

# **NEWNORTH PROJECTS LTD.**

**Report for the period ended**

**September 30, 2005**

# **Q3**

*Unaudited Consolidated Balance Sheet*

*Columnar amounts expressed in thousands of dollars*

	September 30, 2005	December 31, 2004
<b>ASSETS</b>		
Cash	\$ 1,884	\$ 4,503
Short-term investments	763	1,198
Accounts receivable and other (note 3)	6,713	16,415
Real estate for development and sale (note 4)	9,763	7,845
Work-in-progress	1,269	3,365
Capital assets, net book value	7,182	7,778
Advances and investments in affiliates (note 5)	2,093	804
Prepaid expenses	183	266
Future income tax asset	672	469
	<u>\$ 30,522</u>	<u>\$ 42,643</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (note 6)	\$ 6,310	\$ 12,834
Long-term debt payable (note 7)	7,194	6,724
Financing payable (note 8)	8,020	12,386
Deferred revenue	1,022	1,429
Land and property development service costs	2,205	2,219
	<u>\$ 24,751</u>	<u>\$ 35,592</u>
Non-controlling interest (note 9)	96	800
	<u>\$ 24,847</u>	<u>\$ 36,392</u>
<b>SHAREHOLDERS' EQUITY</b>		
Unrealized gain on exchange	109	13
Share capital	7,476	7,251
Deficit	(1,910)	(1,013)
	<u>\$ 5,675</u>	<u>\$ 6,251</u>
	<u>\$ 30,522</u>	<u>\$ 42,643</u>

*Unaudited Consolidated Statement of Income (Loss) and Deficit*

Nine Months Ended September 30

<i>Columnar amounts expressed in thousands of dollars, except for per share amounts</i>	<b>2005</b>	<b>2004</b>
<b>REVENUE</b>		
Construction	\$ 4,322	\$ 26,663
Land & Housing	5,784	9,483
Project Development	4,708	5,272
Rental properties	1,149	206
Interest and other	50	214
	<u>\$ 16,013</u>	<u>\$ 41,838</u>
<b>EXPENSES</b>		
Cost of construction	\$ 3,979	\$ 26,328
Cost of land & housing	4,493	7,466
Cost of Project Development	5,353	4,971
Rental properties operating costs	297	70
General and administrative costs		
- construction	521	998
- corporate overhead	552	447
- land development	401	352
- project development	496	186
- rental property	147	-
- rental property mortgage interest	185	54
- mezzanine financing interest	-	215
Non-controlling interest	107	358
	<u>\$ 16,531</u>	<u>\$ 41,445</u>
<b>Income before other expenses and income taxes</b>	<b>\$ (518)</b>	<b>\$ 393</b>
<b>Other expenses</b>		
Bad Debt	-	107
Interest on debenture	450	450
Amortization	436	198
	<u>\$ 886</u>	<u>\$ 755</u>
<b>Income (loss) before income taxes</b>	<b>\$ (1,404)</b>	<b>\$ (362)</b>
Income tax (recovery) expense	(507)	(135)
<b>Net income (loss)</b>	<b>\$ (897)</b>	<b>\$ (227)</b>
Deficit, beginning of period	(1,013)	(455)
Deficit, end of period	<u>\$ (1,910)</u>	<u>\$ (682)</u>
Earnings (Loss) per share, basic and diluted	\$ (0.08)	\$ (0.02)
Outstanding shares, basic and diluted (weighted average)	10,625,840	10,516,524

*Unaudited Consolidated Statement of Cashflow*

Nine Months Ended September 30

*Columnar amounts expressed in thousands of dollars*

	<u>2005</u>	<u>2004</u>
<b>Operating Activities</b>		
Net Loss	\$ (897)	\$ (227)
Add back items not affecting cash		
Amortization	436	198
Future income tax recovery	(206)	(60)
	<u>\$ (667)</u>	<u>\$ (89)</u>
Changes in non-cash working capital	2,306	(4,076)
Non-controlling interest	107	358
	<u>\$ 1,746</u>	<u>\$ (3,807)</u>
<b>Financing Activities</b>		
Proceeds (repayment) of mezzanine financing	(192)	2,731
Advances (repayment) of financing	(3,702)	4,205
Advances (to) from affiliates	(1,290)	(544)
	<u>\$ (5,184)</u>	<u>\$ 6,392</u>
<b>Investing Activities</b>		
Investment in marketable securities	-	(772)
Proceeds from sale of marketable securities	660	-
Acquisition of capital assets	(9)	(655)
Disposition of capital assets	167	315
	<u>\$ 819</u>	<u>\$ (1,112)</u>
Net increase (decrease) in cash, end of period	\$ (2,619)	\$ 1,473
Cash - beginning of period	4,503	1,685
<b>Cash - end of period</b>	<u><b>\$ 1,884</b></u>	<u><b>\$ 3,158</b></u>

*Notes to Unaudited Consolidated Financial Statements*

**For the Nine Months ending September 30, 2005 and the Year Ended December 31, 2004**

*(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***

These unaudited interim consolidated financial statements of NewNorth have been prepared in accordance with the recommendations of the handbook of the Canadian Institute of Chartered Accountants and are consistent with those used in the audited consolidated financial statements as at and for the period ended December 31, 2004. These interim financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles ("Canadian GAAP") applicable to annual financial statements and, therefore, they should be read in conjunction with the audited consolidated financial statements.

The preparation of financial statements in accordance with Canadian 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 financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

Due to seasonality, the operating results for the six months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2005.

**3. ACCOUNTS RECEIVABLE**

	<u>Sep 30, 2005</u>	<u>Dec 31, 2004</u>
Construction receivables	\$ 2,597	\$ 6,897
Land and property development receivables	3,194	8,502
Other receivables	922	1,016
	<u>\$ 6,713</u>	<u>\$ 16,415</u>

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

	<u>Sep 30, 2005</u>	<u>Dec 31, 2004</u>
Land held for development and sale	\$ 9,712	\$ 4,388
Properties held for development and sale	51	3,457
	<u>\$ 9,763</u>	<u>\$ 7,845</u>

**5. ADVANCES AND INVESTMENTS IN AFFILIATES**

	<u>Sep 30, 2005</u>	<u>Dec 31, 2004</u>
Advances to (from) affiliates	\$ 2,088	\$ 799
Investment in affiliates	5	5
	<u>\$ 2,093</u>	<u>\$ 804</u>

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

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<u>Sep 30, 2005</u>	<u>Dec 31, 2004</u>
Construction trade payables	\$ 1,581	\$ 5,053
Holdbacks payable	361	2,439
Land and property development payables	2,567	3,089
Other payables	13	1,995
Lot deposits payable	4	252
Accrued liabilities	1,784	6
	<u>\$ 6,310</u>	<u>\$ 12,834</u>

*Accrued Liabilities* primarily represent NewNorth's proportionate amount payable (\$1,645,000) to Limited Partnership unit holders in regard to contributions; the Franklin & Penhorwood Limited Partnership ("FPLP"), \$845,000; the King and Fraser Limited Partnership ("KFLP"), \$800,000. The Limited Partnerships were established for the development of specific properties and upon completion of the projects, Limited Partnership initial contributions are repayable to the unit holders to the extent that funds generated from the project are available for said repayment. NewNorth does not bear legal liability nor does it guarantee any repayment of Limited Partnership unit holder contributions.

**7. 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:

2005	\$ 694
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***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.

Debenture in the amount of \$500,000 maturing August 24, 2015. 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.

**8. FINANCING PAYABLE**

	<u>Sep 30, 2005</u>	<u>Dec 31, 2004</u>
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.	\$ nil	\$ 231
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.	\$ nil	\$ 1,205

*Financing payable cont'd*

	<u>Sep 30, 2005</u>	<u>Dec 31, 2004</u>
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.	\$ nil	\$ 1,728
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.	\$ nil	\$ 3,031
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.	\$ 86	\$ 113
Demand development facility to a maximum of \$1.8 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.	\$ 987	\$ nil
Demand development facility to a maximum of \$2.25 million to finance land under development. The facility is due on demand, bears interest at the prime lending rate plus 2.75% per annum, payable monthly, principal payable no later than December 1, 2005, and secured by a demand mortgage creating a first fixed charge over lands under development, general security agreements over specific assets, book receivables.	\$ 1,125	\$ nil
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.	\$ 2,489	\$ 2,681
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.	\$ 3,333	\$ 3,397
	<b>\$ 8,020</b>	<b>\$ 12,386</b>

Letters of credit totalling \$476,657 are outstanding on the Sheep River project and are secured by cash and land.

**9. NON-CONTROLLING INTEREST**

The consolidated financial statements include 100% of the assets and liabilities of Riverview Heights Developments Inc. at September 30, 2005, NewNorth owned 66 2/3% equity interest. The remaining 33 1/3% have been accounted for as non-controlling interest.

**10. SHARE CAPITAL**

On August 24, 2005, 300,000 common shares were issued through private placement at \$0.75/unit (\$225,000) for cash. Upon issuance, total outstanding common shares was 10,816,524 (10,516,524 Dec 31, 2004). Weighted average common shares of 10,625,840 result in a per share loss of \$0.08 for the period.

**11. COMMITMENTS AND CONTINGENCIES**

A Development and Services Agreement exists between Northern Property Real Estate Investment Trust ("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 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 \$2.5 million (including accrued interest) was made to NewNorth for the development of properties to which NPR has right of first refusal (See note 7).

**12. RELATED PARTY TRANSACTIONS**

A short term note receivable in the amount of \$405,000 bearing interest at 10%, and secured by FLP Class A limited partnership units held in NewNorth's name was extended to an officer of the company. Full payment for the note was received in the period, with final transfer of the Limited Partnership units completed subsequent to the period end.

**13. 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.

**Nine Months Ended September 30, 2005**

	Rental Properties	Construction	Property Development	Land and Housing	Foreign Operations	Corporate and Eliminations	Total
Sales	\$ 1,149	\$ 4,322	\$ -	\$ 5,784	\$ 4,708	\$ -	\$ 15,963
Interest and other	14	(10)	-	31	-	15	50
<b>Total revenues</b>	<b>1,163</b>	<b>4,312</b>	<b>-</b>	<b>5,815</b>	<b>4,708</b>	<b>15</b>	<b>16,013</b>
Cost of sales	-	3,979	-	4,600	5,353	-	13,932
General and administrative	147	521	-	401	496	552	2,117
Rental operating costs	297	-	-	-	-	-	297
Interest	185	-	-	-	-	-	185
<b>Total expenses</b>	<b>629</b>	<b>4,500</b>	<b>-</b>	<b>5,001</b>	<b>5,849</b>	<b>552</b>	<b>16,531</b>
<b>Income (loss) before Other Items and income tax</b>	<b>534</b>	<b>(188)</b>	<b>-</b>	<b>814</b>	<b>(1,142)</b>	<b>(536)</b>	<b>(518)</b>
Interest on debenture	-	-	-	-	-	450	450
Amortization	357	53	-	8	-	18	436
Income before income taxes	177	(241)	-	806	(1,142)	(1,004)	(1,404)
Income tax (expense) recovery	-	-	-	-	-	507	507
<b>Net income (loss)</b>	<b>\$ 177</b>	<b>\$ (241)</b>	<b>\$ -</b>	<b>\$ 806</b>	<b>\$ (1,142)</b>	<b>\$ (443)</b>	<b>\$ (897)</b>
<i>Identifiable assets</i>	<i>6,189</i>	<i>3,839</i>	<i>549</i>	<i>6,089</i>	<i>-</i>	<i>13,856</i>	<i>30,522</i>

**Nine Months Ended September 30, 2004**

	Rental Properties	Construction	Project Development	Land and housing	Foreign Operations	Corporate and Eliminations	Total
Sales	\$ 206	\$ 26,663	\$ 2,488	\$ 9,483	\$ 2,784	\$ -	\$ 41,624
Interest and other	-	163	-	6	-	45	214
<b>Total revenues</b>	<b>206</b>	<b>26,826</b>	<b>2,488</b>	<b>9,489</b>	<b>2,784</b>	<b>45</b>	<b>41,838</b>
Cost of sales	-	26,328	2,362	7,824	2,609	-	39,123
General and administrative	-	998	4	352	181	448	1,983
Rental operating costs	70	-	-	-	-	-	70
Interest	54	-	-	-	-	215	269
<b>Total expenses</b>	<b>124</b>	<b>27,326</b>	<b>2,366</b>	<b>8,176</b>	<b>2,790</b>	<b>663</b>	<b>41,445</b>
Income before Other Items and income tax	<b>82</b>	<b>(500)</b>	<b>122</b>	<b>1,313</b>	<b>(6)</b>	<b>(618)</b>	<b>393</b>
Bad Debt	-	107	-	-	-	-	107
Interest on debenture	-	-	-	-	-	450	450
Amortization	63	120	-	-	-	15	198
Income before income taxes	19	(727)	122	1,313	(6)	(1,083)	(362)
Income taxes recovery	-	-	-	-	-	135	135
<b>Net income</b>	<b>\$ 19</b>	<b>\$ (727)</b>	<b>\$ 122</b>	<b>\$ 1,313</b>	<b>\$ (6)</b>	<b>\$ (948)</b>	<b>\$ (227)</b>
<i>Identifiable assets</i>	<i>2,904</i>	<i>24,576</i>	<i>2,628</i>	<i>7,753</i>	<i>2,171</i>	<i>13,790</i>	<i>53,822</i>