

**CONSOLIDATED FINANCIAL STATEMENTS OF**

**NORTHFIELD CAPITAL  
CORPORATION**

**YEARS ENDED DECEMBER 31, 2003 AND 2002**

**AUDITORS' REPORT**  
**To the Shareholders of**  
**Northfield Capital Corporation**

We have audited the consolidated balance sheets of Northfield Capital Corporation as at December 31, 2003 and 2002 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. 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, 2003 and 2002 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**TORONTO, ONTARIO**  
March 6, 2004

*(Signed) "Smith, Nixon & Co. LLP"*

**CHARTERED ACCOUNTANTS**

**NORTHFIELD CAPITAL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31, 2003 AND 2002**

	<b>2003</b>	<b>2002</b>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 1,303,676	\$ 911,963
Receivables (Note 3)	4,746,793	4,170,586
Marketable securities (market value \$7,195,069; 2002 - \$1,759,442)	2,161,658	1,515,315
Inventories	1,666,908	2,012,855
Prepaid expenses	<u>79,530</u>	<u>61,430</u>
	9,958,565	8,672,149
Long-Term Investments (Note 4)	5,525,734	5,419,162
Notes Receivable (Note 5)	23,214	68,224
Future Income Taxes (Note 12)	310,625	193,476
Property, Plant and Equipment (Notes 6 and 9)	2,623,692	2,432,687
Other Assets (Note 7)	<u>975,949</u>	<u>1,011,111</u>
	<u>\$ 19,417,779</u>	<u>\$ 17,796,809</u>
<b>LIABILITIES</b>		
Current Liabilities		
Bank indebtedness (Note 8)	\$ 3,939,820	\$ 3,189,123
Due to brokers	276,875	295,618
Accounts payable and accrued liabilities	2,288,975	2,342,790
Income taxes payable	259,501	251,407
Deferred revenue	35,178	37,133
Demand loan payable, prime plus 2%	-	500,000
Current portion of long-term debt (Note 9)	<u>756,428</u>	<u>649,326</u>
	7,556,777	7,265,397
Long-Term Debt (Note 9)	<u>485,336</u>	<u>680,504</u>
	<u>8,042,113</u>	<u>7,945,901</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 10)	3,650,040	3,583,324
Contributed Surplus	57,831	42,831
Retained Earnings	<u>7,667,795</u>	<u>6,224,753</u>
	<u>11,375,666</u>	<u>9,850,908</u>
	<u>\$ 19,417,779</u>	<u>\$ 17,796,809</u>
On Behalf of the Board		

(Signed) "Robert D. Cudney"

Director

(Signed) "John D. McBride"

Director

The accompanying notes are an integral part of these consolidated financial statements.

**NORTHFIELD CAPITAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF EARNINGS**  
**YEARS ENDED DECEMBER 31, 2003 AND 2002**

	<b>2003</b>	<b>2002</b>
<b>INCOME</b>		
Sales	\$ 22,553,001	\$ 21,322,797
Other income (Note 11)	<u>3,218,229</u>	<u>1,724,646</u>
	<u>25,771,230</u>	<u>23,047,443</u>
<b>OPERATING EXPENSES</b>		
Cost of sales	16,258,093	15,347,643
Selling and administrative	6,967,593	5,743,886
Amortization	470,088	457,739
Interest on long-term debt	311,012	108,101
Stock-based compensation (Note 10(d))	<u>15,000</u>	<u>-</u>
	<u>24,021,786</u>	<u>21,657,369</u>
Earnings before income taxes	1,749,444	1,390,074
Income taxes (Note 12)	<u>167,231</u>	<u>473,819</u>
<b>NET EARNINGS FOR THE YEAR</b>	<u>\$ 1,582,213</u>	<u>\$ 916,255</u>
<b>Earnings per share</b>		
Basic	<u>\$ 0.58</u>	<u>\$ 0.33</u>
Diluted	<u>\$ 0.57</u>	<u>\$ 0.33</u>
<b>Weighted average Class A and Class B shares outstanding</b>		
Basic	<u>2,747,433</u>	<u>2,748,766</u>
Diluted	<u>2,774,933</u>	<u>2,804,001</u>

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**  
**YEARS ENDED DECEMBER 31, 2003 AND 2002**

	<b>2003</b>	<b>2002</b>
<b>RETAINED EARNINGS - BEGINNING OF YEAR</b>	\$ 6,224,753	\$ 5,402,568
Net earnings for the year	1,582,213	916,255
Excess of cost over paid-up value of repurchased shares	<u>(139,171)</u>	<u>(94,070)</u>
<b>RETAINED EARNINGS - END OF YEAR</b>	<u>\$ 7,667,795</u>	<u>\$ 6,224,753</u>

The accompanying notes are an integral part of these consolidated financial statements.

**NORTHFIELD CAPITAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2003 AND 2002**

	<b>2003</b>	<b>2002</b>
<b>CASH PROVIDED BY ( USED IN )</b>		
<b>OPERATIONS</b>		
Net earnings for the year	\$ 1,582,213	\$ 916,255
Items not involving current cash flows (Note 13)	(2,440,384)	(986,293)
Net change in non-cash working capital (Note 13)	<u>(1,562,712)</u>	<u>382,407</u>
	<u>(2,420,883)</u>	<u>312,369</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(763,460)	(334,836)
Proceeds on disposal of property, plant and equipment	38,433	-
Increase in long-term investments	(2,291,191)	(1,736,063)
Proceeds on disposal of long-term investments	5,080,038	3,147,030
Repayment of notes receivable	146,600	7,298
Dividends received on long-term investments	<u>12,000</u>	<u>-</u>
	<u>2,222,420</u>	<u>1,083,429</u>
<b>FINANCING ACTIVITIES</b>		
Change in bank indebtedness	750,697	(294,649)
Repayment of long-term debt	(337,556)	(1,258,918)
Proceeds of long-term debt	249,490	300,000
Proceeds from share options exercised	127,500	115,000
Shares repurchased for cancellation	<u>(199,955)</u>	<u>(139,589)</u>
	<u>590,176</u>	<u>(1,278,156)</u>
Change in Cash	391,713	117,642
Cash - Beginning of Year	<u>911,963</u>	<u>794,321</u>
<b>Cash - End of Year</b>	<u><u>\$ 1,303,676</u></u>	<u><u>\$ 911,963</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**NORTHFIELD CAPITAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 AND 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

The consolidated financial statements include the accounts of Northfield Capital Corporation and its subsidiaries (the "Company"). Its major subsidiaries are Northfield Glass Group Inc. and Henry J. Thomas & Son Limited.

**Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

**Financial Instruments**

The carrying value of cash and cash equivalents, receivables, bank indebtedness, due to brokers, accounts payable and accrued liabilities and income taxes are considered to be representative of their respective values due to their short-term nature.

The fair value of long-term financial instruments approximate carrying values since actual rates approximate market rates.

**Revenue Recognition**

Revenues are recognized upon shipment and when all obligations have been satisfied and collection is reasonably assured. Contract revenue is recognized on the percentage-of-completion basis with any projected contract losses immediately recognized.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, a guaranteed investment certificate and balances with brokers. The guaranteed investment certificate in the amount of \$200,000 (2002 - \$600,000) is held by the bank as security for a bonding Letter of Credit.

**Investments**

Marketable securities represent short-term investments which are carried at the lower of cost or trading market value.

Long-term investments in which the Company has significant influence but not control, are accounted for by the equity method. Other long-term investments are carried at cost less any write-downs for impairments that are considered other than temporary.

**NORTHFIELD CAPITAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 AND 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Inventories**

Inventories consist of raw materials, work in progress, supplies and finished goods and are valued at the lower of cost and net realizable value. Inventories of work in progress are valued using the percentage of completion method based on management's best estimates. Raw materials and supplies are valued at the lower of cost and replacement cost.

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost and are amortized over the estimated useful lives of the assets using diminishing balance or straight line methods at effective annual rates ranging from 4% to 30%.

**Goodwill**

Goodwill represents the excess of the purchase price of the Company's interest in subsidiary entities over the fair value of the underlying net identifiable tangible and intangible assets arising on acquisition.

Commencing January 1, 2002 the Company adopted the Canadian Institute of Chartered Accountants ("CICA") new recommendations under Handbook Section 3062 "Goodwill and Other Intangible Assets" and Handbook Section 1581 "Business Combinations" which were issued in 2001.

The new standards require non-amortization of existing and future goodwill and intangible assets that meet the criteria for indefinite life. Since goodwill is no longer amortized, the Company must determine at least once annually whether the fair values of the existing goodwill and intangible assets have been permanently impaired. Any permanent impairments are then recorded as a separate charge against earnings and a reduction of the carrying value of goodwill and intangible assets.

**Per Share Information**

Per share information is computed using the weighted average number of Class A Restricted Voting Shares and Class B Multiple Voting Shares outstanding during the year. Diluted per share information is calculated using the treasury stock method for options. The treasury stock method assumes that any proceeds obtained upon exercise of options would be used to purchase Class A shares at the average market price during the year.

**Income Taxes**

The Company uses the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

**NORTHFIELD CAPITAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 AND 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Stock-Based Compensation**

In the year ended December 31, 2003, the CICA amended Handbook Section 3870, which provides guidance on accounting for stock-based compensation, to require the use of the fair value-based method to account for stock options. In accordance with the transitional options allowed under the revised accounting standard, the Company has prospectively applied the fair value-based method to all stock options granted on or after January 1, 2003. Accordingly, compensation cost is measured at fair value at the date of grant and is expensed over the vesting period.

The Company continues to account for stock options granted prior to January 1, 2003 by disclosing pro forma net earnings and earnings per share data as if the fair-value based approach were used for options granted in 2002 (see note 10). No compensation expense has been recorded for stock options granted prior to January 1, 2003 under the stock option plan.

**2. BUSINESS ACQUISITIONS**

Effective January 1, 2002, a subsidiary of the Company purchased from an officer of the subsidiary, pursuant to a prior agreement, the remaining 30% equity in NewGlass Limited ("NewGlass") for \$58,000. The vendor used these proceeds to partially settle a shareholder's loan due to NewGlass.

On March 1, 2002, a subsidiary of the Company purchased from non-related parties the remaining 30% equity position of Sunserve Glass Products Limited ("Sunserve") for \$150. As part of the transaction, Sunserve repaid to the vendors a shareholder's loan outstanding for \$50,000.

**3. RECEIVABLES**

	<b>2003</b>	<b>2002</b>
Trade accounts receivable	\$ 4,726,125	\$ 4,048,328
Current portion of notes receivable (Note 5)	<u>20,668</u>	<u>122,258</u>
	<u>\$ 4,746,793</u>	<u>\$ 4,170,586</u>

The Company is exposed to credit risk on the accounts receivable from its customers. Management has adopted credit policies in an effort to minimize those risks. The Company does not have a significant exposure to any individual customer.

**NORTHFIELD CAPITAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 AND 2002**

**4. LONG-TERM INVESTMENTS**

	<u>2003</u>		<u>2002</u>	
	Market Value	Cost	Market Value	Cost
<b>Accounted for on the cost basis -</b>				
Aspen Group Resources Corporation	\$ 763,587	\$ 1,467,857	\$ 151,563	\$ 930,064
FNX Mining Company Inc.	12,267,697	922,306	12,587,824	881,444
Guyana Goldfields Inc.	1,177,314	751,565	717,370	590,508
PanGeo Pharma Inc.	-	-	3,271,354	1,014,587
GeoGlobal Resources Inc. (formerly Suite101.com, Inc.)	3,807,505	358,705	1,181,195	373,407
Southern Star Resources Inc.	<u>1,212,960</u>	<u>313,918</u>	<u>-</u>	<u>-</u>
	<u>\$ 19,229,063</u>	<u>3,814,351</u>	<u>\$ 17,909,306</u>	<u>3,790,010</u>
<b>Accounted for on the equity basis -</b>				
Cimatec Environmental Engineering Inc. -				
Common shares (25%)	<u>\$ 778,156</u>	1,159,734	<u>\$ 601,334</u>	1,080,528
Demand note receivable at bank prime rate of interest plus 2%. The effective interest rate at December 31, 2003 was 6.5%		400,000		150,000
Share of equity loss		<u>(386,000)</u>		<u>(186,000)</u>
		<u>1,173,734</u>		<u>1,044,528</u>
The Grange of Prince Edward Inc. -				
Common shares (40%)		680,000		290,000
Share of equity loss		<u>(142,351)</u>		<u>(50,544)</u>
		<u>537,649</u>		<u>239,456</u>
Phoenix Performance Products Inc. -				
Common shares (33%)		-		50
Non-interest bearing note receivable, no set repayment terms		-		295,038
Share of equity earnings		<u>-</u>		<u>50,080</u>
		<u>-</u>		<u>345,168</u>
<b>Total long-term investments</b>		<u>\$ 5,525,734</u>		<u>\$ 5,419,162</u>

During the year, the Company disposed of its investment in Phoenix Performance Products Inc. for \$535,000, resulting in a net gain on disposal of \$160,705.

**NORTHFIELD CAPITAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 AND 2002**

**5. NOTES RECEIVABLE**

	<b>2003</b>	<b>2002</b>
Note receivable, non-interest bearing, due August 2003, secured by real estate	\$ -	\$ 112,000
Note receivable, bearing interest at 6%, repayable in blended monthly instalments of \$1,010, due April 2006	25,452	35,702
Note receivable, bearing interest at 6.5%, repayable in blended monthly instalments of \$891, due October 2005	18,430	-
Note receivable, non-interest bearing with no set repayment terms	<u>-</u>	<u>42,780</u>
	43,882	190,482
Less: Current portion	<u>20,668</u>	<u>122,258</u>
	<u>\$ 23,214</u>	<u>\$ 68,224</u>

**6. PROPERTY, PLANT AND EQUIPMENT**

	<b>2003</b>			<b>2002</b>
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>	<b>Net</b>
Land	\$ 291,152	\$ -	\$ 291,152	\$ 296,072
Buildings	1,171,957	377,018	794,939	681,166
Equipment and furnishings	3,100,116	2,148,244	951,872	1,023,146
Vehicles	1,243,456	846,914	396,542	192,689
Leasehold improvements	<u>343,871</u>	<u>154,684</u>	<u>189,187</u>	<u>239,614</u>
	<u>\$ 6,150,552</u>	<u>\$ 3,526,860</u>	<u>\$ 2,623,692</u>	<u>\$ 2,432,687</u>

**7. OTHER ASSETS**

	<b>2003</b>	<b>2002</b>
Goodwill	\$ 921,531	\$ 964,282
Other	<u>54,418</u>	<u>46,829</u>
	<u>\$ 975,949</u>	<u>\$ 1,011,111</u>

**8. CREDIT FACILITIES**

The Company's subsidiaries have a line of credit available to a maximum of \$3,700,000. The available line as at December 31, 2003 was \$3,416,000 of which \$2,562,962 was drawn and outstanding. As security, the subsidiaries have provided an assignment of receivables, term deposit, inventories and a general security agreement covering all assets of the subsidiaries. In addition, the notes payable to the parent company by the subsidiaries are subject to a postponement and assignment agreement in favour of the bank. Interest is calculated at the bank's prime rate of interest plus 1%. The effective interest rate at December 31, 2003 was 5.5% (2002 - 5.5%).

As at December 31, 2003, the subsidiaries were in violation of certain covenants under their banking agreements. Accordingly, the bank term loan balances have been reclassified as current (see note 9). The Company is negotiating amendments to certain terms of the credit facilities agreement.

**NORTHFIELD CAPITAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 AND 2002**

**9. LONG-TERM DEBT**

	<b>2003</b>	<b>2002</b>
Non-interest bearing promissory notes payable, no set repayment terms	\$ -	\$ 93,990
BDC term loan, repayable in monthly instalments of \$3,750 plus interest at BDC floating rate plus 1%, maturing June 2006	112,500	157,500
BDC term loan, repayable in monthly instalments of \$1,667 plus interest at BDC floating rate plus 1%, maturing November 2007	78,349	98,353
BDC term loan, repayable in monthly instalments of \$1,800 plus interest at BDC floating rate plus 1%, maturing December 2008	108,000	129,600
BDC term loan, repayable in monthly instalments of \$2,459 plus interest at BDC floating rate plus 1%, maturing June 2009	162,294	191,802
BDC term loan, repayable in monthly instalments of \$1,166 plus interest at BDC floating rate plus 0.6%, maturing December 2010	97,944	111,936
Bank term loan, repayable in monthly instalments of \$5,000 plus interest, bearing interest at bank prime rate plus 1.5%, maturing March 2007. The effective interest rate at December 31, 2003 was 6% (Note 8).	195,000	255,000
Bank term loan, repayable in monthly instalments of \$5,200 plus interest at bank prime rate plus 1.5%, maturing February 2007. The effective interest rate at December 31, 2003 was 6% (Note 8).	197,490	-
Notes payable, non-interest bearing, payable on January 1, 2004. This amount was paid in full subsequent to year end.	195,834	195,834
Other	<u>94,353</u>	<u>95,815</u>
	1,241,764	1,329,830
Deduct: Current portion	<u>756,428</u>	<u>649,326</u>
	<u>\$ 485,336</u>	<u>\$ 680,504</u>

As security for all BDC term loans, Northfield Glass Group Inc. has provided a mortgage on land and building with a net book value of \$1,086,091 and a general security agreement covering all its assets. The BDC floating interest rate at December 31, 2003 was 6.5%, therefore the effective interest rate of the above BDC term loans was 7.5% and 7.1%.

**NORTHFIELD CAPITAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 AND 2002**

**9. LONG-TERM DEBT** (continued)

Principal repayments of long-term debt are as follows:

2004		\$ 756,428
2005		141,045
2006		108,016
2007		83,437
2008		65,100
Thereafter		<u>87,738</u>
		<u>\$ 1,241,764</u>

**10. SHARE CAPITAL**

**(a) Authorized**

An unlimited number of -

Class A Restricted Voting Shares

Class B Multiple Voting Shares having 500 votes per share, convertible into one Class A Restricted Voting Share; ownership is restricted to the original promoters of the Company Preference shares

**(b) Issued**

	<b>Number of Shares</b>	<b>Consideration</b>
<b>Class A Restricted Voting Shares</b>		
Balance - December 31, 2001	2,699,021	\$ 3,506,163
Share options exercised	57,500	115,000
Shares repurchased for cancellation	<u>(33,808)</u>	<u>(45,519)</u>
Balance - December 31, 2002	2,722,713	3,575,644
Share options exercised	55,000	127,500
Shares repurchased for cancellation	<u>(45,500)</u>	<u>(60,784)</u>
Balance - December 31, 2003	2,732,213	3,642,360
<b>Class B Multiple Voting Shares</b>		
Balance - December 31, 2001, 2002 and 2003	<u>3,720</u>	<u>7,680</u>
	<u>2,735,933</u>	<u>\$ 3,650,040</u>

**NORTHFIELD CAPITAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 AND 2002**

**10. SHARE CAPITAL** (continued)

**(c) Options**

The Company has a stock option plan (the "Plan") in place under which the board of directors may grant options to acquire up to 490,000 Class A Restricted Voting Shares ("Class A shares") of the Company to qualified directors, officers, employees and other ongoing service providers. The exercise price of options issued may not be less than the fair market value of the Class A shares at the time the option is granted. The options are non-assignable and may be granted for a term not exceeding five years. Options issued under the Plan may vest at the discretion of the board of directors and must vest over a period of at least 18 months and must be released in equal stages on a quarterly basis. The number of Class A shares reserved for issuance to any one person upon the exercise of options may not exceed 5% of the issued and outstanding Class A shares at the date of such grant.

Stock option transactions and the number of stock options outstanding are as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
<b>Balance - December 31, 2001</b>	228,000	\$ 2.32
Options granted	155,000	5.48
Options exercised	(57,500)	2.00
Options expired	<u>(50,500)</u>	<u>2.00</u>
<b>Balance - December 31, 2002</b>	275,000	4.23
Options granted	10,000	5.50
Options exercised	(55,000)	2.32
Options expired	<u>(5,000)</u>	<u>2.00</u>
<b>Balance - December 31, 2003</b>	<u>225,000</u>	<u>\$ 4.00</u>

As at December 31, 2003 the following stock options are outstanding to purchase Class A shares of which 220,000 stock options were exercisable at December 31, 2003:

Date of Grant	Number	Exercise Price	Expiry Date
January 21, 1999	50,000	\$2.50	January 21, 2004
June 26, 2000	15,000	\$5.00	June 26, 2005
February 19, 2002	150,000	\$5.50	February 19, 2007
June 26, 2003	<u>10,000</u>	\$5.50	June 26, 2008
	<u>225,000</u>		

**NORTHFIELD CAPITAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 AND 2002**

**10. SHARE CAPITAL** (continued)

**(d) Stock-based Compensation**

In accordance with the permitted transitional options under the amended CICA Handbook Section 3870, the Company has prospectively applied the fair value-based method to all employee stock options granted on or after January 1, 2003. Accordingly, options granted prior to that date continue to be accounted for on a pro forma basis. The prospective application of the fair value-based method decreased net earnings in 2003 by \$15,000.

The pro forma financial information below presents estimated net earnings for the year and the basic and diluted earnings per share had the Company adopted the fair value method of accounting for stock options granted in 2002 and excludes stock options granted in 2003 for which compensation expense has been recorded. The pro forma information for 2002 has been restated from that reported in the prior year consolidated financial statements to correct an error in calculating the estimated stock-based compensation expense. The estimated fair value of options granted and compensation expense for 2002 was originally reported as \$177,495 and estimated pro forma earnings reported as \$738,760. Estimated pro forma basic earnings per share were originally reported as \$0.27 and fully diluted earnings per share as \$0.26.

	<b>Year ended December 31 2003</b>	<b>Year ended December 31 2002 (Restated)</b>
Fair value of options vested and compensation expense	\$334,000	\$355,000
Pro forma net earnings	\$1,248,213	\$561,255
Pro forma basic and diluted earnings per share	\$0.45	\$0.20

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>2003</b>	<b>2002</b>
Expected life	5 years	3 years
Expected volatility	87%	64%
Expected dividend yield	Nil	Nil
Risk-free interest rate	3.67%	3.38%

**NORTHFIELD CAPITAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 AND 2002**

**11. OTHER INCOME (EXPENSE)**

	<b>2003</b>	<b>2002</b>
Gain on sale of long-term investments	\$ 3,158,100	\$ 2,210,756
Gain on sale of marketable securities	451,308	64,417
Investment and other income	(33,812)	103,121
Write-down of marketable securities	-	(357,657)
Gain (loss) on disposal of property, plant and equipment	(63,936)	38,171
Write-down of goodwill	(42,751)	(134,618)
Net equity loss	<u>(250,680)</u>	<u>(199,544)</u>
	<u>\$ 3,218,229</u>	<u>\$ 1,724,646</u>

**12. INCOME TAXES**

(a) The future income tax asset is comprised of the following temporary differences:

	<b>2003</b>	<b>2002</b>
Property, plant and equipment	\$ 16,676	\$ 41,496
Other assets	(83,000)	(94,000)
Income tax losses	<u>376,949</u>	<u>245,980</u>
	<u>\$ 310,625</u>	<u>\$ 193,476</u>

(b) The major factors that cause variations from the Company's combined federal and provincial statutory Canadian income tax rates of 36.6 % (2002 - 39.2%) were the following:

	<b>2003</b>	<b>2002</b>
Earnings before income taxes	<u>\$ 1,749,444</u>	<u>\$ 1,390,074</u>
Expected income tax expense at statutory rates	\$ 640,297	\$ 544,909
Increase (decrease) resulting from:		
Non-taxable portion of capital gains	(660,521)	(453,415)
Flow-through share deductions	(75,945)	(58,800)
Non-capital losses previously unrecognized	-	(47,800)
Unrecognized losses of subsidiaries	116,618	231,233
Equity loss	91,748	78,221
Stock-based compensation	5,490	-
Other	<u>49,544</u>	<u>179,471</u>
	<u>\$ 167,231</u>	<u>\$ 473,819</u>

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**12. INCOME TAXES** (continued)

(c) The details of the provision for income taxes are as follows:

	<b>2003</b>	<b>2002</b>
Current provision	\$ 240,620	\$ 454,111
Future provision (recovery)	<u>(73,389)</u>	<u>19,708</u>
	<u>\$ 167,231</u>	<u>\$ 473,819</u>

**13. STATEMENT OF CASH FLOWS**

**(a) Items not involving current cash flows**

	<b>2003</b>	<b>2002</b>
Amortization	\$ 470,088	\$ 457,739
Equity loss	250,680	199,544
Future income taxes	(117,149)	113,076
Loss on disposal of property, plant and equipment	63,935	(38,171)
Gain on sale of long-term investments	(3,158,100)	(2,210,756)
Write-down of investments	-	357,657
Other	35,162	134,618
Stock-based compensation	<u>15,000</u>	<u>-</u>
	<u>\$ (2,440,384)</u>	<u>\$ (986,293)</u>

**(b) Net change in non-cash working capital**

Receivables	\$ (677,797)	\$ 496,718
Marketable securities	(646,343)	(639,631)
Inventories	345,947	(289,536)
Prepaid expenses	(18,100)	25,719
Income taxes	8,094	458,403
Accounts payable and accrued liabilities	(53,815)	(416,147)
Deferred revenue	(1,955)	(1,956)
Demand loan payable	(500,000)	500,000
Due to brokers	<u>(18,743)</u>	<u>248,837</u>
	<u>\$ (1,562,712)</u>	<u>\$ 382,407</u>

**(c) Supplemental information**

Interest paid	<u>\$ 326,906</u>	<u>\$ 301,950</u>
Income taxes paid	<u>\$ 256,062</u>	<u>\$ 27,485</u>

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**14. RELATED PARTY TRANSACTIONS**

During the year, the Company paid consulting fees of \$120,000 (2002 - \$120,000) to a company controlled by an officer and the Company paid rent of \$43,440 (2002 - \$43,080) to a company controlled by another officer. These transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**15. CONTINGENCIES AND COMMITMENTS**

**Operating Leases**

The Company is committed to and contingently liable for annual rental payments for premises and equipment as follows:

2004	\$ 576,882
2005	387,703
2006	286,060
2007	<u>239,770</u>
	<u>\$ 1,490,415</u>

**16. SEGMENTED INFORMATION**

Glass sales and installation - Henry J. Thomas & Son Limited operates in the province of Newfoundland; Northfield Glass Group Inc. operates in the provinces of Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland.

Other - Corporate activities and other.

	2003	2002
Revenues		
Glass sales and installation	\$ 22,553,001	\$ 21,322,797
Other	<u>3,609,408</u>	<u>2,313,344</u>
	<u>\$ 26,162,409</u>	<u>\$ 23,636,141</u>

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**16. SEGMENTED INFORMATION** (continued)

	<b>2003</b>	<b>2002</b>
Earnings before income taxes		
Glass sales and installation	\$ (401,386)	\$ 249,381
Other	<u>1,816,940</u>	<u>1,140,693</u>
	<u>\$ 1,415,554</u>	<u>\$ 1,390,074</u>
Additions to capital assets		
Glass sales and installation	\$ 758,211	\$ 332,246
Other	<u>5,249</u>	<u>2,590</u>
	<u>\$ 763,460</u>	<u>\$ 334,836</u>
Total assets		
Glass sales and installation	\$ 11,403,112	\$ 10,797,338
Other	<u>8,014,667</u>	<u>6,999,471</u>
	<u>\$ 19,417,779</u>	<u>\$ 17,796,809</u>
Amortization expense		
Glass sales and installation	\$ 467,868	\$ 456,260
Other	<u>2,220</u>	<u>1,479</u>
	<u>\$ 470,088</u>	<u>\$ 457,739</u>

**17. COMPARATIVE FIGURES**

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2003 consolidated financial statements.