from April 2004 to December 2004, as the target market changed from a single client to the public. The remarketing of the product affected the margins considerably as we incurred additional carrying costs.

Management is extremely pleased that NewNorth completed two development projects during the year. The first (Niven Lake) is a 44 suite, four story, elevatored apartment building which was sold to Northern Property Real Estate Investment Trust (NPR). The second (Inuvik Capital Suites) is a 44 suite, furnished, full service executive suites hotel built with a 50% partner. These two developments had a combined gross volume of \$7,757,000 and a pretax profit of \$413,000.



NewNorth paid \$600,000 in interest on its debentures. The majority of the debentures are held by our common shareholders. These debentures are listed on the TSX Venture Exchange with the trading symbol NNP.DB.

LOOKING AHEAD TO 2005 – LEANER AND FOCUSED

The Land Division, which has provided consistent results in prior years, will be a major focus for NewNorth. During 2004, 185 acres of country residential land was acquired within one kilometer of Cochrane, Alberta. This is an exceptional property and all building lots will have unobstructed mountain views. Two additional country residential opportunities, in bedroom communities outside Calgary, are currently being negotiated and management is very excited about these opportunities.

NewNorth is aggressively reviewing opportunities in Fort McMurray, Alberta following the success of Riverview Heights. NewNorth has strong management expertise in land development and a key to NewNorth's success is capitalizing on this expertise.

The construction division will finish a small volume of third party construction into 2005, but this work will be completed by the end of the second quarter. This will bring to an end the risks associated with this form of business and allow management to focus on development work during 2005. Management will secure additional development opportunities in key market areas where we have significant expertise.

We are starting 2005 with a significantly leaner company that can act on business opportunities much faster. The restructured NewNorth will have less volume with improved margins. Our management team is energized and looking forward to the exciting tasks in 2005. As President and CEO I look forward, with commitment, to NewNorth and its future prospects.

On Behalf of the Board of Directors.

Greg N. Herndier
President & Chief Executive Officer

March 23, 2005

MANAGEMENT DISCUSSION & ANALYSIS

YEAR ENDED DECEMBER 31, 2004

Management's discussion and analysis of financial conditions and results of operations should be read in conjunction with the Audited Financial Statements for the Year Ended December 31, 2004 and the Audited Financial Statements for the Year Ended December 31, 2003. Certain statements in this report may constitute "forward looking statements". Forward looking statements involve risk, uncertainties and other factors that might cause the actual results, performance, or achievements of the Corporation to vary significantly.



Riverview Heights, Fort McMurray, Alberta

OVERVIEW

NewNorth Projects Ltd.'s purpose is to develop properties for sale or to build its own rental portfolio. By strengthening land and building development (NewNorth's core business), through partnerships and optimizing profitability in development, while simultaneously recognizing and containing the future impact of third party construction to its bottom line, NewNorth has positioned itself to take full advantage of new opportunities presented in the new year and beyond.

- Land and housing exceeded 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 operations are underway developing residential units for resale to the marketplace. The Greenlandic product has been well received by the marketplace and the first 24 units (four six-plexes) are completed and sold as of December 31, 2004. Twelve units are currently under construction and pre-sold to a commercial Greenlandic client.
- Construction has undergone significant change. Refocused on the development arm of NewNorth, construction returns to a field in which it has historically performed well. In addition, reduced overheads and streamlined systems have effectively 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 through vertical integration.

Comparative Information for the Past Full Eight Quarters

	Oct-Dec	Jul-Sep	Apr-Jun	Jan-Mar	Oct-Dec	Jul-Sep	Apr-Jun	Jan-Mar
\$ 000's (except per share amounts)	2004	2004	2004	2004	2003	2003	2003	2003
Sales	\$ 32,848	\$ 22,029	\$ 12,667	\$ 7,142	\$ 15,607	\$ 17,645	\$ 7,394	\$ 5,869
Gross Profit	1,650	617	1,475	448	1,665	594	547	954
Net Income (loss) before goodwill impairment	292	(139)	214	(302)	(38)	(188)	(164)	83
Goodwill impairment	623							
Net Income (loss)	(331)	(139)	214	(302)	(38)	(188)	(164)	83
Per Share	\$ (0.03)	\$ (0.01)	\$ 0.02	\$ (0.03)	\$ 0.00	\$ (0.02)	\$ (0.02)	\$ 0.01
Per Share prior to impairment (a non-GAAP calculation)	\$ 0.03	\$ (0.01)	\$ 0.02	\$ (0.03)	\$ 0.00	\$ (0.02)	\$ (0.02)	\$ 0.01

In the quarter ending September, 2003 costs in relation to the Inuvik Hospital, under a contract with a corporation owned 50% by Ninety North Construction & Development Ltd. ("Ninety North"), a wholly owned subsidiary, were identified and

recognized for approximately \$187,000 (amounts stated here reflect Ninety North's interest). Total losses on the project to December, 2003 were \$650,000.

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.

Annually, an impairment test is 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.

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

	Oct-Dec 2004	Jul-Sep 2004	Apr-Jun 2004	Jan-Mar 2004	Oct-Dec 2003	Jul-Sep 2003	Apr-Jun 2003	Jan-Mar 2003
<i>\$ 000's (except per share amounts)</i>								
Land and housing								
Sales	\$ 9,994	\$ 3,726	\$ 3,514	\$ 2,249	\$ 3,126	\$ 2,379	\$ 1,573	\$ 1,115
Gross Profit	1,171	591	741	228	833	427	223	146
Property Development								
Sales	\$ 5,269	\$ 2,488	\$ –	\$ –	\$ 881	\$ 896	\$ –	\$ 271
Gross Profit	287	126	–	–	176	42	(1)	271
Foreign Operations								
Sales	\$ 6,463	\$ 2,784	\$ –	\$ –	\$ 24	\$ –	\$ –	\$ –
Gross Profit	360	175	–	–	24	–	–	–
Rental Properties								
Sales	\$ 211	\$ 69	\$ 73	\$ 64	\$ 65	\$ 178	\$ 76	\$ 85
Gross Profit	61	36	53	47	9	140	55	85
Construction								
Sales	\$ 10,916	\$ 12,955	\$ 9,064	\$ 4,807	\$ 11,447	\$ 14,169	\$ 5,700	\$ 4,385
Gross Profit	(224)	(318)	665	151	616	(42)	255	410
Corporate								
Sales	\$ (5)	\$ 7	\$ 16	\$ 22	\$ 64	\$ 24	\$ 45	\$ 13

- Land and housing revenues were relatively consistent between quarters, but 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. Results for quarters ending March and June, 2003 were due to traditional slow down for lot sales for these periods.
- Property development revenues are typically recognized upon final completion and turnover to the client. 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 March, 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 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. In the period ending September, 2003, one of NewNorth's rental properties was sold for a gain on disposition of \$103,000.
- Construction 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. The quarter ending September, 2003 reflects a similar cost adjustment in relation to the Inuvik Hospital of \$375,000 in the period.

LAND AND HOUSING

Land and housing revenues exceeded \$19.4 million for the year. Riverview Heights, a land and housing development project in Fort McMurray, Alberta, sold 67 homes, while land development projects in Okotoks, Alberta sold 31 lots.

Nearing completion, the Riverview Heights project in Fort McMurray has 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%), 2004 realized a gross profit of \$2.4 million.

Thirty five sales in the fourth quarter brought total sales for Riverview Heights to 67 in the fiscal year. Riverview's average selling price has increased from \$216,000 to \$247,000 per unit – a 14% increase over its 2003 average. One hundred thirty four (134) homes have been sold in the project (43 to December 31, 2002; 24 in 2003; 67 in 2004). The twelve remaining units (11 signed sales agreements are in hand) are anticipated to close early 2005.

Sheep River in Okotoks continues to be a premier project for the division, with Sheep River Heights Phase 2 realizing sales of 17 lots this fiscal year (18 in 2003) and Sheep River Cove Phase 2 selling 12 lots. Since 1993, 506 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 substantially complete with only two lots remaining after selling two lots this year.

Land & Housing Activity

\$ 000's		2004				2003	
		Q4	Q3	Q2	Q1	Total	Total
Riverview*	<i>House Sales</i>	35	13	9	10	67	24
	Revenue	\$ 9,122	\$ 3,111	\$ 2,095	\$ 2,249	\$ 16,577	\$ 5,186
	Costs	8,226	2,790	1,915	2,021	14,952	4,680
	Gross Profit	\$ 896	\$ 321	\$ 180	\$ 228	\$ 1,625	\$ 506
Sheep River	<i>Lot Sales</i>	11	6	12	–	29	40
	Revenue	\$ 876	\$ 615	\$ 1,265	\$ –	\$ 2,756	\$ 2,930
	Costs	601	345	737	–	1,683	1,819
	Gross Profit	\$ 275	\$ 270	\$ 528	\$ –	\$ 1,073	\$ 1,111
Willowside*	<i>Lot Sales</i>	–	–	2	–	2	1
	Revenue	\$ –	\$ –	\$ 150	\$ –	\$ 150	\$ 77
	Costs	–	–	117	–	117	62
	Gross Profit	\$ –	\$ –	\$ 33	\$ –	\$ 33	\$ 15
Total Land & Housing	<i>Units</i>	46	19	23	10	98	65
	Revenue	\$ 9,998	\$ 3,726	\$ 3,510	\$ 2,249	\$ 19,483	\$ 8,193
	Costs	8,827	3,135	2,769	2,021	16,752	6,561
	Gross Profit	\$ 1,171	\$ 591	\$ 741	\$ 228	\$ 2,731	\$ 1,632

* Net of partner's interest

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.

Two projects have been undertaken:

- Niven Lake, a residential development in Yellowknife that commenced summer 2003, developed for Northern Property Real Estate Investment Trust (NPR), pursuant to the Development and Services Agreement (DSA) between NewNorth and NPR, was turned over June 30, 2004, with revenues recognized in the third and fourth quarters upon finalization of costs. Revenue recognized in the fiscal period was \$2,488,000 (\$1,726,000 in 2003).
- Inuvik Capital Suites, comprised of 44 furnished executive suites has been developed by NewNorth for a Limited Partnership owned 50% by NewNorth. The project was completed and turned over successfully October, 2004 with rental operations commencing at that time. Revenue recognized in 2004 was \$5,269,000. Amounts in relation to the Limited Partnership are proportionately represented for accounting and discussion purposes.

Property Development Activity

<i>\$ 000's</i>		2004		2003
Sales	\$	7,757	\$	2,047
Cost of Sales		7,344		1,614
Gross Profit	\$	413	\$	433

Revenues in 2003 include a \$251,000 development fee in relation to the successful completion of a 30 unit housing project on Baffin Island as well as revenues on the Niven project.

FOREIGN OPERATIONS

Foreign operations, comprised of NewNorth's wholly owned subsidiary Ninety North Greenland A/S ("Greenland A/S"), is engaged in the development of multi-family residential units. The intent of Greenland A/S is to construct units in preparation for resale to the open market in Nuuk, Greenland's capital.

Twenty Four units (four six-plexes) were sold in the fiscal year. Twelve of the units were offered to the public and well received, five of these sales were realized in the last quarter (seven of these sales were recognized in the quarter ending September, 2004). The balance of the units, two six-plexes, were pre-sold to a commercial Greenlandic client. At the time of writing, all proceeds for the sale of these units have been received and all related third party financing in relation to the project repaid in full.

<i>\$ 000's</i>		2004		Per unit
<i>Total Units Sold</i>		24		
Sales	\$	9,247	\$	385
Cost of Sales		8,712		363
Gross Profit	\$	535	\$	22

A project (comprised of two six-plexes) is underway, with turnover anticipated in the second quarter of 2005. These units are pre-sold to a commercial Greenlandic client. Third party financing has been secured for the completion of these two six-plexes currently under construction.

General and administration costs to establish an office and presence in Greenland, and that are typically incurred during the presale stages of a development, were incurred in the year totalling \$579,000 (fiscal 2003 in the amount of \$147,000). Due to 100% revenue recognition methodology, revenue and related costs are recognized upon closing (full receipt of sale proceeds) of the developed project. After overhead and depreciation Greenland A/S realized a loss of 97,000.

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 2004 in comparison to the fiscal year ended December 31, 2003. For comparative purposes only, an average monthly income and expense is provided.

Rental Property Activity

\$ 000's	Monthly Average			
	2004	2003	2004	2003
Rental Revenue	\$ 417	\$ 301	\$ 35	\$ 25
Operating Cost	220	115	18	10
Rental income before mortgage interest and amortization	\$ 197	\$ 186	\$ 17	\$ 15

Three rental properties comprise NewNorth's rental portfolio:

\$ 000's		2004
Nova Warehouse, Iqaluit, NU	Revenue	\$ 239
	Operating	170
	Gross Profit	\$ 69
Inuvik Capital Suites, Inuvik, NT	Revenue	\$ 147
	Operating	42
	Gross Profit	\$ 105
Sunpark Plaza, Calgary, AB	Revenue	\$ 31
	Operating	8
	Gross Profit	\$ 23

An industrial warehouse complex in Iqaluit, Nunavut was the main contributor to rental revenues. Four units in this eight unit complex are currently under lease. Originally targeting clients in need of cold storage, the remaining four units are under renovation to meet current market need for finished, heated warehousing. NPR has a right of first refusal on this industrial warehouse project pursuant to the Development and Services Agreement. If exercised, the property would be sold by NewNorth to NPR at its appraised value at the time the project is complete and fully rented.

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-term leases and short term accommodation to the public. Inuvik Capital Suites commenced operations in October, 2004, rental revenues of \$147,000 represent three months rentals.

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 \$148,000, mortgage interest of \$71,000 and administration in relation to the Inuvik Capital Suites of \$56,000, rental operations realized a loss of \$78,000.

CONSTRUCTION OPERATIONS

Construction in the north traditionally realizes most of its revenue in the quarters ending September and December (as depicted in these quarters in 2003 in the "Comparative Information" table on page 5). 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.

The effects of rapid growth and radical change from shorter term internal development construction to long term third party construction resulted in the necessity for restructuring of the construction division. The success of the reorganization can be

seen in reduced overheads (average monthly overhead reduced from \$122,000 to \$42,000), leaving a core senior management team in place. Refocus on construction for the development arm of NewNorth will facilitate renewed profitability. This refocus is supported by the success of historic projects as well as the recently completed Inuvik Capital Suites.

Efforts to mitigate additional write downs in relation to the bad debt related to Sunpark Plaza (a 2002 Calgary project) were successful and no additional write downs were realized in 2004. NewNorth secured all assets of the project through sale or acquisition and retains two rental units with a collective value of \$0.7 million. In the second quarter of 2004 a bad debt was realized in relation to a project in Yellowknife, which management has determined it will be unlikely to collect. Subdivision of Ninety North's property in Yellowknife, and subsequent disposition of a portion of this property, resulted in a gain of \$138,000.

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.

Ninety North continues to work to complete \$52 million in multi-year contracts awarded it in 2003. 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		2004					2003
		Q4	Q3	Q2	Q1	YTD	YTD
Ninety North Construction	Sales	\$ 10,333	\$ 12,665	\$ 8,059	\$ 2,670	\$ 33,727	\$ 31,846
	Costs of Sales	10,414	12,877	7,571	2,583	33,445	30,027
	Gross Profit	(81)	(212)	488	87	282	1,819
Ninety North Partners Inc.	Sales	\$ 162	\$ 267	\$ 1	\$ 141	\$ 571	\$ 1,573
	Costs of Sales	218	391	1	141	751	2,228
	Gross Profit	(56)	(124)	-	-	(180)	(655)
KCL/NNC&D Joint Venture	Sales	\$ 421	\$ 23	\$ 1,004	\$ 1,996	\$ 3,444	\$ 2,282
	Cost of Sales	508	5	827	1,932	3,272	2,207
	Gross Profit	(87)	18	177	64	172	75
Total	Sales	\$ 10,916	\$ 12,955	\$ 9,064	\$ 4,807	\$ 37,742	\$ 35,701
	Cost of Sales	11,140	13,273	8,399	4,656	37,468	34,462
	Gross Profit	\$ (224)	\$ (318)	\$ 665	\$ 151	\$ 274	\$ 1,239

After general and administrative expenses for the year totalling \$1,075,000, averaging \$89,000 per month (average monthly 2003, \$122,750; average monthly 2002, \$125,142), amortization of \$170,000, and a bad debt of \$107,000, construction realized a net loss before goodwill impairment of \$1,078,000. Construction's net loss was \$1,701,000.

CORPORATE

Interest revenue in the amount of \$63,000 was earned on short term investments by the corporation during the year (compared to \$146,000 for the same period in 2003). Sale of a property in Iqaluit, Nunavut, per an agreement established prior to the Plan of Arrangements resulted in a loss on disposition of \$23,000.

General and administrative expense of \$592,000, averaging \$50,000 per month (2003 average of \$67,900 per month) includes the costs of senior management compensation, office space, travel, and office operating costs. Management is

successfully taking measures to minimize overhead on an ongoing basis through improved controls and stringent reporting requirements exhibited through reduced average overhead costs (eg: \$58,333 in the first quarter vs. \$48,000 in the fourth).

When Urbco was reorganized in May of 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 December 31, 2004, NewNorth had a total of \$4.5 million in cash and \$1.2 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 December 31 was \$113,000).

Cash requirements associated with current land and housing development are forecast to be minimal as sales are expected to more than offset servicing and construction costs in our subdivisions. In addition, third party development financing has been secured for Sheep River Heights, with a maximum facility of \$1.3 million, the balance outstanding at December 31 was \$0.2 million. A development facility of \$10.2 million is available for Riverview Heights (outstanding at December 31 was \$1.2 million).

Inuvik Capital Suites Limited Partnership has secured third party construction and project financing with a maximum facility of \$6.9 million secured by General Security Agreement and certain capital assets. An outstanding balance of \$3.4 million was outstanding 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 \$8 million, an outstanding balance of \$4.8 million was outstanding at December 31, 2004. At the time of writing, the Greenlandic facilities outstanding totalled \$1.7 million. Most of the construction work contracted this year is with government, historically a reliable payer of construction accounts.

Property development projects planned for 2004 subject to mezzanine financing from NPR under the Development and Services Agreement include:

- Inuvik Capital Suites for up to \$4.0 million with \$2.7 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.
- Greenland A/S mezzanine financing maximum \$3.1 million was remitted in full prior to December 31, 2004 per NewNorth's commitment to NPR in previous periods. Due to a change in Greenlandic government policy (which now encourages private ownership) NPR will not be pursuing further rental initiatives in Greenland. The 12 units originally slated for NPR are completed and sold to the public. Proceeds from the sale of these completed units were applied to the outstanding mezzanine financing and it was fully retired by December 31, 2004.

PLAN OF ARRANGEMENTS

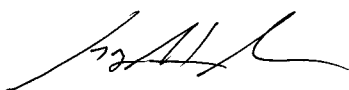
NewNorth Projects Ltd. was incorporated under the laws of the Province of Alberta and was publicly listed on the TSX Venture Exchange as NNP on May 30, 2002. NewNorth acquired the land and construction assets from Urbco Inc. as contemplated in the Plan of Arrangement in exchange for 10,516,524 NewNorth 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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements and information in this Annual Report have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The Management of the Company is responsible for their integrity and objectivity. To fulfill this responsibility, the Company maintains appropriate systems of internal control, policies and procedures to ensure its reporting practices and accounting and administrative procedures are of high quality. The financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Deloitte & Touche LLP, the auditors appointed by the shareholders, have examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report as auditors is set forth herein.

The consolidated financial statements have been further reviewed and approved by the Board of Directors and its Audit Committee. The Audit Committee, which is comprised of two independent directors who are not officers of the company, reports to the Board of Directors. The auditors have direct and full access to the Audit Committee.



Greg N. Herndier
President & Chief Executive Officer



Katherine Ayotte
Chief Financial Officer

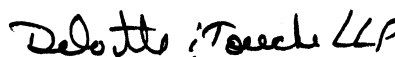
AUDITORS' REPORT

To the Shareholders of
NewNorth Projects Ltd.:

We have audited the consolidated balance sheets of NewNorth Projects Ltd. as at December 31, 2004 and 2003 and the consolidated statements of income (loss) and deficit and cash flows for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

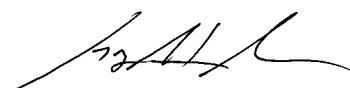
Calgary, Alberta
March 4, 2005

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31

<i>Columnar amounts expressed in thousands of dollars</i>	2004	2003
ASSETS		
Cash	\$ 4,503	\$ 1,685
Short-term investments	1,198	150
Accounts receivable and other (note 3)	16,415	15,064
Real estate for development and sale (note 4)	7,845	9,835
Work-in-progress	3,365	11,464
Capital assets, net book value (note 5)	7,778	3,211
Advances and investments in affiliates (note 6)	804	909
Prepaid expenses	266	355
Future income tax asset (note 11)	469	—
Goodwill	—	623
	\$ 42,643	\$ 43,296
LIABILITIES		
Accounts payable and accrued liabilities (note 7)	\$ 12,834	\$ 10,257
Long-term debt payable (note 8)	6,724	6,761
Financing payable (note 9)	12,386	5,800
Deferred revenue	1,429	11,897
Land and property development service costs	2,219	1,351
	\$ 35,592	\$ 36,066
Future income tax liability (note 11)	—	176
Non-controlling interest (note 10)	800	246
	\$ 36,392	\$ 36,488
SHAREHOLDERS' EQUITY		
Unrealized gain on exchange	13	12
Share capital (note 12)	7,251	7,251
Deficit	(1,013)	(455)
	\$ 6,251	\$ 6,808
	\$ 42,643	\$ 43,296

Approved by the Board of Directors:



Greg N. Herndier
Director



Jack Walker
Director

CONSOLIDATED STATEMENT OF INCOME (LOSS) AND DEFICIT

YEAR ENDED DECEMBER 31

Columnar amounts expressed in thousands of dollars,
except for per share amounts

	2004	2003
REVENUE		
Construction	\$ 37,601	\$ 35,371
Land & Housing	19,466	8,172
Project Development	17,004	2,047
Rental properties	414	301
Interest and other	201	624
	\$ 74,686	\$ 46,515
EXPENSES		
Cost of construction	\$ 37,468	\$ 34,462
Cost of land & housing	15,940	6,313
Cost of Project Development	16,056	1,614
Rental properties operating costs	220	115
General and administrative costs		
- construction	1,075	1,473
- corporate overhead	593	815
- land development	438	521
- project development	582	172
- rental property	56	-
- rental property mortgage interest	71	75
- mezzanine financing interest	251	39
Non-controlling interest	811	247
	\$ 73,561	\$ 45,846
Income before other expenses and income taxes	\$ 1,125	\$ 669
Other expenses		
Bad debts - construction	107	186
Interest on debenture	600	600
Amortization	399	275
	\$ 1,106	\$ 1,061
Income (loss) before income taxes	\$ 19	\$ (392)
Income taxes (note 11)		
- current (recovery) expense	599	30
- future (recovery) expense	(645)	(115)
	\$ (46)	\$ (85)
Net income (loss) before goodwill impairment	\$ 65	\$ (307)
Goodwill impairment	623	-
Net income (loss)	\$ (558)	\$ (307)
Deficit, beginning of period	(455)	(148)
Deficit, end of period	\$ (1,013)	\$ (455)
Earnings (Loss) per share, basic and diluted	\$ (0.05)	\$ (0.03)
Outstanding shares	10,516,524	10,516,524

CONSOLIDATED STATEMENT OF CASHFLOW

YEAR ENDED DECEMBER 31

<i>Columnar amounts expressed in thousands of dollars</i>	2004	2003
Operating Activities		
Net Loss	\$ (558)	\$ (307)
Add back items not affecting cash		
Gain on sale of marketable securities	–	(54)
Amortization	399	275
Goodwill impairment	623	–
Future income tax recovery	(645)	(115)
	\$ (181)	\$ (201)
Changes in non-cash working capital	1,548	(9,935)
Non-controlling interest	811	247
	\$ 2,178	\$ (9,889)
Financing Activities		
Proceeds (repayment) of mezzanine financing	\$ 295	\$ (160)
Advances of financing	6,255	1,024
Advances (to) from affiliates	105	4,383
	\$ 6,655	\$ 5,247
Investing Activities		
Investment in marketable securities	\$ (1,048)	\$ (156)
Proceeds from sale of marketable securities	–	477
Acquisition of capital assets	(5,282)	(430)
Disposition of capital assets	315	152
	\$ (6,015)	\$ 43
Net increase (decrease) in cash, end of period	\$ 2,818	\$ (4,599)
Cash - beginning of period	1,685	6,284
Cash - end of period	\$ 4,503	\$ 1,685
Supplemental Information		
Interest Paid	\$ 584	\$ 173
Taxes paid	\$ 95	\$ 25

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2004 and December 31, 2003

(Columnar amounts expressed in thousands of dollars, except for per share amounts)

1. ORGANIZATION OF CORPORATION

NewNorth Projects Ltd. ("NewNorth" or the "Company") is an incorporated real estate development company created on May 30, 2002 for the benefit of shareholders pursuant to a Plan of Arrangement. NewNorth was created to invest directly and indirectly through the rollover of assets from Urbco Inc. in real estate development projects and the construction of projects for third parties.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

NewNorth's 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 NewNorth and its wholly and partially owned subsidiaries, together with NewNorth's proportionate share of the assets, liabilities, revenue and expenses of joint ventures. Investments in significantly influenced companies are accounted for using the equity method.

Use of estimates

The preparation of financial statement in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and to make disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses for the consolidated reported period. Actual results may differ from those estimates.

Capital Assets

Rental properties are stated at the lower of cost less accumulated amortization and net recoverable amount. Cost of the properties includes the original acquisition costs of the property and other acquisition related costs. Estimated useful lives of capital assets are periodically evaluated by management and any changes in these estimates are accounted for on a prospective basis.

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

Rental Properties	25 – 40 years	straight line *
Office furniture, fixtures and equipment	20% - 30%	declining balance
Vehicles	20% - 30%	declining balance
Leasehold improvements	Varying	straight-line

* Effective January 1, 2004, the Company adopted the straight-line method to compute amortization of its rental properties. The adoption of the straight-line method from the sinking-fund method has been applied prospectively in accordance with the transitional provision of CICA Handbook Section 1100.

The Company prospectively adopted the recommendations of CICA Handbook Section 3063, "Impairment of Long-Lived Assets" as of January 1, 2004. These recommendations require that an impairment loss on long-lived assets to be held and used, be recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. The adoption of these recommendations had no impact on the results of operations for 2004.

Land equity leases

Prepaid land equity leases are amortized over the remaining lives of the related leases ranging from 15 to 30 years.

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) NewNorth 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Real estate for development and sale (CONTINUED)

- (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 "land and property 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

NewNorth 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.

NewNorth uses the equity method to account for its interest in corporations in which NewNorth owns 50% or less but over which NewNorth has significant influence. Under this method, the investment is initially recorded at cost and the carrying value is adjusted thereafter to include NewNorth'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.

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.
- (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 NewNorth); and
 - (b) A minimum of 95% of construction is completed on the condominium unit.

Foreign operations

NewNorth has operations in Greenland and the functional currency for those operations is the local currency. The foreign operations are translated using the current rate method. Under the current rate method, all assets and liabilities are translated at exchange rate in effect at year end. Revenues and expenses are translated at the average rates of exchange for the period. The resulting net gains or losses are shown under "Unrealized Gain on Exchange" in shareholder equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial instruments, which include short-term investments, accounts receivable, prepaid expenses, other assets, accounts payable and accrued liabilities, long-term debt payable, financing payable, and deferred revenue are recorded at the lower of their cost and estimated realizable value. Unless otherwise disclosed, the fair value of all financial instruments approximates their carrying values.

Goodwill

Goodwill is assessed for impairment when events or changes in circumstances indicate that goodwill might be impaired.

Goodwill is assessed for impairment in two steps:

- A potential impairment is identified by comparing the fair value (based on estimates of discounted future cash flows or other valuation methods) of our reporting units to its carrying value. When the fair value of the reporting unit is less than its carrying value, the fair value of the reporting unit is allocated to all of its assets and liabilities, based on their fair values. The amount by which the fair value of the reporting unit exceeds the amounts assigned to its assets and liabilities is the fair value of goodwill.
- An impairment is determined by comparing the fair value of goodwill to its carrying value. Any excess is deducted from earnings.

An impairment was subsequently determined and appropriately expensed in the current fiscal period.

3. ACCOUNTS RECEIVABLE

	2004	2003
Construction receivables	\$ 6,897	\$ 9,717
Land and property development receivables	8,502	3,103
Other receivables	1,016	2,244
	<u>\$ 16,415</u>	<u>\$ 15,064</u>

4. REAL ESTATE FOR DEVELOPMENT AND SALE

	2004	2003
Land held for development and sale	\$ 4,388	\$ 3,106
Properties held for development and sale	3,457	6,729
	<u>\$ 7,845</u>	<u>\$ 9,835</u>

Interest during construction in the amount of \$92,794 (2003 \$72,148) has been capitalized to properties held for development and sale in the current year.

5. CAPITAL ASSETS

	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Land	\$ 242	\$ –	\$ 242	\$ 78
Rental properties	5,918	66	5,852	2,107
Furniture, fixtures and equipment	869	76	793	107
Vehicles	794	185	609	616
Leasehold improvements	354	72	282	303
	<u>\$ 8,177</u>	<u>\$ 399</u>	<u>\$ 7,778</u>	<u>\$ 3,211</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. ADVANCES AND INVESTMENTS IN AFFILIATES

	2004	2003
Advances to (from) affiliates	\$ 799	\$ 904
Investment in affiliates	5	5
	<u>\$ 804</u>	<u>\$ 909</u>

Advances to affiliates are unsecured, non-interest bearing and have no fixed terms of repayment.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2004	2003
Construction trade payables	\$ 5,053	\$ 4,001
Holdbacks payable	2,439	2,279
Other payables	1,995	1,269
Land and property development payables	3,089	2,629
Lot deposits payable	252	73
Accrued liabilities	6	6
	<u>\$ 12,834</u>	<u>\$ 10,257</u>

8. LONG-TERM DEBT PAYABLE

Mortgage

Mortgage payable bearing effective interest rate of 9.75% and maturing March 1, 2008. Minimum future principal payments are as follows:

Minimum future principal payments are as follows:

2004	\$ 724
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The fair value of the mortgage at December 31, 2004 \$764,000 The mortgage is secured by the rental property associated with it.

Debenture

Debenture in the amount of \$6.0 million maturing May 30, 2012. The unsecured 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. The carrying value of the debenture approximates fair value. The debenture was listed on the TSX Venture Exchange November, 2003 under the trading symbol NNP.DB.

9. FINANCING PAYABLE

	2004	2003
Demand development facility to a maximum of \$2.3 million to finance land under development. The facility is due on demand, bears interest at the prime lending rate plus 0.5% per annum and secured by general security agreements over specific assets, book receivables, and a \$3.5 million demand debenture providing a first fixed charge on specific lands. Eighty-five percent of the proceeds from lot sales are used to pay down the facility.	\$ nil	\$ 1,301
Mezzanine facility payable to Northern Property Real Estate Investment Trust (NPR) in the amount of \$2.5 million advanced for the purpose of developing properties. The facility is secured by a general security agreement and a promissory note and bears interest at 11% per annum, payable on sale of the assets to NPR.	\$ nil	\$ 2,386

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. FINANCING PAYABLE (CONTINUED)

	2004	2003
Demand revolving credit facility to a maximum of \$1.0 million bearing interest at the prime lending rate plus 1% per annum, for the purpose of acquiring specific fixed assets limited to heavy equipment and vehicles in excess of \$10,000 per item. The facility is secured by general assignments and specific assets.	\$ 113	\$ nil
Demand development facility to a maximum of \$1.3 million to finance land under development. The facility is due on demand, bears interest at the prime lending rate plus 1% per annum and secured by a demand mortgage creating a first fixed charge over lands under development, general security agreements over specific assets, book receivables. One Hundred percent of the proceeds from net lot sales are used to pay down the facility.	\$ 231	\$ nil
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, bears 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. Eighty-five percent of the proceeds from house sales are used to pay down the facility.	\$ 1,205	\$ 2,113
Mezzanine facility payable to Northern Property Real Estate Investment Trust (NPR) in the amount of \$4.7 million advanced for the purpose of developing properties. The facility is secured by a general security agreement and a promissory note and bears interest at 11% per annum, payable monthly principal payable upon sale to NPR, but no later than November 30, 2006.	\$ 2,681	\$ nil
Demand project loan to a maximum of \$6.9 million to finance the development of an executive suites accommodation in Inuvik, NT. The facility is due on demand, bears interest at the prime lending rate plus 1.0% per annum secured by: demand collateral mortgage creating first fixed charge over specific property; general security agreements over specific assets; payment guarantees and assignments of insurance proceeds.	\$ 3,397	\$ nil
Demand development facility to a maximum of \$3.6 million to finance land under development. The facility is due on demand, bears interest at 7% per annum and secured by general security agreements over specific assets, assignment of insurance proceeds and a demand debenture providing a first fixed charge on specific lands. One hundred percent of the proceeds from sales are used to pay down the facility.	\$ 3,031	\$ nil
Demand development facility to a maximum of \$4.4 million to finance land under development. The facility is due on demand, bears interest at 7% per annum and secured by general security agreements over specific assets, assignment of insurance proceeds and a demand debenture providing a first fixed charge on specific lands. One hundred percent of the proceeds from sales are used to pay down the facility.	\$ 1,728	\$ nil
	\$ 12,386	\$ 5,800

Letters of credit totalling \$794,949 are outstanding on the Sheep River project and are secured by cash and land.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. NON-CONTROLLING INTEREST

The consolidated financial statements include 100% of the assets and liabilities of Riverview Heights Developments Inc. at December 31, 2004, NewNorth owned 66 2/3% equity interest. The remaining 33 1/3% have been accounted for as non-controlling interest.

11. INCOME TAXES

The provision for income taxes differs from the results which would be obtained by applying the combined federal and provincial income tax rate to net loss before taxes. The difference results from the following:

	2004	2003
Profit (Loss) before future and current income taxes	\$ 19	\$ (392)
Effective statutory income tax rate	34.5%	34.54%
Income tax recovery from statutory income tax rate	7	(135)
Increase (decrease) in taxes resulting from:		
Large corporation tax	1	32
Adjustment for change in effective tax rate	(1)	(30)
Other	(53)	48
	\$ (46)	\$ 85
Current income tax expense (recovery)	599	30
Future income tax expense (recovery)	(645)	(115)
Income tax recovery	\$ (46)	\$ (85)

The balance of future income tax recovery of \$469,000 results from the difference in the carrying values of the assets and liabilities for accounting purposes versus those for tax purposes. In the prior year, there was recognition of loss carry forwards in the amount of \$588,625 which were fully utilized in the current year.

12. SHARE CAPITAL

Authorized

Unlimited number of common voting shares

Unlimited number of non-voting, cumulative, preferred shares

Issued

	2004		2003	
	Number of Shares	Stated Value	Number of Shares	Stated Value
Issued	10,516,524	\$ 7,696	10,516,524	\$ 7,696
Issue cost	(445)		(445)	
	10,516,524	\$ 7,251	10,516,524	\$ 7,251

Loss per share

Net Loss	\$ (558)	\$ (307)
Earnings (Loss) per share	\$ (0.05)	\$ (0.03)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. INVESTMENTS IN JOINT VENTURES

NewNorth'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:

	2004	2003
Assets		
Cash and cash equivalents	\$ 229	\$ 734
Accounts receivable and prepaids	697	782
Work in progress	–	844
Capital Assets	111	–
Land held for development and sale	119	236
	\$ 1,156	\$ 2,596
Liabilities		
Accounts payable and accrued liabilities	\$ 669	\$ 218
Due to affiliates	17	17
Land development service costs	209	213
Deferred revenue	121	1,985
	\$ 1,016	\$ 2,433
Net investments	\$ 140	\$ 163
Revenue	\$ 3,594	\$ 2,360
Expenses	3,393	2,269
Net Income	\$ 201	\$ 91
Cash flow from operating activities, net	\$ 335	\$ 831
Cash flow from financing activities, net	\$ –	\$ –
Cash flow from (used in) investing activities, net	\$ (840)	\$ (325)

NewNorth 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.

14. COMMITMENTS AND CONTINGENCIES

A Development and Services Agreement exists between NPR and NewNorth. The agreement grants NPR, subject to specific conditions, the option to purchase NewNorth's development properties following completion at a price equal to 100% of the appraised fair market value. NPR will also have the right to offer to make mezzanine loans for 100% of the projected equity of all development projects to assist NewNorth with development.

During the period, a mezzanine loan, classified as mezzanine financing payable, in the amount of \$2.7 million (including accrued interest) was made to NewNorth for the development of properties to which NPR has right of first refusal (See note 9).

15. SEGMENTED INFORMATION

NewNorth conducts its operations through four industry segments: rental properties, construction, development and sale of real estate properties, and land and housing development. Foreign operations include Greenland projects.

Earnings of industry segments exclude unallocated corporate expenses but include, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. SEGMENTED INFORMATION (CONTINUED)

Year Ended December 31, 2004

	Rental Properties	Construction	Project Development	Land and Housing	Foreign Operations	Corporate and Eliminations	Total
Sales	\$ 414	\$ 37,601	\$ 7,757	\$ 19,466	\$ 9,247	\$ -	\$ 74,485
Interest and other	3	141	-	17	-	40	201
Total revenues	417	37,742	7,757	19,483	9,247	40	74,686
Cost of sales	-	37,468	7,344	16,752	8,712	-	70,276
General and administrative	56	1,075	3	438	579	592	2,743
Rental operating costs	220	-	-	-	-	-	220
Interest	71	-	-	-	-	251	322
Total expenses	347	38,543	7,347	17,190	9,291	843	73,561
Income (loss) before Other							
Items and income tax	70	(801)	410	2,293	(44)	(803)	1,125
Bad Debt - construction	-	107	-	-	-	-	107
Interest on debenture	-	-	-	-	-	600	600
Amortization	148	170	-	3	53	25	399
Income before income taxes	(78)	(1,078)	410	2,290	(97)	(1,428)	19
Income tax (expense) recovery	-	-	-	-	-	46	46
Net income (loss) before							
goodwill impairment	\$ (78)	\$ (1,078)	\$ 410	\$ 2,290	\$ (97)	\$ (1,382)	\$ 65
Goodwill impairment		(623)					(623)
Net income (loss)	\$ (78)	\$ (1,701)	\$ 410	\$ 2,290	\$ (97)	\$ (1,382)	\$ (558)
Identifiable assets	5,880	13,784	646	5,906	4,511	11,916	42,643

Year Ended December 31, 2003

	Rental Properties	Construction	Project Development	Land and Housing	Foreign Operations	Corporate and Eliminations	Total
Sales	\$ 301	\$ 35,371	\$ 2,047	\$ 8,172	\$ -	\$ -	\$ 45,891
Interest and other	103	330	-	21	24	146	624
Total revenues	404	35,701	2,047	8,193	24	146	46,515
Cost of sales	-	34,462	1,614	6,561	-	-	42,637
General and administrative	-	1,473	-	521	171	815	2,980
Rental operating costs	115	-	-	-	-	-	115
Interest	75	-	-	-	-	39	114
Total expenses	190	35,935	1,614	7,082	171	854	45,846
Income before Other							
Items and income tax	214	(234)	433	1,111	(147)	(708)	669
Bad Debt - construction	-	186	-	-	-	-	186
Interest on debenture	-	-	-	-	-	600	600
Amortization	86	189	-	-	-	-	275
Income before income taxes	128	(609)	433	1,111	(147)	(1,308)	(392)
Income taxes recovery	-	-	-	-	-	85	85
Net income	128	(609)	433	1,111	(147)	(1,223)	(307)
Identifiable assets	4,855	24,265	1,065	6,284	-	6,827	43,296

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. RELATED PARTY

NewNorth and Northern Property Real Estate Investment Trust (NPR) ceased to be considered related parties as shared trustees and management was discontinued, effective January 1, 2005.

For accounting purposes, NewNorth and NPR were considered related parties as they shared some common directors, trustees and management. NPR does not have any ownership interest in NewNorth; neither entity is considered an affiliate of the other for taxation, legal or regulatory purposes. Transactions between the two entities pursuant to a Development and Services Agreement, require the approval of the independent and unrelated directors and trustees of NewNorth and NPR.

In compliance with GAAP, sales of properties by NewNorth to NPR were deemed, for accounting purposes, not to be conducted between related parties because of the requirement for approval of such transactions by an independent committee of the board of trustees. Sales of properties by NewNorth to NPR were recorded at their exchange amount determined by independent appraisals and approved by independent trustees and directors. The exchange amounts approximate fair market value due to the terms and conditions of the Development and Services Agreement, and is the basis for recording these transactions for both NewNorth and NPR.

During the twelve month period ending December 31, 2004, a total of \$60,929 (2003 - \$443,075) was charged from NPR to NewNorth for services of senior management and administration costs. During the twelve month period, NewNorth and its subsidiaries leased rental accommodation from NPR totalling \$309,370 (2003 - \$154,895).

NewNorth was engaged to construct an apartment project, Niven Lake, on a site located in Yellowknife, NT that is owned by NPR. The committed price contract was for \$4.3 million. Construction was completed in June, 2004 and full payment of \$4,263,670 has been received by NewNorth.

On September 11, 2003, NewNorth entered into a demand loan agreement with NPR, up to a maximum of \$3.1 million, to fund developments in Greenland. This loan bears interest at 11.0% per annum, payable monthly. The facility is secured by a general security agreement and a promissory note and is payable on sale of the assets to NPR. Balance outstanding at December 31, 2004 was nil (2003 - \$2.4 million) (see note 9). On August 11, 2003, NewNorth entered into a demand loan agreement with NPR, up to a maximum of \$4.7 million, to fund the development on the Capital Suites in Inuvik, Northwest Territories. Balance outstanding at December 31, 2004 was \$2.7 million (2003 - \$nil) (see note 9).

17. GUARANTEES

Effective January 1, 2003, the Company adopted Accounting Guideline 14 (AcG-14), Disclosure of Guarantees. This guideline provides assistance regarding the identification of guarantees and requires a guarantor to disclose the significant details of guarantees that have been given, regardless of whether it will have to make payments under the guarantees.

In the ordinary course of business, the Company provides indemnification commitments to counter-parties through director and officer indemnification agreements. The terms of these indemnification agreements do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such indemnifications and no amount has been accrued in the financial statements with respect to these indemnification commitments.

18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

CORPORATE INFORMATION

DIRECTORS

C. Donald Wilson
Chairman of the Board

Jack Walker
Director

Kenn Harper
Director

Bob Etcheverry
Director

B. James Britton*
Director

Greg N. Herndier**
Director

OFFICERS

Greg N. Herndier**
President & Chief Executive Officer

Katherine Ayotte
Chief Financial Officer

Craig Johnson
Vice President

CORPORATE OFFICE

106, 6131 – 6th Street SE
Calgary, AB T2H 1L9

tel: (403) 531 0280

fax: (403) 531 0289

STOCK EXCHANGE

TSX Venture Exchange

Trading Symbol: NNP

Debenture: NNP.DB

LEGAL COUNSEL

Borden, Ladner, Gervais

REGISTRAR AND TRANSFER AGENT

Valiant Trust Company

* Mr. Britton resigned as Director effective December 31, 2004

** Mr. Herndier was appointed as CEO and a Director effective January 1, 2004

NEWNORTH PROJECTS LTD.



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