

NORTHERN FINANCIAL CORPORATION

**MANAGEMENT'S DISCUSSION & ANALYSIS
AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED SEPTEMBER 30, 2008**

(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

November 13, 2008

Introduction

Northern Financial Corporation ("Northern" or the "Company") wholly owns Northern Securities Inc. ("NSI"), a member firm of the Investment Industry Regulatory Organization of Canada ("IIROC"). The Company also carries on a merchant banking business.

The Company is listed on the Toronto Stock Exchange under the symbol NFC.

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of the Company are the views of management and should be read in conjunction with the unaudited interim financial statements and related notes for the period ended September 30, 2008 compared to the period ended September 30, 2007.

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars unless otherwise indicated. The interim financial statements for the period ended September 30, 2008 have not been reviewed by the Company's auditors.

Forward-Looking Statements

This MD&A contains "forward-looking statements" that reflect Northern's current expectations and projections about its future results. When used in this MD&A, forward looking statements can be identified by the use of words such as "estimate", "consider", "expect", "anticipate", "objective" and similar expressions or variations of such words. Forward looking statements are, by their very nature, not guarantees of Northern's future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause Northern's actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward looking statements. No representation or warranty is intended with respect to anticipated future results, that estimates and projections will be sustained or that any project will otherwise prove to be economic.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of the date otherwise specifically indicated herein. Due to risks and uncertainties, including the risks and uncertainties elsewhere in this MD&A, actual events may differ materially from current expectations. Northern disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

Northern carries on two primary businesses. NSI is a full service investment dealer that provides financial advisory services to retail and institutional clients and investment banking services to small capitalization companies. This business is a traditional brokerage and investment banking business and generates revenue from commissions and advisory fees earned by Investment Advisors with respect to transactions by retail clients, fees and commissions earned on investment banking activities, institutional sales and trading activities, and trading gains or losses where Northern is acting as principal. Northern also carries on a merchant banking business, primarily through its associated company Jaguar Financial Corporation ("Jaguar") that supplements the investment dealer business.

Business Environment

Global capital markets experienced unprecedented volatility and were extremely challenging during the Company's second quarter. The economy and business environment in general remained difficult. Credit markets continued to deteriorate, disrupting global stock markets. Fears of a recession deepened resulting in a continuation of erosion in investor confidence in the capital markets. Client trading volumes, investment banking activity, and equity market pricing all continued to weaken. Despite central bank intervention, global markets continued to stagnate. Several major financial institutions in the United States were allowed to fail while others were sold at major discounts.

These factors are even more intensified for the small and micro capitalization sector in which the Company operates. Issuers have delayed coming to market and investors have remained on the sidelines resulting in a significant reduction in revenue for most investment banks. Prospects for improvement in the immediate future remain uncertain.

Three Months Ended September 30, 2008 compared to Three Months Ended September 30, 2007

Net loss for the quarter ended September 30, 2008 was \$2,367,017 compared with net income of \$516,531 in the second quarter of the prior year. Core brokerage activity in Northern Securities slowed considerably in the quarter as a result of the extremely difficult business environment. As well, net income included a loss of \$979,158, representing the Company's share of the loss of Jaguar, compared to a gain of \$689,849 in the first quarter of the prior year.

Revenue

Total revenue for the quarter ended September 30, 2008 was \$2,152,389 compared with \$4,619,904 in the prior year. Traditional brokerage revenue was down across all revenue categories.

Commission revenue was \$1,468,075 for the quarter ended September 30, 2008 compared to \$1,835,349 in the prior year. All areas of the business including retail, institutional and high net worth were down year over year as the lack of confidence in the capital markets continued to keep investors on the sidelines. Underwriting and advisory revenue decreased to \$1,209,434 compared to \$1,751,079 in the prior year. The decrease was driven by a reduced level of financings as virtually no issuers came to market in the quarter. A non-cash valuation adjustment in the Company's broker warrant portfolio resulted in a loss of \$666,555 compared to a gain \$650,216 in the prior year. The significant decline seen in capital markets in the quarter produced a downward valuation of the portfolio compared to an increased valuation in the prior year. Trading revenue was a loss of \$140,909 in the current year compared to revenue of \$30,783 in the prior year. Volatile markets produced difficult trading conditions. Interest revenue of \$278,062 was down from \$382,320 in the prior year.

There was nil merchant banking revenue in the current quarter compared to a \$36,363 in the prior year. The Company now conducts most of its merchant banking activities through its associated company, Jaguar.

Revenue of the Company is dependent upon the strength of the commodities market and the general condition of the financial markets. Fluctuations in the financial markets may have a significant effect on the financial results of the Company.

Expenses

Total expenses for the period ended September 30, 2008, were \$3,540,248 compared with expenses of \$4,488,585 in the prior year. Brokerage operations costs decreased to \$2,969,894 from \$4,129,012. The decrease is attributable to a decrease in variable compensation driven by lower revenue, as well as expense reduction measures enacted by the Company to help mitigate the reduction in revenue.

Interest expense decreased to \$164,685 from \$224,182.

General and administrative expenses were \$255,624 compared to \$71,615 in the prior year.

Six Months Ended September 30, 2008 compared to Six Months Ended September 30, 2007

Net loss for the six months ended September 30, 2008 was \$4,161,590 compared with net income of \$1,020,404 in the second quarter of the prior year. Results were strongly influenced by the very difficult market conditions experienced over the past six months. Net income included a loss of \$1,419,913, representing the Company's share of the loss of Jaguar, compared to a gain of \$787,557 in the first six months of the prior year.

Revenue

Total revenue for the six months ended September 30, 2008 was \$5,177,264 compared with \$11,471,709 in the prior year. Traditional brokerage revenue, the Company's primary business, was affected by the severe market conditions.

Commission revenue was \$3,196,244 for the six months ended September 30, 2008 compared to \$4,753,442 in the prior year. Underwriting and advisory revenue was \$2,183,801 compared to \$3,808,040 in the prior year. Broker warrant revenue was a loss of \$1,073,349 compared to a gain of \$1,733,058. Trading revenue was \$239,549 in the current year compared to \$454,433 in the prior year. Interest revenue of \$616,996 was down from \$771,806 in the prior year.

Merchant banking activities generated revenue of \$16,646 in the six months compared to a \$61,332 in the prior year. The Company now conducts most of its merchant banking activities through its associated company, Jaguar.

Revenue of the Company is dependent upon the strength of the commodities market and the general condition of the financial markets. Fluctuations in the financial markets may have a significant effect on the financial results of the Company.

Expenses

Total expenses for the six months ended September 30, 2008, were \$7,918,941, down considerably from \$10,934,225 in the prior year. Brokerage operations costs decreased to \$6,938,068 from \$10,327,645. The decrease is attributable to a decrease in variable compensation driven by lower revenue, as well as expense reduction measures enacted by the Company.

Interest expense decreased to \$360,843 from \$452,547.

General and administrative expenses were \$404,119 compared to \$33,697 in the prior year which included an expense recovery from prior periods.

Liquidity, Capital Resources and Cash Flows

The Company requires capital for operating and for regulatory purposes. Most of the assets reflected on the balance sheet are highly liquid. The Company's assets consist primarily of cash or assets that are readily convertible into cash. The value of securities that are held fluctuate with market values and may be affected by a variety of factors such as economic and market conditions.

The Company had cash, deposits, and securities of \$3,589,834 as at September 30, 2008 compared with \$8,600,961 as at September 30, 2007. The Company used \$335,458 of cash in its operations for the quarter ended September 30, 2008 compared to using \$113,299 last year.

A portion of the cash of the Company is maintained by Northern Securities, the Company's wholly owned subsidiary. The Company must receive consent from Northern Securities' self-regulated organization prior to the repatriation of any cash.

Outlined below are the contractual obligations including payments due for each of the next five years and thereafter:

Payments Due by Period

Contractual Obligations	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Debt	\$850,000	\$850,000	-	-	-
Operating Leases	\$4,930,700	\$1,354,700	\$2,301,600	\$1,274,400	-
Total Contractual Obligations	\$5,780,700	\$2,204,700	\$2,301,600	\$1,274,400	-

Quarterly Financial Information

	Fiscal 2009		Fiscal 2008				Fiscal 2007		
	\$		\$				\$		
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter (As restated)	First Quarter	Fourth Quarter (As restated)	Third Quarter	Second Quarter
Total Revenues	2,152,389	3,024,875	3,313,083	8,661,971	4,619,904	6,851,805	5,936,484	5,108,421	1,426,859
Net Income (Loss)	(2,367,017)	(1,794,573)	(2,093,174)	1,384,561	516,531	503,873	(3,326,224)	(13,039)	(2,652,996)
Net Income (Loss) per share	(0.24)	(0.18)	(0.21)	0.14	0.05	0.05	(0.34)	(0.00)	(0.29)

A large portion of the Company's revenue was derived from underwriting and advisory revenue and merchant banking revenue. By nature underwriting and advisory revenue and merchant banking revenue are not readily predictable. Underwriting and advisory revenue is reported when transactions are completed, whereas merchant banking revenue is based on mark-to-market adjustments. In addition commission revenue is generally dependent on many market factors, which may lead to the fluctuations in quarterly revenue.

Financial Instruments

The following is description and analysis of the risks associated with financial instruments that may affect the Company:

Fair Value of Financial Assets and Financial Liabilities:

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest rate, currency or credit risks arising from its financial instruments. The fair values of the Company's financial assets and financial liabilities approximate their carrying amounts due to their imminent or short-term maturity.

Market Risk:

Market risk is the risk that a change in market prices, interest rate levels, indices, liquidity and other market factors will result in losses. The Company is exposed to market risk as a result of its principal trading in equity securities and fixed income securities. Securities held for trading are valued at market and as such, changes in market value affect earnings (losses) as they occur. The Company mitigates its market risk exposure through controls to limit concentration levels and capital usage within its inventory trading accounts.

Credit Risk:

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of a counterparty on its obligation to the Company. The primary source of credit risk is related to the extension of credit to clients, through the use of margin loans, to purchase securities. Margin loans are due on demand and are collateralized by the financial instruments in the client's account. The Company faces potential financial loss if a client does not meet a margin call when the value of securities held as collateral declines and the Company is not able to recover sufficient value from the collateral.

Credit risk is managed by applying credit standards to the counterparties the Company transacts business with, applying limits to client transactions and requiring settlements of security transactions on a cash basis or delivery against payments. The Company also regularly monitors credit exposure. Margin transactions are collateralized by securities in the client's accounts in accordance with limits established by the Company and applicable regulatory requirements. During the three month period ended June 30, 2008, the Company has not suffered any material loss from counterparty default.

Interest Rate Risk:

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments and fixed income securities held by the Company. The Company holds minimal fixed income securities and does not hedge its exposure to interest rates. The company also has issued borrowings that are interest bearing.

Foreign Exchange Risk:

Foreign exchange risk is the risk that the market value of financial instruments and the associated revenues will fluctuate due to changes in exchange rates. The Company does not use derivatives to modify the foreign exchange risk. The Company holds minimal financial instruments in foreign currencies.

Share Capital Information

Outlined below is selected current share capital information related to the Company:

Description	Amount
Common shares issued and outstanding	9,984,340
Common share purchase warrants issued and outstanding	nil
Common share purchase options issued and outstanding	142,002

Disclosure Controls

The Company's Chief Executive Officer and Chief Financial Officer have established and maintained controls and procedures in order to provide reasonable assurance that material information related to the Company is known in a timely manner. They are assisted in this responsibility by the Chairman of the Audit Committee who serves as an independent director of the Company.

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at September 30, 2008, and has concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its subsidiaries would have been known to them.

Internal Control over Financial Reporting

The Chief Executive Officer and Chief Financial Officer are responsible for certifying that they have designed the Company's internal control over financial reporting ("ICFR") to a standard that provides reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The certifying officers have evaluated the design of the Company's ICFR as of the date of this report and have concluded the design to be sufficient to provide such reasonable assurance.

Although management has been able to reach this conclusion, certain weaknesses have been identified in the Company's ICFR. Given the small size of the Company's finance staff, the ability to achieve a significant level of segregation of duties does not exist. The Chief Financial Officer is responsible for much of the day-to-day finance activities of the Company, approving invoices, signing cheques, and preparing financial statements. A second signing officer, the integrity and reputation of the Chief Financial Officer and an open and candid discussion regarding this weakness with the audit committee mitigate this weakness. The small size of the finance staff also creates potential capacity issues wherein there may not be enough finance staff to perform all the necessary activities. The Company has added another senior finance staff person to alleviate this concern. This allows the Chief Financial Officer to perform more of a review function while still being actively involved in the day-to-day operations.

Management's Responsibility for Financial Statements

In the preparation of these financial statements, estimates are sometimes necessary to make a determination of future values for certain assets and liabilities. The most significant estimates are related to the valuation of broker warrants, stock-based compensation, contingent liabilities, and income tax accounts. Accordingly, actual results could differ from those estimates. Management believes such estimates have been on careful judgment and have been properly reflected in the financial statements.

Promissory Note Payable

As at September 30, 2008, the Company had a promissory note payable outstanding in the amount of \$600,000 (March 31, 2008 – \$600,000). The promissory note payable matures on October 13, 2008, bears interest at 13%, and is secured by a general security agreement, covering all property of the Company, and a personal guarantee by the President of the Company. A director of the Company is also a director and officer of the trustee of the promissory note payable. The Company is currently in discussions with the holder of the promissory note regarding repayment.

Related Party Transactions

The Company had related party transactions with directors or officers of the Company, or companies with which they were associated, which were in the normal course of operations and were valued at the amounts noted below.

NSI acted as investment advisor and financial advisor with respect to Jaguar Financial Corporation, receiving commissions and fees in the amount of \$1,027,039 (2007 – \$504,647) for the three month period ending September 30, 2008 and \$1,427,516 (2007 – 594,536) for the six month period ending September 2008.

NSI acted as financial advisor with respect to Lakeside Steel Corporation, receiving fees in the amount of \$25,000 (2007 – \$236,000) for the three month period ending September 30, 2008 and \$25,000 (2007 – 296,000) for the six month period ending September 2008.

The Company paid interest in the amount of \$19,500 (2007 - \$19,500) for the three month period ending September 30, 2008 and \$39,000 (2007 - \$204,644) for the six month period ending September 30, 2008 to Romspen Investment Corporation ("Romspen"), a company of which a director of the Company is also a director and senior officer. As at September 30, 2008, the Company had loans payable to Romspen of \$600,000 (March 31, 2008 – \$600,000).

All of the above transactions are in the normal course of operations and are recorded at the value amounts established and agreed to by the related parties.

Commitments and Contingencies

- a) The Company indemnifies Penson for all obligations to pay for securities purchased and to deliver securities sold by clients. In the event of default by any of its clients on payments due or delivery of securities to Penson, the Company has agreed to pay Penson an amount up to its "excess risk adjusted capital". As at September 30, 2008, the amount of the Company's excess risk adjusted capital was \$897,000 (March 31, 2008 – \$1,874,000).
- b) The Company is party to legal proceedings in the ordinary course of its operations. Management does not expect the outcome of any of these proceedings to have a materially adverse effect on the results of the Company's financial position or operations.

New Accounting Policies

On December 1, 2006, the CICA issued three new accounting standards; Section 1535 Capital Disclosures, Section 3862 Financial Instruments – Disclosures and Section 3863 Financial Instruments – Presentation. These new standards became effective for the Company on April 1, 2008.

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed.

Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate:

- (a) the significance of financial instruments for the entity's financial position and performance; and
- (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

Northern Financial Corporation

Notice of Non-review of Interim Financial Statements

The attached interim financial statements for the period ended September 30, 2008 have not been reviewed by the Company's auditors.

NORTHERN FINANCIAL CORPORATION
Unaudited Interim Consolidated Balance Sheets
As at

	<u>September 30, 2008</u>	<u>March 31, 2008</u>
ASSETS		
CURRENT		
Cash (Note 3 and Note 18)	\$ 768,293	\$ 1,549,066
Deposit with carrying broker (Note 4)	1,719,793	1,998,875
Securities owned, at market value (Note 5)	1,101,748	2,531,633
Investment in associated companies (Note 6)	2,760,738	4,180,652
Accounts receivable	706,207	292,228
Forgivable loans (Note 9)	134,199	235,139
Prepaid expenses and deposits	132,342	249,969
Commodity taxes recoverable	-	38,192
	<u>7,323,320</u>	<u>11,075,754</u>
OTHER ASSETS	193,207	206,010
CAPITAL ASSETS (Note 7)	1,240,167	1,187,319
INTANGIBLE ASSETS (Note 8)	<u>8,738</u>	<u>4,776</u>
	<u>\$8,765,432</u>	<u>\$12,473,859</u>
LIABILITIES		
CURRENT		
Short-term loan payable (Note 10)	\$ 250,000	\$ 220,000
Accounts payable and accrued liabilities	1,748,266	1,503,604
Deferred revenue	42,500	22,500
Securities sold short, at market value (Note 5)	58,283	92,074
Commodity taxes payable	1,683	-
Promissory note payable (Note 11)	600,000	600,000
	<u>2,700,732</u>	<u>2,438,178</u>
TOTAL LIABILITIES	<u>2,700,732</u>	<u>2,438,178</u>
COMMITMENTS AND CONTINGENCIES (Note 14)		
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	43,041,088	42,964,227
Contributed surplus (Note 12)	1,738,634	1,624,886
Accumulated other comprehensive income	-	-
Deficit	<u>(38,715,022)</u>	<u>(34,553,432)</u>
	<u>6,064,700</u>	<u>10,035,681</u>
	<u>\$8,765,432</u>	<u>\$12,473,859</u>

APPROVED BY THE BOARD

"Ian Bradley"

Director

"Vic Alboini"

Director

See accompanying notes to the financial statements.

NORTHERN FINANCIAL CORPORATION
Unaudited Interim Consolidated Statements of Income, Comprehensive Income and Retained Deficit
For the

	<u>Three Months Ended September 30, 2008</u>	<u>Three Months Ended September 30, 2007</u>	<u>Six Months Ended September 30, 2008</u>	<u>Six Months Ended September 30, 2007</u>
		(As restated Note 2)		(As restated Note 2)
REVENUES				
Commissions	\$1,468,075	\$1,835,349	\$3,196,244	\$4,753,442
Underwriting and advisory	1,209,434	1,751,079	2,183,801	3,808,040
Broker warrants	(666,555)	650,216	(1,073,349)	1,733,058
Merchant banking	-	36,363	16,646	61,332
Trading	(140,909)	30,783	239,549	454,433
Interest	278,062	382,320	616,996	771,806
Other	4,282	(66,206)	(2,623)	(110,402)
	<u>2,152,389</u>	<u>4,619,904</u>	<u>5,177,264</u>	<u>11,471,709</u>
OPERATING EXPENSES				
Brokerage operations	2,969,894	4,129,012	6,938,068	10,327,645
Merchant banking	-	-	-	-
General and administrative	255,624	71,615	404,119	33,697
Interest expense	164,685	224,182	360,843	452,547
Depreciation and amortization	150,045	63,776	215,911	120,336
Total operating expenses	<u>3,540,248</u>	<u>4,488,585</u>	<u>7,918,941</u>	<u>10,934,225</u>
	(1,387,859)	131,319	(2,741,677)	537,484
SHARE OF EARNINGS (LOSS) OF JAGUAR FINANCIAL CORPORATION (Note 6)	(979,158)	689,849	(1,419,913)	787,557
SHARE OF LOSS OF LAKESIDE STEEL CORPORATION (Note 6)	-	(304,637)	-	(304,637)
INCOME (LOSS) BEFORE INCOME TAXES	<u>(2,367,017)</u>	<u>516,531</u>	<u>(4,161,590)</u>	<u>1,020,404</u>
INCOME TAXES (Note 13)	-	-	-	-
NET INCOME (LOSS) FOR THE PERIOD	<u>(2,367,017)</u>	<u>516,531</u>	<u>(4,161,590)</u>	<u>1,020,404</u>
DEFICIT, beginning of period	<u>(36,348,005)</u>	<u>(34,361,350)</u>	<u>(34,553,432)</u>	<u>(34,865,223)</u>
DEFICIT, end of period	<u>\$(38,715,022)</u>	<u>\$(33,844,819)</u>	<u>\$(38,715,022)</u>	<u>\$(33,844,819)</u>
EARNINGS (LOSS) PER SHARE – Basic and diluted	\$(0.24)	\$0.05	\$(0.42)	\$0.11
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	9,965,698	9,710,239	9,885,914	9,695,166

See accompanying notes to the financial statements.

NORTHERN FINANCIAL CORPORATION
Unaudited Interim Consolidated Statements of Cash Flows
For the

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Six Months Ended September 30, 2008	Six Months Ended September 30, 2007
		(As restated Note 2)		(As restated Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss) for the period	\$(2,367,017)	\$516,531	\$(4,161,590)	\$1,020,404
Items not affecting cash				
Depreciation and amortization	150,045	63,776	215,911	120,336
Share of (earnings) loss of associated companies	979,158	(385,212)	1,419,913	(482,920)
Equity incentive / employee share purchase plans	71,710	3,483	171,513	23,638
	<u>(1,166,104)</u>	<u>198,578</u>	<u>(2,354,253)</u>	<u>681,458</u>
Changes in non-cash working capital balances				
Securities owned and sold short	918,838	367,119	1,396,094	(1,296,843)
Accounts receivable	(420,071)	252,939	(413,979)	(82,402)
Prepaid expenses & deposits, and forgivable loans	29,239	(75,519)	231,370	(104,951)
Commodity taxes recoverable	35,031	13,598	39,875	20,634
Accounts payable and accrued liabilities	252,859	(872,882)	244,662	(1,018,795)
Deferred revenue	14,750	2,868	20,000	14,026
	<u>830,646</u>	<u>(311,877)</u>	<u>1,518,022</u>	<u>(2,468,331)</u>
	<u>(335,458)</u>	<u>(113,299)</u>	<u>(836,231)</u>	<u>(1,786,873)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of capital assets	(312,560)	(154,586)	(272,721)	(306,923)
Deposit with carrying broker	291,930	(17,080)	279,082	(5,607)
Disposition of investments in associated companies	-	-	-	88,223
Cash flows from investing activities	<u>(20,630)</u>	<u>(171,666)</u>	<u>6,361</u>	<u>(224,307)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from employee share purchase plan	31,829	33,411	31,829	33,411
Repurchase of shares under normal course issuer bid	-	-	(12,732)	-
Increase (decrease) in short term loans	5,000	40,000	30,000	(597,375)
Cash flows from financing activities	<u>36,829</u>	<u>73,411</u>	<u>49,097</u>	<u>(563,964)</u>
INCREASE (DECREASE) IN CASH	<u>(319,259)</u>	<u>(211,554)</u>	<u>(780,773)</u>	<u>(2,575,144)</u>
CASH, BEGINNING OF PERIOD	<u>1,087,552</u>	<u>2,126,824</u>	<u>1,549,066</u>	<u>4,490,414</u>
CASH, END OF PERIOD	<u>\$768,293</u>	<u>\$1,915,270</u>	<u>\$768,293</u>	<u>\$1,915,270</u>

SUPPLEMENTARY INFORMATION (Note 17)

See accompanying notes to the financial statements.

1. NATURE OF OPERATIONS

Northern Financial Corporation (the "Company") owns Northern Securities Inc. ("NSI"), a member firm of the Investment Industry Regulatory Organization of Canada ("IIROC"). The Company carries on a traditional brokerage and investment banking business, as well as a merchant banking business.

2. PRIOR PERIOD ADJUSTMENT TO SHARE OF EARNINGS OF LAKESIDE STEEL CORPORATION

Subsequent to completion of the Company's consolidated financial statements for the year ended March 31, 2007, which were released on June 29, 2007, the Company became aware of an adjustment to the information used in its determination of the Company's share of its earnings of Lakeside Steel Corporation ("Lakeside"). The adjustment was reflected in Lakeside's financial statements, which were not finalized until July 30, 2007. The Company has determined that this adjustment related to 2007. Accordingly, the Company's share of earnings of Lakeside for the year ended March 31, 2007 was retroactively adjusted in the year ended March 31, 2008, to account for this change of information.

The cumulative effect to opening retained earnings at April 1, 2007 was to increase retained earnings by \$634,283 and the Company's investment in Lakeside by the equivalent amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with generally accepted accounting principles in Canada. Outlined below are those policies considered particularly significant:

Principles of consolidation

These consolidated financial statements include the accounts of the Company and all its subsidiaries with its principal operating subsidiary being a wholly owned investment dealer. Intercompany accounts and balances are eliminated upon consolidation. The equity method is used to account for investments in associated companies where the Company has significant influence. The share of earnings, gains and losses, realized dispositions and write downs to reflect other than temporary impairment are included in income.

Cash

Included in cash is cash at the carrying broker. This amount can be used in normal operations.

Foreign currency translation

Monetary assets and monetary liabilities in foreign currencies have been translated at exchange rates in effect as at the balance dates; income and expenses have been translated at average exchange rates during the period. Exchange gains and losses from such translation practices are reflected in the consolidated statements of income, comprehensive income and retained deficit.

Securities owned and securities sold short

Securities are classified, based on management's intentions, as held-for-trading. Securities owned and securities sold short are stated at fair values at the balance sheet date. Obligations to deliver trading securities sold but not yet purchased are recorded as liabilities. The fair value of securities is determined at the end of the Valuation Date by the closing bid price for securities owned and closing ask price for securities sold short, on the stock exchange where the investment is listed. For investments where market quotations are not readily available or, if there is no closing bid or asked price on the Valuation Date, the fair value is determined using valuation models. . Realized and unrealized changes in fair value are recognized in income from principal transactions in the period in which the changes occur.

Broker warrants received by the Company in respect of underwriting are measured at fair value and are included in securities owned. Changes in fair value are recorded in trading income. Fair values determined using the Black-Sholes model require the use of assumptions concerning the volatility of underlying securities and risk-free interest rates. In determining those assumptions, we look primarily to external readily observable market inputs including factors such as price volatilities and interest rates, as applicable.

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Capital assets

Equipment is carried at acquisition cost less accumulated depreciation. Amortization is provided using the following annual rates and methods:

Furniture and fixtures	20% declining balance
Leasehold improvements	20% declining balance
Computer equipment	30% - 50% declining balance
Works of art	Not amortized

Goodwill and intangible assets

Goodwill is tested for impairment annually on March 31 or more frequently if events or changes in circumstances indicate the asset may be impaired. Any impairment is charged to income in the period in which the impairment is identified. Intangible assets with a finite life are amortized on a straight line basis over their expected useful lives, which are determined to be 3 years. The intangibles are tested for impairment when conditions exist which may indicate that the estimated future net cash flows from the asset will be insufficient to recover the carrying amount.

Forgivable loans

Forgivable loans are extended to investment advisors and capital market professionals as a hiring and retention incentive. These loans are non-interest bearing and are initially recorded at fair value. The difference between the fair value of these loans and the cash consideration is recorded as compensation expenses and is included as brokerage operations expense on the consolidated statement of income, comprehensive income and retained deficit. These loans are forgiven on a straight-line basis over the period of the individual employment contract, which vary in length from six months to four years. The forgiven amount is recorded as brokerage operations on the consolidated statement of income, comprehensive income and retained deficit.

Underwriting and advisory fees

Underwriting and advisory revenues are recorded at the time the transaction or service is completed and the related income is reasonably determinable.

Use of estimates and assumptions

The preparation of the consolidated 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 at the date of the financial statements and the reported amounts of revenues and expenses during the year. The most significant estimates are related to the valuation of broker warrants, contingent liabilities, and future tax assets and liabilities. Accordingly, actual results could differ from those estimates and thereby impacting our consolidated financial statements. Management believes that the estimates are reasonable.

Leases

Leases have been classified as operating. Rental payments are charged to earnings as incurred.

Stock-based compensation plan

The Company records as compensation all stock-based awards made to non-employees and employees at fair value. Any consideration paid upon exercise of stock options is credited to capital stock. Stock options granted prior to January 1, 2002 were accounted for using the intrinsic value method, and accordingly, no expense was recognized for these shares since the exercise price for these grants was equal to the closing price on the day before the option was granted.

Income taxes

The Company accounts for and measures future tax assets and liabilities in accordance with the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to loss carryforwards and to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years

NORTHERN FINANCIAL CORPORATION
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in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and the net asset is reduced accordingly.

Earnings (loss) per share

Basic earnings (loss) per share are calculated by dividing net income available to common shareholders by the weighted average number of shares outstanding. Diluted earnings (loss) per share are calculated using the treasury stock method. In order to determine diluted earnings (loss) per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted earnings (loss) per share calculation. The diluted earnings (loss) per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. The accounting policies of the Company are in accordance with generally accepted accounting principles in Canada and are consistent with that of the previous year except where noted below. Outlined below are those policies considered particularly significant:

Recent Accounting Pronouncements

On December 1, 2006, the CICA issued three new accounting standards; Section 1535 Capital Disclosures, Section 3862 Financial Instruments – Disclosures and Section 3863 Financial Instruments – Presentation. These new standards became effective for the Company on April 1, 2008.

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed.

Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate:

- (a) the significance of financial instruments for the entity's financial position and performance; and
- (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

4. SERVICE AGREEMENT

As at September 30, 2008, the Company has contracted Penson Financial Services ("Penson") to perform certain trading and clearing activities for the clients of the Company, according to the Introducing Broker Agreement (the "Agreement") between Penson and the Company. As a Type 2 Introducing Broker, the Company does not carry client accounts, nor receive, deliver or hold cash and securities in connection with such clients. At September 30, 2008, the Company maintained a deposit with Penson and in the amount of \$1,719,793 (March 31 – \$1,998,875), which cannot be used in the normal course of operations.

Penson performs its services for a flat fee per trade, subject to certain additional charges. Interest related to client accounts is also split according to the Agreement.

5. SECURITIES OWNED AND SECURITIES SOLD SHORT

Securities owned consist of the following:

	<u>September 30, 2008</u>	<u>March 31, 2008</u>
Publicly traded equities	\$ 621,268	\$ 767,502
Broker warrants	480,480	1,764,131
	<u>\$1,101,748</u>	<u>\$2,531,633</u>

Securities sold short consist of the following:

	<u>September 30, 2008</u>	<u>March 31, 2008</u>
Publicly traded equities	\$ 58,283	\$ 92,074

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6. INVESTMENTS IN ASSOCIATED COMPANIES

Investments in associated companies consist of the following:

	September 30, 2008	March 31, 2008
Jaguar Financial Corporation	\$2,760,738	\$4,180,652
Lakeside Steel Corporation	-	-
	<u>\$2,760,738</u>	<u>\$4,180,652</u>

Included in investments in associated companies is an investment in Jaguar Financial Corporation ("Jaguar") representing 12.6% (March 31 – 12.6%) of the outstanding common shares of Jaguar as at September 30, 2008.

During the year ended March 31, 2008, the Company sold its interest in Lakeside Steel Corporation ("Lakeside").

The equity method is used to account for the Company's investments in Jaguar. The Company's share of earnings or losses in Jaguar is reported in income. The Company's investment in Jaguar has been reduced by \$979,158 in the period ended September 30, 2008 accordingly (decreased by \$79,640 in prior periods).

7. CAPITAL ASSETS

	September 30, 2008		
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 929,767	\$ 614,472	\$ 315,295
Leasehold improvements	1,339,585	615,526	724,059
Computer equipment	1,720,665	1,532,766	187,899
Works of art	12,914	-	12,914
	<u>\$4,002,931</u>	<u>\$2,762,764</u>	<u>\$ 1,240,167</u>
	March 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 927,891	\$ 579,671	\$ 348,220
Leasehold improvements	1,076,343	549,699	526,644
Computer equipment	1,718,971	1,419,430	299,541
Works of art	12,914	-	12,914
	<u>\$3,736,119</u>	<u>\$2,548,800</u>	<u>\$ 1,187,319</u>

8. INTANGIBLE ASSETS

	September 30, 2008		
	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 540,922	\$ 532,184	\$ 8,738
	March 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 535,012	\$ 530,236	\$ 4,776

9. FORGIVABLE LOANS

The net carrying value of forgivable loans costs consists of the following:

	September 30, 2008			March 31, 2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Forgivable loans	\$1,015,719	\$851,897	\$163,822	\$263,565

The balance of forgivable loans which are forgivable in greater than 1 year is included within Other Assets:

	September 30, 2008	March 31, 2008
Forgivable within 1 year	\$ 134,199	\$ 235,139
Forgivable in greater than 1 year	29,623	28,426
	<u>\$ 163,822</u>	<u>\$ 263,565</u>

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10. SHORT TERM LOAN PAYABLE

The Company has available a credit facility in the amount of \$250,000 at prime plus 1%, secured by a general security agreement covering all assets of the Company and certain guarantees provided personally by the President of the Company and a corporation wholly owned by the President of the Company. As at September 30, 2008, the balance owing under the credit facility was \$250,000 (March 31, 2008 – \$220,000). The Company is currently in discussions with the holder of the promissory note regarding repayment.

11. PROMISSORY NOTE PAYABLE

As at September 30, 2008, the Company had a promissory note payable outstanding in the amount of \$600,000 (March 31 - \$600,000). The promissory note payable matures on October 13, 2008, bears interest at 13% and is secured by a general security agreement, covering all property of the Company, and a personal guarantee by the President of the Company. A director of the Company is also a director and officer of the trustee of the promissory note payable.

12. CAPITAL STOCK

a) *Share capital*

Authorized		
Unlimited number of common shares		
2,000,000 voting, convertible, redeemable, preference shares		
Issued and outstanding		
9,984,340 common shares		\$43,041,088

Share capital activity for the period March 31, 2008 to September 30, 2008 is summarized as follows:

	Shares #	Amount
Balance, March 31, 2008	9,843,385	\$42,964,227
Shares issued under equity incentive plan (d)	98,146	93,151
Shares issued under employee share purchase plan	55,609	38,659
Shares cancelled under normal course issuer bid (f)	(12,800)	(54,949)
Balance, September 30, 2008	9,984,340	\$43,041,088

The total cost of share based compensation for the period ended September 30, 2008 was \$71,709.

b) *Capital management*

The Company requires capital to fund existing and future operations and meet regulatory capital requirements. The Company's policy is to maintain adequate levels of capital at all times.

The Company's investment dealer subsidiary, NSI, is subject to rules of the IIROC which require NSI to maintain a certain level of regulatory capital. This capital was provided by the Company and is eliminated upon consolidation as a loan between the parent and subsidiary.

As at September 30, 2008 the capital of NSI exceeded the requirements of the IIROC.

c) *Stock options*

Effective August 28, 2003 the Company discontinued the stock option plan (the "Plan"), whereby no further options will be granted pursuant to the Plan and all options outstanding will remain in effect until either exercised or cancelled.

As at September 30, 2008, there were 142,002 common share purchase options outstanding, expiring at various dates to January 21, 2013. The options have an exercise price equal to the Company's market closing share price on the day prior to the date of grant and vest over the first twenty-four or thirty months, in equal monthly installments, beginning in the month of grant, and are exercisable over ten years.

All options are currently exercisable.

There was no stock option activity for the period March 31, 2008 to September 30, 2008.

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The following is a summary of common share purchase options outstanding as at September 30, 2008:

Range of Exercise Prices	Stock Options #	Weighted Average Remaining Life (Years)	Weighted Average Price
\$ 3.50-5.00	69,937	3.83	\$ 3.79
\$8.00-9.00	43,350	2.46	\$8.96
\$30.00-40.00	6,158	1.98	30.33
\$49.00-70.00	22,557	0.80	\$55.35
	142,002	2.85	\$14.71

d) *Employee equity incentive plan*

On September 30, 2004, the shareholders of the Company approved the establishment of an equity incentive plan whereby up to 6% of the outstanding common shares of the Company may be issued annually to certain new or existing employees of the Company as a means of attracting and retaining exceptional employees.

e) *Employee share purchase plan*

On September 25, 2006, the shareholders of the Company approved the establishment of an employee share purchase plan ("ESPP"). The ESPP allows qualifying employees to purchase common shares of the Company equal to 8% of their annual compensation to a maximum amount of \$8,000 per year, with the Company matching the number of shares purchased at no additional cost to the employee over a three year vesting period.

f) *Normal course issuer bid*

On February 22, 2008 the Company announced a normal course issuer bid. According to the terms of the bid, and in accordance with the rules of the TSX, during the period commencing February 26, 2008 and ending February 25, 2009, the Company may purchase a maximum of 652,933 of its common shares, which represents approximately 10% of the public float. Purchases of common shares will be effected through the facilities of the TSX in open market transactions at market prices prevailing at the time of acquisition. Daily purchases may not exceed 1,600 common shares, unless otherwise permitted by the TSX. All common shares purchased under the bid will be cancelled.

As at September 30, 2008, the Company purchased, from the commencement date of the bid, 19,700 common shares of the Company. The Company, during that period, cancelled 19,700 common shares.

g) *Earnings per share data*

The weighted average number of common shares outstanding, used in computing basic gain (loss) per common share for the respective periods were:

	Three months ended	Six months ended
September 30, 2007	9,710,239	9,695,166
September 30, 2008	9,965,698	9,885,914

The effect of common share purchase options on the net loss is not reflected as to do so would be anti-dilutive.

h) *Contributed surplus:*

Contributed surplus activity for the period March 31, 2008 to September 30, 2008 is summarized as follows:

Balance, March 31, 2008	\$ 1,624,886
Normal course issuer bid	42,216
Equity incentive plan	63,889
Employee share purchase plan	7,643
Balance, September 30, 2008	\$ 1,738,634

13. INCOME TAXES

The Company's income taxes are calculated and filed on a yearly basis. No income taxes have been recorded in the interim periods for 2008 and 2007 because there are adequate tax losses available to offset any taxable income.

14. COMMITMENTS AND CONTINGENCIES

- a) The Company indemnifies Penson for all obligations to pay for securities purchased and to deliver securities sold by clients. In the event of default by any of its clients on payments due or delivery of securities to Penson, the Company has agreed to pay Penson an amount up to its "excess risk adjusted capital". As at September 30, 2008, the amount of the Company's excess risk adjusted capital was \$897,000 (March 31, 2008 – \$1,874,000).
- b) The Company is party to legal proceedings in the ordinary course of its operations. Management does not expect the outcome of any of these proceedings to have a materially adverse effect on the results of the Company's financial position or operations.
- c) The future minimum annual payments on equipment and office premises under existing operating leases approximate the following:

Less than 1 year	\$ 1,354,700
1 to 2 years	1,176,800
2 to 3 years	1,124,800
3 to 4 years	979,300
4 to 5 years	295,100
More than 5 years	-
	\$ 5,365,100

- d) The Company has available a credit facility in the amount of \$250,000 at prime plus 1%, secured by a general security agreement covering all assets of the Company and certain guarantees provided personally by the President of the Company and a corporation controlled by the President of the Company. As at September 30, 2008, \$250,000 was owing under the credit facility.

15. RISK MANAGEMENT

Fair value of financial assets and financial liabilities

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest rate, currency or credit risks arising from its financial instruments. The fair values of the Company's financial assets and financial liabilities approximate their carrying amounts due to their imminent or short-term maturity.

Market risk

Market risk is the risk that a change in market prices, interest rate levels, indices, liquidity and other market factors will result in losses. The Company is exposed to market risk as a result of its principal trading in equity securities and fixed income securities. Securities held for trading are valued at market and as such, changes in market value affect earnings (losses) as they occur. The Company mitigates its market risk exposure through controls to limit concentration levels and capital usage within its inventory trading accounts.

Credit risk

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of a counterparty on its obligation to the Company. The primary source of credit risk is related to the extension of credit to clients, through the use of margin loans, to purchase securities. Margin loans are due on demand and are collateralized by the financial instruments in the client's account. The Company faces potential financial loss if a client dies not meet a margin call when the value of securities held as collateral declines and the Company is not able to recover sufficient value from the collateral.

Credit risk is managed by applying credit standards to the counterparties the Company transacts business with, applying limits to client transactions and requiring settlements of security transactions on a cash basis or delivery against payments. The Company also regularly monitors credit exposure. Margin transactions are collateralized by securities in the client's accounts in accordance with limits established by the Company and applicable regulatory requirements. During the three month period ended September 30, 2008, the Company has not suffered any material loss from counterparty default.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments and fixed income securities held by the Company. The Company holds minimal fixed income securities and does not hedge its exposure to interest rates since the risk is very low.

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Foreign exchange risk

Foreign exchange risk is the risk that the market value of financial instruments and the associated revenues will fluctuate due to changes in exchange rates. The Company does not use derivatives to modify the foreign exchange risk. The Company holds minimal financial instruments in foreign currencies.

Capital management

The Company requires capital to fund existing and future operations and meet regulatory capital requirements.

16. RELATED PARTY TRANSACTIONS

The Company had related party transactions with directors or officers of the Company, or companies with which they were associated, which were in the normal course of operations and were valued at the amounts noted below.

NSI acted as investment advisor and financial advisor with respect to Jaguar Financial Corporation, receiving commissions and fees in the amount of \$1,027,039 (2007 – \$504,647) for the three month period ending September 30, 2008 and \$1,427,516 (2007 – 594,536) for the six month period ending September 2008.

NSI acted as financial advisor with respect to Lakeside Steel Corporation, receiving fees in the amount of \$25,000 (2007 – \$236,000) for the three month period ending September 30, 2008 and \$25,000 (2007 – 296,000) for the six month period ending September 2008.

The Company paid interest in the amount of \$19,500 (2007 - \$19,500) for the three month period ending September 30, 2008 and \$39,000 (2007 - \$204,644) for the six month period ending September 30, 2008 to Romspen Investment Corporation (“Romspen”), a company of which a director of the Company is also a director and senior officer. As at September 30, 2008 the Company had loans payable to Romspen of \$600,000 (March 31, 2008 – \$600,000).

All of the above transactions are in the normal course of operations and are recorded at the value amounts established and agreed to by the related parties.

17. SUPPLEMENTAL INFORMATION – STATEMENT OF CASH FLOWS

	<u>September 30, 2008</u>	<u>September 30, 2007</u>
Interest paid	\$ 164,685	\$ 217,719
Cash consists of the following		
Cash	\$ 230,156	\$ 208,568
Cash at carrying broker	538,137	1,706,702
Total	<u>\$ 768,293</u>	<u>\$ 1,915,270</u>

18. SUBSEQUENT EVENTS

On October 28, 2008, the Company announced a take-over-bid (the “Offer”) for all of the issued and outstanding common shares of High Desert Gold Corporation (“HDG”) at a price of \$0.19 per HDG share. According to publicly available information, as at October 31, 2008 HDG has 41,053,334 issued and outstanding common shares.

The offer represented a premium of approximately 31% to the volume weighted average trading price of the HDG shares on the TSX for the 60 day period ended October 27, 2008.

The Offer is conditional on, among other things, the deposit of that number of HDG shares which, when taken together with the HDG shares already owned by Northern, constitutes at least 50% of the HDG shares plus one HDG share. The Offer is also conditional on, among other matters, Northern determining in its sole judgment that there are minimum cash resources in HDG of approximately \$0.29 per HDG share at the expiry of the Offer. Northern has obtained a firm commitment to provide a credit facility in the amount of \$6.4 million that will be relied upon to take up and pay for HDG shares deposited and not withdrawn under the Offer.

Northern now owns a total of 8,285,400 HDG shares, representing approximately 20.18% of the total issued HDG shares.

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R. Ian Bradley, *Consultant*
William Grant, *Consultant*
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SHARE INFORMATION

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