

NEW NORTH PROJECTS LTD.

Report for the period ended

June 30, 2005

Q2

NEWNORTH PROJECTS

Unaudited Consolidated Balance Sheet

Columnar amounts expressed in thousands of dollars

| | June 30, 2005 | December 31, 2004 |
|---|------------------|----------------------|
| ASSETS | | |
| Cash | \$ 2,430 | \$ 4,503 |
| Short-term investments | 763 | 1,198 |
| Accounts receivable and other (note 3) | 7,380 | 16,415 |
| Real estate for development and sale (note 4) | 8,433 | 7,845 |
| Work-in-progress | 5,365 | 3,365 |
| Capital assets, net book value | 7,385 | 7,778 |
| Advances and investments in affiliates (note 5) | 1,003 | 804 |
| Prepaid expenses | 209 | 266 |
| Future income tax asset | 544 | 469 |
| Goodwill | - | - |
| | \$ 33,512 | \$ 42,643 |
| LIABILITIES | | |
| Accounts payable and accrued liabilities (note 6) | \$ 5,182 | \$ 12,834 |
| Limited Partnership Units (note 7) | 845 | - |
| Long-term debt payable | 6,704 | 6,724 |
| Financing payable (note 8) | 11,790 | 12,386 |
| Deferred revenue | 1,113 | 1,429 |
| Land and property development service costs | 1,767 | 2,219 |
| | \$ 27,401 | \$ 35,592 |
| Non-controlling interest (note 9) | 118 | 800 |
| | \$ 27,519 | \$ 36,392 |
| SHAREHOLDERS' EQUITY | | |
| Unrealized gain on exchange | 72 | 13 |
| Share capital | 7,251 | 7,251 |
| Deficit | (1,330) | (1,013) |
| | \$ 5,993 | \$ 6,251 |
| | \$ 33,512 | \$ 42,643 |

Unaudited Consolidated Statement of Income (Loss) and Deficit

Six Months Ended June 30

| <i>Columnar amounts expressed in thousands of dollars, except for per share amounts</i> | 2005 | 2004 |
|---|-------------------|------------------|
| REVENUE | | |
| Construction | \$ 4,302 | \$ 13,870 |
| Land & Housing | 4,274 | 5,757 |
| Project Development | - | - |
| Rental properties | 745 | 137 |
| Interest and other | 54 | 45 |
| | <u>\$ 9,375</u> | <u>\$ 19,809</u> |
| EXPENSES | | |
| Cost of construction | \$ 4,060 | \$ 13,055 |
| Cost of land & housing | 3,558 | 4,595 |
| Cost of Project Development | - | - |
| Rental properties operating costs | 219 | 38 |
| General and administrative costs | | |
| - construction | 392 | 691 |
| - corporate overhead | 349 | 299 |
| - land development | 212 | 215 |
| - project development | 151 | 137 |
| - rental property | 101 | - |
| - rental property mortgage interest | 134 | 36 |
| - mezzanine financing interest | - | 141 |
| Non-controlling interest | 130 | 195 |
| | <u>\$ 9,306</u> | <u>\$ 19,402</u> |
| Income before other expenses and income taxes | \$ 69 | \$ 407 |
| Other expenses | | |
| Bad Debt | - | 107 |
| Interest on debenture | 300 | 300 |
| Amortization | 289 | 138 |
| | <u>\$ 589</u> | <u>\$ 545</u> |
| Income (loss) before income taxes | \$ (520) | \$ (138) |
| Income tax (recovery) expense | (203) | (50) |
| Net income (loss) | \$ (317) | \$ (88) |
| Deficit, beginning of period | (1,013) | (455) |
| Deficit, end of period | <u>\$ (1,330)</u> | <u>\$ (543)</u> |
| Earnings (Loss) per share, basic and diluted | \$ (0.03) | \$ (0.01) |
| Outstanding shares | 10,516,524 | 10,516,524 |

Unaudited Consolidated Statement of Cashflow

Six Months Ended June 30

Columnar amounts expressed in thousands of dollars

| | <u>2005</u> | <u>2004</u> |
|--|------------------------|------------------------|
| Operating Activities | | |
| Net Loss | \$ (317) | \$ (302) |
| Add back items not affecting cash | | |
| Amortization | 289 | 65 |
| Future income tax recovery | (79) | (81) |
| | <u>\$ (107)</u> | <u>\$ (318)</u> |
| Changes in non-cash working capital | (1,822) | (453) |
| Non-controlling interest | 130 | 106 |
| | <u>\$ (1,799)</u> | <u>\$ (665)</u> |
| Financing Activities | | |
| Proceeds (repayment) of mezzanine financing | (192) | 457 |
| Advances (repayment) of financing | (423) | 411 |
| Advances (to) from affiliates | (198) | (473) |
| | <u>\$ (813)</u> | <u>\$ 395</u> |
| Investing Activities | | |
| Proceeds from sale of marketable securities | 435 | - |
| Acquisition of capital assets | (9) | (58) |
| Disposition of capital assets | 113 | - |
| | <u>\$ 539</u> | <u>\$ (58)</u> |
| Net increase (decrease) in cash, end of period | \$ (2,073) | \$ (328) |
| Cash - beginning of period | 4,503 | 1,685 |
| Cash - end of period | <u>\$ 2,430</u> | <u>\$ 1,357</u> |

Notes to Unaudited Consolidated Financial Statements

For the Six Months ending June 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 June 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>Jun 30, 2005</u> | <u>Dec 31, 2004</u> |
|---|---------------------|---------------------|
| Construction receivables | \$ 4,582 | \$ 6,897 |
| Land and property development receivables | 2,084 | 8,502 |
| Other receivables | 714 | 1,016 |
| | <hr/> \$ 7,380 | <hr/> \$ 16,415 |

4. REAL ESTATE FOR DEVELOPMENT AND SALE

| | <u>Jun 30, 2005</u> | <u>Dec 31, 2004</u> |
|--|---------------------|---------------------|
| Land held for development and sale | \$ 8,386 | \$ 4,388 |
| Properties held for development and sale | 47 | 3,457 |
| | <hr/> \$ 8,433 | <hr/> \$ 7,845 |

5. ADVANCES AND INVESTMENTS IN AFFILIATES

| | <u>Jun 30, 2005</u> | <u>Dec 31, 2004</u> |
|-------------------------------|---------------------|---------------------|
| Advances to (from) affiliates | \$ 998 | \$ 799 |
| Investment in affiliates | 5 | 5 |
| | <hr/> \$ 1,003 | <hr/> \$ 804 |

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

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | <u>Jun 30, 2005</u> | <u>Dec 31, 2004</u> |
|--|---------------------|---------------------|
| Construction trade payables | \$ 1,999 | \$ 5,053 |
| Holdbacks payable | 1,533 | 2,439 |
| Land and property development payables | 922 | 3,089 |
| Other payables | 718 | 1,995 |
| Lot deposits payable | 4 | 252 |
| Accrued liabilities | 6 | 6 |
| | \$ 5,182 | \$ 12,834 |

7. FINANCING PAYABLE

New North has an interest in the Franklin & Penhorwood Limited Partnership, which was established for the development of a specific property. The initial purchase of the property was financed by a trust mortgage and the issuance of Class A limited partnership units. The Class A limited partnership units are entitled to 20% of the income from the project and will repaid to the extent that funds are available from the project. New North has not guaranteed any repayment of the units.

New North has recorded its proportionate share of the assets and liabilities of the partnership including the limited partnership.

8. FINANCING PAYABLE

| | <u>Jun 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 |
| 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. | \$ 95 | \$ 113 |

Financing payable cont'd

| | <u>Jun 30, 2005</u> | <u>Dec 31, 2004</u> |
|--|---------------------|---------------------|
| 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 |
| 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. | \$ 1,148 | \$ 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. | \$ 3,397 | \$ 3,397 |
| 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. | \$ 3,536 | \$ 1,728 |
| | <u>\$ 11,790</u> | <u>\$ 12,386</u> |

Letters of credit totalling \$476,757 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 June 30, 2005, NewNorth owned 66 2/3% equity interest. The remaining 33 1/3% have been accounted for as non-controlling interest.

10. 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 8).

11. 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.

Six Months Ended June 30, 2005

| | Rental Properties | Construction | Property Development | Land and housing | Foreign Operations | Corporate and Eliminations | Total |
|--|----------------------|--------------|-------------------------|---------------------|-----------------------|----------------------------------|----------|
| Sales | \$ 745 | \$ 4,302 | \$ - | \$ 4,274 | \$ - | \$ - | \$ 9,321 |
| Interest and other | 7 | 6 | - | 29 | - | 12 | 54 |
| Total revenues | 752 | 4,308 | - | 4,303 | - | 12 | 9,375 |
| Cost of sales | - | 4,060 | - | 3,688 | - | - | 7,748 |
| General and administrative | 101 | 392 | - | 212 | 151 | 349 | 1,205 |
| Rental operating costs | 219 | - | - | - | - | - | 219 |
| Interest | 134 | - | - | - | - | - | 134 |
| Total expenses | 454 | 4,452 | - | 3,900 | 151 | 349 | 9,306 |
| Income (loss) before Other Items and income tax | 298 | (144) | - | 403 | (151) | (337) | 69 |
| Interest on debenture | - | - | - | - | - | 300 | 300 |
| Amortization | 232 | 48 | - | - | - | 9 | 289 |
| Income before income taxes | 66 | (192) | - | 403 | (151) | (646) | (520) |
| Income tax (expense) recovery | - | - | - | - | - | 203 | 203 |
| Net income (loss) | \$ 66 | \$ (192) | \$ - | \$ 403 | \$ (151) | \$ (443) | \$ (317) |

Identifiable assets 6,181 5,634 548 6,402 2,578 12,126 33,512

Six Months Ended June 30, 2004

| | Rental Properties | Construction | Project Development | Land and housing | Foreign Operations | Corporate and Eliminations | Total |
|---|----------------------|--------------|------------------------|---------------------|-----------------------|----------------------------------|-----------|
| Sales | \$ 137 | \$ 13,870 | \$ - | \$ 5,757 | \$ - | \$ - | \$ 19,764 |
| Interest and other | - | 1 | - | 6 | - | 38 | 45 |
| Total revenues | 137 | 13,871 | - | 5,763 | - | 38 | 19,809 |
| Cost of sales | - | 13,055 | - | 4,790 | - | - | 17,845 |
| General and administrative | - | 691 | 2 | 215 | 135 | 299 | 1,342 |
| Rental operating costs | 38 | - | - | - | - | - | 38 |
| Interest | 36 | - | - | - | - | 141 | 177 |
| Total expenses | 74 | 13,746 | 2 | 5,005 | 135 | 440 | 19,402 |
| Income before Other Items and income tax | 63 | 125 | (2) | 758 | (135) | (402) | 407 |
| Bad Debt | - | 107 | - | - | - | - | 107 |
| Interest on debenture | - | - | - | - | - | 300 | 300 |
| Amortization | 42 | 86 | - | - | - | 10 | 138 |
| Income before income taxes | 21 | (68) | (2) | 758 | (135) | (712) | (138) |
| Income taxes recovery | - | - | - | - | - | 50 | 50 |
| Net income | \$ 21 | \$ (68) | \$ (2) | \$ 758 | \$ (135) | \$ (662) | \$ (88) |
| Identifiable assets | 2,811 | 27,045 | 7,279 | 7,274 | 944 | 11,890 | 57,243 |