

Management Discussion & Analysis

Nine Months ended September 30, 2004

Management's discussion and analysis of financial conditions and results of operations should be read in conjunction with the Unaudited Financial Statements for the Nine Months ended September 30, 2004 and the Audited Financial Statements for the Year Ended December 31, 2003. Certain statements in this Quarterly Report may constitute "forward looking statements". While management believes that its expectations regarding future performance of the Corporation are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. Forward looking statements involve risk, uncertainties and other factors that might cause the actual results, performance, or achievements of the Corporation to vary significantly.

Overview

NewNorth Projects Ltd. ("NewNorth") is actively seeking additional opportunities that complement the work on hand and will improve operating margins.

- ☞ Land and housing exceeded expectations, as the marketplace in Alberta remained strong and NewNorth brought to market a product that is well received by the consumer.
- ☞ 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 is being well received by the marketplace and the first twelve units are completed with nine sales agreements signed.
- ☞ Construction continues to complete its book of work, focusing primarily on government projects

Comparative Information for the Past Full Eight Quarters

\$ 000's (except per share amounts)	Jul - Sep 2004	Apr - Jun 2004	Jan - Mar 2004	Oct - Dec 2003	Jul - Sep 2003	Apr - Jun 2003	Jan - Mar 2003	Oct - Dec 2002
Sales	\$ 22,029	\$ 12,667	\$ 7,142	\$ 15,607	\$ 17,645	\$ 7,394	\$ 5,869	\$ 17,540
Gross Profit	772	1,479	464	1,665	594	547	954	1,254
Net Income (loss)	(139)	214	(302)	(38)	(188)	(164)	83	(354)
Per Share	(0.01)	0.02	(0.03)	0.00	(0.02)	(0.02)	0.01	(0.03)

In the period ending December, 2002 Ninety North Construction & Development Ltd. ("Ninety North"), a wholly owned subsidiary, wrote down a receivable on a Calgary project (Sunpark Plaza) in the amount of \$649,000 (total allowance to Dec, 2002 was \$849,000) as well as recognized the reversal of \$500,000 in management fees taken on the Inuvik Hospital prior to the Plan of Arrangements. In the quarter ending September, 2003 additional costs in relation to the Inuvik Hospital were identified and recognized for approximately \$650,000.

In the quarter ending December, 2003, Ninety North realized an additional write down of \$186,000 in the collection of the Sunpark Plaza receivable. 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.

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 (\$124,000) and recognized, and anticipated profits for active jobs in Ninety North were adjusted in the quarter ending September, 2004.

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

<u>\$ 000's</u>	<u>Jul - Sep 2004</u>	<u>Apr - Jun 2004</u>	<u>Mar - Jan 2004</u>	<u>Oct - Dec 2003</u>	<u>Jul - Sep 2003</u>	<u>Apr - Jun 2003</u>	<u>Jan - Mar 2003</u>	<u>Oct - Dec 2002</u>
<i>Land and housing</i>								
Sales	\$ 3,726	\$ 3,514	\$ 2,249	\$ 3,126	\$ 2,379	\$ 1,573	\$ 1,115	\$ 2,732
Gross Profit	692	745	228	833	427	223	146	265
<i>Property Development</i>								
Sales	\$ 2,488	\$ -	\$ -	\$ 881	\$ 896	\$ -	\$ 271	\$ 516
Gross Profit	126	-	-	176	42	(1)	271	516
<i>Foreign Operations</i>								
Sales	\$ 2,784	\$ -	\$ -	\$ 24	\$ -	\$ -	\$ -	\$ -
Gross Profit	175	-	-	24	-	-	-	-
<i>Rental Properties</i>								
Sales	\$ 69	\$ 73	\$ 64	\$ 65	\$ 178	\$ 76	\$ 85	\$ 79
Gross Profit	36	53	47	9	140	55	85	40
<i>Construction</i>								
Sales	\$ 12,955	\$ 9,064	\$ 4,807	\$ 11,447	\$ 14,169	\$ 5,700	\$ 4,385	\$ 14,054
Gross Profit	(318)	665	151	616	(42)	255	410	274
<i>Corporate</i>								
Sales	\$ 7	\$ 16	\$ 22	\$ 64	\$ 24	\$ 45	\$ 13	\$ 159

Land and Housing

Strong sales continue in Riverview Heights in Fort McMurray with a total of 13 sales in the third quarter, totalling 32 sold units in the fiscal year. Riverview's average selling price has increased from \$216,000 to \$232,000 per unit – a 7% increase over its 2003 average. As the development has matured, acceptance in the marketplace has increased. Ninety nine (99) homes have been sold in the project (43 to December 31, 2002; 24 in 2003; 32 in 2004 to Sep. 30).

Sheep River in Okotoks continues to be a premier project for the land division, with Sheep River Heights Phase 2 realizing sales of 18 lots this fiscal year. Since 1993, 477 lots have been developed and sold. The strong housing market in southern Alberta continues to perform well and we see this trend continuing. Willowside Equestrian Estates, a 24 lot country residential estate development east of Okotoks, is substantially complete with only two lots remaining, selling two lots this year. Willowside costs have proven to be significantly less than projected, and savings have been recognized appropriately in the third quarter.

Land & Housing Activity

	<u>\$ 000's</u>	<u>2004</u>				<u>2003 Total</u>	<u>2002** Total</u>
		<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Total</u>		
<i>Riverview *</i>	<i>House Sales</i>	13	9	10	32	24	33
	Revenue	\$ 3,111	\$ 2,095	\$ 2,249	\$ 7,455	\$ 5,186	\$ 6,733
	Costs	2,790	1,915	2,021	6,726	4,680	6,278
	Gross Profit	\$ 321	\$ 180	\$ 228	\$ 729	\$ 506	\$ 455
<i>Sheep River</i>	<i>Lot Sales</i>	6	12	-	18	40	1
	Revenue	\$ 615	\$ 1,265	\$ -	\$ 1,880	\$ 2,930	\$ 91
	Costs	344	737	-	1,081	1,819	52
	Gross Profit	\$ 271	\$ 528	\$ -	\$ 799	\$ 1,111	\$ 39
<i>Willowside *</i>	<i>Lot Sales</i>	-	2	-	2	1	1
	Revenue	\$ -	\$ 154	\$ -	\$ 154	\$ 77	\$ 78
	Costs	(100)	117	-	17	62	62
	Gross Profit	\$ 100	\$ 37	\$ -	\$ 137	\$ 15	\$ 16
Total Land & Housing	Units	19	23	10	52	65	35
	Revenue	\$ 3,726	\$ 3,514	\$ 2,249	\$ 9,489	\$ 8,193	\$ 6,902
	Costs	3,077	2,769	2,021	7,824	6,561	6,392
	Gross Profit	\$ 692	\$ 745	\$ 228	\$ 1,665	\$ 1,632	\$ 510

*Net of partner's interest

** 7 months from inception to December 31, 2002

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 for Project Development are related to NewNorth developing rental real estate for sale to third parties.

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) was turned over June 30, 2004, with revenues recognized in the quarter upon finalization of costs.
- ☞ Inuvik Capital Suites, comprised of 44 furnished executive suites has been developed by NewNorth for a partnership owned 50% by NewNorth.

These projects are carried out pursuant to the Development and Services Agreement between NewNorth and NPR.

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.

There are 12 completed units with nine signed sales agreements in hand at the time of writing (seven of these sales were recognized in the quarter ending September, 2004). Two additional projects (each comprised of two six-plexes) have been undertaken in Nuuk (Greenland’s capital). These units are pre-sold to two commercial Greenlandic clients. Third party financing has been secured for the completion of the two projects 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 third quarter totalling \$50,000 (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.

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

<u>\$ 000’s</u>	<u>Monthly Average</u>			
	<u>2004</u> (9 months)	<u>2003</u>	<u>2004</u>	<u>2003</u>
Rental Revenue	\$ 206	\$ 301	\$ 23	\$ 25
Operating Cost	70	115	8	10
Rental income before mortgage interest and amortization	\$ 136	\$ 186	\$ 15	\$ 15

The main contributor to rental revenue of \$206,000 for the year is an industrial warehouse complex in Iqaluit, Nunavut. Operating costs associated with the project were \$46,000. After amortization and mortgage interest, net income for rental operations was \$20,000.

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 that the project is complete and fully rented. Full rental achievement is not expected in the next fiscal year.

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.

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 both 2002 and 2003 in the “Comparative Information” table on page 2). 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 quarter ending September, 2004 shows clearly the effects of such adjustments to anticipated profits. In addition, further losses were identified on the Inuvik Hospital project and were appropriately recognized.

Ninety North Construction & Development Inc. (“Ninety North”), a wholly owned subsidiary of NewNorth, 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.

<u>\$ 000's</u>		2004			
		Q3	Q2	Q1	YTD
Ninety North Construction	Sales	\$ 12,665	\$ 8,059	\$ 2,670	\$ 23,394
	Costs of Sales	12,877	7,571	2,583	23,031
	Gross Profit	(212)	488	87	363
Ninety North Partners Inc.	Sales	\$ 267	\$ 1	\$ 141	\$ 409
	Costs of Sales	391	1	141	533
	Gross Profit	(124)	-	-	(124)
KCL/NNC&D Joint Venture	Sales	\$ 23	\$ 1,004	\$ 1,996	\$ 3,023
	Cost of Sales	5	827	1,932	2,764
	Gross Profit	18	177	64	259
Total	Sales	\$ 12,955	9,064	4,807	\$ 26,826
	Cost of Sales	13,273	8,399	4,656	26,328
	Gross Profit	\$ (318)	\$ 665	\$ 151	\$ 498

After general and administrative expenses for the year totalling \$998,000, averaging \$110,000 per month (average monthly 2003, \$122,750; average monthly 2002, \$125,142), amortization of \$120,000, and a bad debt of \$107,000 construction realized a net loss of \$727,000.

Minimization of additional write downs in relation to the bad debt related to Sunpark Plaza (a 2002 Calgary project) were taken by Ninety North through aggressive collection actions in 2003, this action continues to collect amounts owed on this account. 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 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 on disposition of \$161,000 in the third quarter.

Corporate

Interest revenue in the amount of \$45,000 was earned on short term investments by the corporation during the year (compared to \$82,000 for the same period in 2003). General and administrative expense of \$448,000, 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. \$50,000 in the second).

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 \$450,000 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 September 30, 2004, NewNorth had a total of \$3.2 million in cash and \$922,000 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 September 30 was \$122,000).

Cash requirements associated with land and housing development in the near future 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 Cove, with a maximum facility of \$3.5 million, the balance outstanding at September 30 was \$0.7 million. A development facility of \$10.2 million is available for Riverview Heights (outstanding at September 30 was \$4.0 million).

Inuvik Capital Suites LP 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 \$3.3 million was outstanding on this facility at September 30, 2004. Projects under development in Greenland have been financed through a Greenlandic bank, an outstanding balance of \$2.4 million was outstanding at the period end. 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 \$2.4 million outstanding at period end.
- Greenland A/S mezzanine financing maximum \$3.1 million, balance outstanding at September 30 was \$2.8 million. 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 complete and currently offered for sale (nine sales agreements are in hand). Proceeds from the sale of these completed units will be applied to the outstanding amount and management anticipates the debt will be 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.