

NORTHERN FINANCIAL CORPORATION

ANNUAL REPORT

MARCH 31, 2004

August 26, 2004

To Our Shareholders

Year in Review

Northern Financial Corporation ("Northern" or the "Company") and its wholly owned subsidiary Northern Securities Inc. ("Northern Securities") have come a long way in Fiscal 2004. We have almost tripled our revenue to \$19 million and reduced our loss by about 70% to \$915,000. We have also increased our liquid assets to \$6.6 million at March 31, 2004 from \$3.8 million the previous year. After our year-end, we raised an additional \$2 million to further increase our liquid assets.

We completed the integration of two acquisitions that were made in December 2002 and March 2003. This integration process resulted in one firm under the Northern banner. The process was not easy; however it is now complete and we have all of our employees focused on the Northern mission.

We have increased the size of our institutional equities team and we have added to our team of analysts.

We completed 27 financings in Fiscal 2004, with the amount raised in the financings totaling \$124 million. We were active in mergers and acquisitions for clients which is a growing part of our business. We have made a series of merchant banking investments which should become a growing business for Northern. Merchant banking is complementary to the brokerage business at Northern Securities.

Organic Growth

We have made great strides in attracting new people to Northern Securities. The key in the brokerage business is people. We try our very best to provide an excellent collegial, entrepreneurial environment at Northern Securities. This environment gives our people the ability to provide excellent service to our clients. Our clients are our business and our employees are expected to deliver outstanding service.

Northern has come through a series of acquisitions and while we will always look at opportunities as they become available, our main focus is organic growth. We want to attract the very best people. To do that, we need to strive for excellence in our dealings with our employees. This is the same excellence that we expect our employees to deliver to our clients.

Small Cap Niche Focused Securities Firm

Northern Securities serves small cap companies. We are their champions. We trade their stock, we issue research reports and we raise capital and give advice. Small cap is our niche.

Most brokerage firms are not as focused. There are many brokerage firms that focus on large cap, mid cap and small cap, or two of the three constituencies. Not Northern. We focus exclusively on small cap. This is Northern's market niche – an enormous, under-served market niche in Canada.

Our mission is to provide small cap companies with the same high quality service enjoyed by large cap companies from their large cap focused investment banks.

On behalf of the Board of Directors, we thank our employees and shareholders for their continued support and we look forward to seeing you at our annual and special meeting to be held at 10:00 am on Thursday, September 30, 2004 at the Toronto Stock Exchange Conference Centre, 130 King Street West (The Exchange Tower) in Toronto.

Vic Alboini
Chairman and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue

Total revenue for the year ended March 31, 2004 was \$19,030,681 compared with \$6,536,428 in the prior year, this represented an increase of 291%. The increase in revenue was attributable to robust Mining and Oil and Gas sectors along with the Company's acquisition of the brokerage business of Georgia Pacific Securities Corporation ("GP") and the acquisition of IPO Capital Corp. ("IPO").

Looking at specific revenues for the year ended March 31, 2004 compared to the prior year, commission revenue increased by 146% to \$7,986,101 from \$3,244,555. Trading revenue increased 516% to \$3,892,539 from \$631,475. Interest revenue increased 302% to \$1,505,147 from \$374,010. Almost all of the increase in revenue is largely attributable to the Company's acquisition of the brokerage business of GP and the acquisition of IPO.

Underwriting and advisory revenue increased 142% to \$5,441,205 from \$2,253,194 as a result of robust Mining and Oil and Gas sectors as well as a general upturn in the small capitalization sector where the Company concentrates its business.

Expenses

Total expenses for the year ended March 31, 2004, were \$19,892,216 compared with expenses of \$9,450,283 in the prior year. Brokerage operations costs increased to \$17,904,976 from \$8,202,064. This increase is attributable to a more than doubling the size of the Company's operations due to the acquisition of the brokerage business of GP and the acquisition of IPO as well as the opening of a Calgary office. Included in brokerage operations expense as a result of the acquisitions, the Company reported one-time provisions and write-downs totaling \$1,271,659.

Interest expense increased to \$1,039,095 from \$158,772, this is mainly the result of an increase in interest expense related to client accounts as a result of the acquisition of the GP brokerage operations and the IPO acquisition, as well as an increase interest associated with the debenture financing.

General and administrative decreased as a result of certain cost savings initiatives. Depreciation and amortization expense increased primarily as a result of amortization of client agreements and relationships acquired at the end of last year.

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 \$6,570,626 as at March 31, 2004 compared with \$3,754,773 as at March 31, 2003. The Company used \$1,435,372 of cash in its operations for the year ended March 31, 2004 compared to using \$1,365,640 last year. It should be noted that even though the cash flow used in operations is consistent, the make-up is not. For the year ended March 31, 2004 the Company decreased its loss by approximately 70% to \$914,725 from the prior year and used cash to acquire securities, whereas last year the Company had a loss of \$2,913,855 and the Company was able to settled certain debts by issuing capital stock.

Capital expenditures decreased to \$205,347 for the year ended March 31, 2004 from \$550,349 for the year ended March 31, 2003. For the year ended March 31, 2003 the Company acquired client agreements and relationships as result of the acquisitions mentioned above.

The Company generated cash flow from financing activities in the amount of \$3,511,419 for the year ended March 31, 2004 compared to generating \$3,430,717 last year. For the year ended March 31, 2004 the Company generated cash flow from the completion of a private placement and debenture issue along with warrant holders exercising their warrants. Last year the Company generated cash flow primarily as the result of acquiring cash in the acquisition of IPO along with the completion of a private placement and a debenture financing.

Overview and Outlook

Subsequent to the March 31, 2004 year end, market activity, market liquidity and financing in the small capitalization sector were reduced substantially. Unless overall market activity improves, it will be difficult for the Company to match the revenue level reached in Fiscal 2004.

The Company continues to add people to its capital markets platform. This investment is key as the Company expands its presence in the small capitalization sector of the market.

The integration of GP and IPO was completed during Fiscal 2004. The Company aggressively increased its revenue and reduced its losses from the previous fiscal year. Overall the performance in Fiscal 2004 was very good, although more work continues to be necessary to reach profitability.

The Company has improved its balance sheet considerably with approximately \$6,500,000 in cash, deposits and securities as at March 31, 2004. Subsequent to the year end the Company raised an additional \$2,000,000 through a private placement of common shares.



McGovern, Hurley, Cunningham, LLP
Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
Northern Financial Corporation

We have audited the consolidated balance sheets of Northern Financial Corporation as at March 31, 2004 and 2003 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 March 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

A handwritten signature in black ink that reads "McGovern, Hurley, Cunningham, LLP".

Chartered Accountants

TORONTO, Canada
July 25, 2004

NORTHERN FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
AS AT MARCH 31

	2004 \$	2003 \$
ASSETS		
CURRENT		
Cash and cash equivalents	4,168,670	2,297,970
Deposits with carrying brokers (Note 4)	1,002,056	1,352,599
Securities owned, at market value (Note 5)	1,399,900	104,204
Accounts receivable	543,168	512,601
Prepaid expenses and deposits	193,547	401,686
Taxes recoverable	<u>68,273</u>	<u>48,253</u>
	7,375,614	4,717,313
EQUIPMENT (Note 6)	1,022,793	1,134,372
GOODWILL (Note 7(a))	3,024,468	3,024,468
INTANGIBLE ASSETS (Note 7(b))	265,380	385,624
	<u>11,688,255</u>	<u>9,261,777</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 14)	2,025,872	3,087,978
Securities sold short (Note 5)	141,451	7,817
Current portion of long-term debt	<u>-</u>	<u>50,848</u>
	2,167,323	3,146,643
DEBENTURES PAYABLE (Note 8)	<u>893,000</u>	<u>784,600</u>
TOTAL LIABILITIES	<u>3,060,323</u>	<u>3,931,243</u>
NON-CONTROLLING INTEREST (Note 3(b))	<u>-</u>	<u>202,351</u>
CONTINGENCIES (Note 12)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 10(a))	79,446,620	75,160,082
SUBORDINATED LOAN (Note 9)	-	300,000
WARRANTS (Note 10(e))	761,369	418,450
CONTRIBUTED SURPLUS (Note 10(f))	554,950	469,933
DEFICIT	<u>(72,135,007)</u>	<u>(71,220,282)</u>
	<u>8,627,932</u>	<u>5,128,183</u>
	<u>11,688,255</u>	<u>9,261,777</u>

APPROVED ON BEHALF OF THE BOARD:

Signed "VIC ALBOINI" _____, Director

Signed "IAN BRADLEY" _____, Director

NORTHERN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
 FOR THE YEARS ENDED MARCH 31

	2004 \$	2003 \$
REVENUES		
Commissions	7,986,101	3,244,555
Underwriting and advisory	5,441,205	2,253,194
Trading - net	3,892,539	631,475
Interest	1,505,147	374,010
Other	<u>205,689</u>	<u>33,194</u>
Total revenues	<u>19,030,681</u>	<u>6,536,428</u>
OPERATING EXPENSES		
Brokerage operations	17,904,976	8,202,064
General and administrative	510,975	777,939
Interest expense	1,039,095	158,772
Depreciation and amortization	<u>437,170</u>	<u>311,508</u>
Total operating expenses	<u>19,892,216</u>	<u>9,450,283</u>
Loss before provision for income taxes	(861,535)	(2,913,855)
Income tax expense (Note 11(a))	<u>53,190</u>	<u>-</u>
NET LOSS FOR THE YEAR	(914,725)	(2,913,855)
DEFICIT, beginning of year	<u>(71,220,282)</u>	<u>(68,306,427)</u>
DEFICIT, end of year	<u>(72,135,007)</u>	<u>(71,220,282)</u>
LOSS PER SHARE – Basic and diluted	(0.00)	(0.01)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	489,239,484	268,858,868

See accompanying notes to the consolidated financial statements.

NORTHERN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED MARCH 31

	2004 \$	2003 \$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) for the year	(914,725)	(2,913,855)
Items not involving cash:		
Depreciation and amortization	437,170	311,508
Foreign exchange	-	5,000
Accretion of debentures	18,400	27,215
	<u>(459,155)</u>	<u>(2,570,132)</u>
Changes in non-cash working capital balances:		
Deposits with carrying brokers	350,543	(1,067,599)
Securities owned	(1,295,696)	587,166
Accounts receivable	(30,567)	(175,719)
Prepaid expenses and deposits	208,139	(284,579)
Taxes recoverable	(20,020)	-
Accounts payable and accrued liabilities	(322,250)	2,137,406
Securities sold short	133,634	7,817
	<u>(976,217)</u>	<u>1,204,492</u>
Cash flows from operating activities	<u>(1,435,372)</u>	<u>(1,365,640)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of equipment (net)	(194,470)	(173,349)
Acquisition of intangible assets	<u>(10,877)</u>	<u>(377,000)</u>
Cash flows from investing activities	<u>(205,347)</u>	<u>(550,349)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash and cash equivalents acquired on purchase of IPO	-	1,376,000
Debentures payable issued	1,080,000	790,000
Repayment of debentures	(140,000)	(200,000)
Proceeds from exercising stock options	49,990	-
Proceeds from rights offering, net of issue costs	-	808,594
Principal repayments on long-term debt	(50,848)	(360,154)
Proceeds from private placements, net of issue costs	2,001,423	1,293,000
Costs of issue of non-cash share issuances	(34,379)	(65,417)
Proceeds from exercising warrants	605,233	-
Subordinated loan received	-	300,000
Investment in IPO, including costs	<u>-</u>	<u>(511,306)</u>
Cash flows from financing activities	<u>3,511,419</u>	<u>3,430,717</u>
Increase in cash and cash equivalents	1,870,700	1,514,728
Cash and cash equivalents, beginning of year	<u>2,297,970</u>	<u>783,242</u>
Cash and cash equivalents, end of year	<u>4,168,670</u>	<u>2,297,970</u>

SUPPLEMENTAL INFORMATION (Note 15)

See accompanying notes to the consolidated financial statements.

1. ORGANIZATION

In 1999, Northern Financial Corporation (the "Company") acquired Northern Securities Inc. ("NSI"), a member firm of the Investment Dealers Association ("IDA"). The Company carries on a traditional brokerage business as well as an online brokerage business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. 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. All significant intercompany accounts and balances have been eliminated upon consolidation.

Foreign currency translation:

Monetary assets and liabilities are translated at the rate of exchange prevailing at the year end; equipment and intangible assets are translated at the rates prevailing at the acquisition dates; and revenue and expenses are translated at average rates of exchange during the year, with the exception of amortization which is translated at historical exchange rates. Exchange gains and losses are included in the consolidated statement of operations and deficit.

Cash and cash equivalents:

The Company considers all highly liquid debt instruments with an original maturity date of twelve months or less to be cash equivalents. Included in cash and cash equivalents are amounts on deposit with the carrying broker that can be used in normal operations.

Securities owned and securities sold short:

Securities owned and securities sold short are stated at market values at the balance sheet date. Realized and unrealized changes in fair value are recognized in income from principal transactions in the period in which the changes occur.

Equipment:

Equipment is recorded at cost less accumulated depreciation. Depreciation is provided on a declining-balance basis at the following annual rates:

Office equipment	20%
Equipment under capital lease	30%
Leasehold improvements	20%
Computer hardware	30%

Goodwill and intangible assets:

The Company has unamortized goodwill, which arose from previous acquisitions, of \$3,024,468 which is no longer being amortized. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate the asset may be impaired.

Computer software is amortized 50% in the year of acquisition and 50% in the year thereafter.

Client agreements and relationships are amortized on a straight-line basis over their estimated useful lives of three years and are tested annually for impairment.

Patents and trademarks are amortized on a straight line basis over their estimated useful lives of ten years and are also tested annually for impairment.

Revenue recognition:

Securities transactions and related revenues are recorded on a trade-date basis. Commission expenses related to transactions executed but not settled have been included in the accounts. Underwriting and advisory revenues are recognized when the requirements as to performance are met and ultimate collection is reasonably assured. Principal trading relates to net gains through proprietary trading of securities. Securities owned and securities sold short are stated at market at the balance sheet date resulting in unrealized gains and losses being reflected in income.

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Leases:

Leases have been classified as either capital or operating. A lease which transfers substantially all of the benefits and risks incidental to the ownership of property is accounted for as if it were an acquisition of an asset and the incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are charged to operations as incurred. Assets recorded under the capital leases are amortized on a declining balance basis over their estimated useful lives.

Continued

Stock-based compensation plan:

The Company records as compensation all awards made to non-employees and certain awards made to employees at fair value. No compensation cost is recorded on the granting of stock options to employees. Any consideration paid by employees on exercise of stock options is credited to capital stock. The Company's stock-based compensation plans are described further in Notes 10(b), (c) and (d).

Income taxes:

The Company accounts for and measures future tax assets and liabilities in accordance with the liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable 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 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 no net asset is recognized.

Loss per share:

Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted 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 loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

3. ACQUISITIONS

- a) On December 20, 2002, the Company purchased all of the assets of Georgia Pacific Securities Corporation ("GP") and assumed all of the existing client and inventory accounts, employees, and commitments effective February 1, 2003. The assets and revenues from this purchase have been consolidated with those of the Company at the effective date. The acquisition was accounted for using the purchase method of accounting.

The net assets acquired are summarized as follows:

Equipment	\$133,640
Intangible assets	<u>377,000</u>
	<u>\$510,640</u>

The consideration included 5,240,784 common shares and cash of \$150,000. The amount to be paid by cash was settled during the year by the issuance of 10,000,000 common shares of the Company. Included in the above is a provision for employee termination costs of \$56,000, infrastructure consolidation costs of \$82,000, relocation costs of \$40,000, and other exit activity costs of \$49,000 related to the Company's plan to restructure the acquired operations of GP. The aggregate amount of \$227,000 was included in accounts payable and accrued liabilities as at March 31, 2003. The restructuring plan was completed by the end of fiscal 2004.

The Company is also contingently liable to pay 50% of the profits resulting from the GP operations for the next three years to a maximum of approximately \$2,500,000.

As part of the acquisition, GP purchased 37,500,000 common shares of the Company for \$750,000.

In addition, GP advanced \$500,000 to the Company to finance increased business activity. During 2003, the Company repaid \$200,000 of this advance in cash. The remaining \$300,000 was settled by the issuance of 20,000,000 common shares of the Company in 2004. See Note 9.

- b) On March 31, 2003 and during April 2003, the Company acquired 100% of the outstanding shares of 1279514 Ontario Inc., which owns 100% of IPO Capital Corp (collectively "IPO"), a brokerage firm with offices in Toronto and Vancouver, for cash consideration of \$343,157 and the issuance of 26,253,388 common shares of the Company with a fair value of \$840,109. The Company also incurred acquisition costs totaling \$168,200. The acquisition was accounted for by the purchase method of accounting.

The purchase price was allocated as follows:

Cash and cash equivalents	\$1,588,480
Other current assets	150,520
Equipment	112,000
Current liabilities	<u>(169,000)</u>
Fair value acquired	1,682,000
Purchase price	<u>1,351,466</u>
	330,534
Allocation of negative goodwill to equipment and restructuring costs	<u>(330,534)</u>
	<u>\$ -</u>

Continued

The purchase price allocation determined that there was fair value greater than the purchase price. This negative goodwill was allocated as a pro-rata reduction of assets except for financial assets, assets to be disposed of by sale, future income tax assets and prepaid assets.

4. SERVICE AGREEMENTS

The Company has contracted with Penson Financial Services ("Penson") to perform certain trading and clearing activities for clients of the Company, according to an Introducing Broker 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 March 31, 2004, the Company had cash and securities on deposit with Penson having a market value of \$3,768,682 (2003 - \$957,555). Included in deposits with the carrying broker is a security deposit of \$925,689 (2002 - \$750,000), 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 Introducing Broker Agreement.

As at March 31, 2003, the Company had two other Introducing Broker Agreements. These agreements were terminated during the year.

5. SECURITIES OWNED AND SECURITIES SOLD SHORT

Securities owned consist of the following:

	<u>2004</u>	<u>2003</u>
	\$	\$
Publicly traded equities	1,032,900	104,204
Broker warrants	<u>367,000</u>	<u>-</u>
	<u><u>1,399,900</u></u>	<u><u>104,204</u></u>

Securities sold short consist of the following:

	<u>2004</u>	<u>2003</u>
	\$	\$
Publicly traded equities	<u>141,451</u>	<u>7,817</u>

6. EQUIPMENT

	<u>2004</u>			<u>2003</u>
	Cost	Accumulated Amortization	Net	Net
	\$	\$	\$	\$
Office equipment	670,833	322,254	348,579	363,179
Equipment under capital lease	-	-	-	64,019
Leasehold improvements	368,437	156,429	212,008	194,613
Computer hardware	1,395,501	944,374	451,127	501,482
Art	11,079	-	11,079	11,079
	<u>2,445,850</u>	<u>1,423,057</u>	<u>1,022,793</u>	<u>1,134,372</u>

7. GOODWILL AND INTANGIBLE ASSETS

a) Goodwill

	<u>2004</u>	<u>2003</u>
	\$	\$
Balance	<u>3,024,468</u>	<u>3,024,468</u>

Management has calculated the fair market value of the publicly traded stock and compared it to the book value of the stock and concluded that there was no impairment of goodwill.

b) Intangible Assets

	<u>2004</u>			<u>2003</u>
	Cost	Accumulated Amortization	Net	Net
	\$	\$	\$	\$
Client agreements and relationships	377,000	125,960	251,040	377,000
Computer software	507,720	499,202	8,518	-
Patents and trademarks	8,624	2,802	5,822	8,624
	<u>893,344</u>	<u>627,964</u>	<u>265,380</u>	<u>385,624</u>

8. DEBENTURES PAYABLE

As at March 31, 2004, the Company had issued debentures with a principal face value of \$1,080,000. The debentures are unsecured, mature on December 31, 2006, carry a 9% interest rate and have ten share purchase warrants for each dollar

Continued

of principal amount issued. The share purchase warrants have an exercise price of \$0.03 up to December 31, 2005 and an exercise price of \$0.05 up to December 31, 2006.

The warrants were valued at \$200,000 using the Black-Scholes pricing model with the following assumptions: Expected dividend yield 0%, expected volatility 100%, risk free interest rate of 3%, expected life of three years.

As at March 31, 2003, the Company had issued debentures with a total principal face value of \$790,000 including \$140,000 of debentures to the President of the Company. During 2004, the \$140,000 debentures held by the President of the Company were repaid and the balance of \$650,000 of debentures were converted into a total of 43,333,333 common shares of the Company valued at \$615,621 after issue costs.

9. SUBORDINATED LOAN

As at March 31, 2003, the Company had a subordinated loan, due to Georgia Pacific Securities Corporation ("GP"), of \$300,000. During the year, the subordinated loan was converted into 20,000,000 common shares of the Company.

10. CAPITAL STOCK

a) Share Capital:

Authorized:

Unlimited number of common shares
2,000,000 voting, convertible, redeemable preference shares

Issued and outstanding:

559,353,672 common shares \$79,446,620

Share capital activity for the years ended March 31, 2004 and 2003 is summarized as follows:

	Shares #	Amount \$
Balance, March 31, 2002	222,384,542	71,443,430
Rights offering	55,596,135	1,144,981
GP acquisition and share issue	42,740,784	800,140
Private placement	28,888,888	511,000
Debenture conversion	24,272,888	492,640
Services	3,743,539	130,133
IPO acquisition	<u>27,125,930</u>	<u>868,030</u>
Balance issued, March 31, 2003	404,752,706	75,390,354
Less: Common shares held in escrow	(6,000,775)	(202,351)
Less: Common shares to be cancelled	<u>(872,542)</u>	<u>(27,921)</u>
Balance issued, March 31, 2003	397,879,389	75,160,082
Common shares released from escrow	6,000,775	202,351
Settlement of subordinated loan (Note 9)	20,000,000	264,334
Services and debt settlements	38,053,085	772,669
Private placement	31,129,230	1,679,521
Conversion of debentures payable (Note 8)	43,333,333	615,621
Exercise of stock options issued	1,333,416	49,990
Exercise of warrants issued	<u>21,624,444</u>	<u>702,052</u>
Balance outstanding, March 31, 2004	<u>559,353,672</u>	<u>79,446,620</u>

The above share issues during 2004 are net of issue costs of \$172,716.

Subsequent to year-end, the Company raised gross proceeds of \$2,000,000 upon the completion of a private placement through the issuance of 48,484,848 common shares of the Company.

The Company's investment dealer subsidiary, NSI, is subject to rules of the Investment Dealers Association ("IDA") 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 March 31, 2004 the capital of NSI exceeded the requirements of the IDA.

b) 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 March 31, 2004, there were 19,878,084 common share purchase options outstanding, expiring at various dates to January 21, 2013. The options have an exercise price of 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.

Continued

Stock option activity for the years ended March 31, 2004 and 2003 is summarized as follows:

	<u>Stock Options</u>	<u>Weighted Average</u> <u>Exercise Price</u>
	#	\$
Balance, March 31, 2002	27,846,940	0.24
Granted	10,190,000	0.04
Expired	(1,200,000)	0.60
Cancelled	<u>(3,650,000)</u>	0.12
Balance, March 31, 2003	33,186,940	0.19
Granted	650,000	0.03
Cancelled	(6,341,940)	0.10
Expired	(6,283,500)	0.55
Exercised	<u>(1,333,416)</u>	0.12
Balance, March 31, 2004	<u>19,878,084</u>	0.14

The following is a summary of common share purchase options outstanding as at March 31, 2004:

<u>Range of</u> <u>Exercise Prices</u>	<u>Common Shares</u>	<u>Average</u> <u>Remaining Life</u>	<u>Weighted</u> <u>Average Price</u>
\$	#	(Years)	\$
0.035-0.10	16,201,584	6.6	0.06
0.30-0.70	<u>3,676,500</u>	5.5	0.47
	<u>19,878,084</u>	6.2	0.14

Subsequent to the year-end an additional 676,667 stock options were exercised for gross proceeds of \$26,217.

c) Employee Share Compensation Plan:

Effective August 28, 2003 the Company adopted a Compensation Plan whereby a maximum of \$150,000 or 15,000,000 common shares will be listed and reserved for issuance to employees (including officers) of the Company in recognition of exceptional performance.

As at March 31, 2004 no common shares were issued to employees of the Company under the Employee Share Compensation Plan.

d) Stock-Based Compensation:

The Company does not record compensation cost on the grant of stock options to employees. Had compensation cost for the Company's stock-based compensation plan been determined based on the fair value at the grant dates for awards under the plan for options awarded on or after April 1, 2002, the Company's net loss and loss per share would have been increased to the pro forma amounts indicated below:

	<u>2004</u>	<u>2003</u>
	\$	\$
Net loss - As reported	914,725	2,913,855
- Pro forma	987,025	2,939,222
Loss per share – basic and diluted - As reported	(0.00)	(0.01)
- Pro forma	(0.00)	(0.01)

The fair value of the options at the date of grant was estimated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 3% (2003 - 4%), expected life of ten years (2003 – ten years); expected dividend rate of 0% (2003 - 0%); and volatility of 100% (2003 - 83%).

e) Warrants:

As at March 31, 2004, there were 42,591,720 Common share purchase warrants issued and outstanding, expiring at various dates to December 31, 2006.

Common share purchase warrant activity for the years ended March 31, 2004 and 2003 is summarized as follows:

	<u>Warrants</u>	<u>Weighted Average</u> <u>Exercise Price</u>
	#	\$
Balance, March 31, 2002	29,821,832	0.09
Granted	20,944,444	0.03
Expired	<u>(1,200,000)</u>	0.60
Balance, March 31, 2003	49,566,276	0.05
Granted	23,469,387	0.07
Exercised	(21,624,443)	0.03
Expired	<u>(8,819,500)</u>	0.07
Balance, March 31, 2004	<u>42,591,720</u>	0.07

Continued

The fair value of the warrants at the date of grant was estimated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 3% (2003 - 4%); expected life of one year (2003 - two to five years); dividend rate of 0% (2003 - 0%); and volatility of 100% (2003 - 99%).

The following is a summary of common share purchase warrants outstanding as at March 31, 2004:

<u>Date of Grant</u>	<u>Date of Expiry</u>	<u>Warrants</u> #	<u>Exercise Price</u> \$
May 30, 2001	May 18, 2004	1,896,000	0.10
May 30, 2001	April 20, 2004	800,000	0.10
June 21, 2001	June 21, 2004	5,248,000	0.10
August 15, 2001	August 15, 2006	10,500,000	0.05
September 16, 2001	September 16, 2006	66,666	0.05
November 18, 2001	November 18, 2006	791,667	0.04
April 30, 2003	April 30, 2005	77,580	0.03
December 19, 2003	December 31, 2006	600,000	0.03
January 26, 2004	January 26, 2007	10,200,000	0.03
February 20, 2004	February 20, 2006	9,839,807	0.10
February 25, 2004	February 25, 2006	<u>2,572,000</u>	0.10
		<u>42,591,720</u>	

Subsequent to year-end an additional 9,700,000 warrants were exercised for gross proceeds of \$291,000 and 7,944,000 warrants expired.

f) Contributed surplus:

The balance reflected as contributed surplus consists of previously issued warrants that have expired.

Contributed surplus activity for the years ended March 31, 2004 and 2003 is summarized as follows:

	<u>\$</u>
Balance, March 31, 2002	464,182
Expired warrants	<u>5,751</u>
Balance, March 31, 2003	469,933
Expired warrants	<u>85,017</u>
Balance, March 31, 2004	<u>554,950</u>

11. INCOME TAXES

a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the federal statutory rate of approximately 37% (2003 - 39%) approximated the following:

	<u>2004</u> \$	<u>2003</u> \$
Loss before taxes	<u>(861,535)</u>	<u>(2,913,855)</u>
Expected income tax (benefit) based on statutory rate	(319,000)	(1,125,000)
Increase (decrease) resulting from:		
Finance costs	(148,000)	(140,000)
Amortization	<u>384,000</u>	<u>121,000</u>
	(83,000)	(1,144,000)
Current year valuation allowance	<u>136,190</u>	<u>1,144,000</u>
Income Tax Expense	<u>53,190</u>	<u>-</u>

b) Future Tax Balances

The tax effects of temporary differences that give rise to future income tax assets in Canada approximate the following:

	<u>2004</u> \$	<u>2003</u> \$
Future tax assets		
Non-capital losses carried forward	8,512,000	7,410,000
Share issue costs	437,000	309,000
Equipment	842,000	429,000
Resource deductions	<u>1,566,000</u>	<u>1,823,000</u>
	11,357,000	9,971,000
Valuation allowance	<u>(11,357,000)</u>	<u>(9,971,000)</u>
Total	<u>-</u>	<u>-</u>

Continued

The Company has loss carry forwards in Canada of approximately \$23,373,000, which under certain circumstances may be utilized to offset future taxable income. These losses expire as follows:

2006	\$ 1,192,000
2007	1,694,000
2008	6,280,000
2009	7,887,000
2010	1,746,000
2011	3,271,000
2012	<u>1,303,000</u>
Total	<u>\$23,373,000</u>

12. COMMITMENTS AND CONTINGENCIES

- a) The Company has indemnified 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".
- 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. Should any losses result from the resolution of these claims and disputes, they will be charged to operations in the year that they are determined.
- IPO has been named in an action brought by two investors in the aggregate amount of approximately US\$100,000 and CDN\$75,000. In the opinion of management, IPO has good defences to these actions, however it is premature to make an estimate of the potential outcome or financial impact of this action.
 - The Company and one of its landlords have a dispute regarding additional rental space. The Company contends that it did not exercise a right of first refusal on additional space and has no liability.
- c) The future minimum annual payments for each fiscal year on equipment and office premises under existing operating leases approximate the following:

2005	\$ 982,000
2006	372,000
2007	<u>78,000</u>
	<u>\$1,432,000</u>

The Company is also responsible for its share of operating costs and realty taxes with respect to the leased premises.

- d) Under the terms of the asset purchase agreement with GP, the Company is contingently liable to pay 50% of the profits resulting from the GP operations for the next three years to a maximum of approximately \$2,500,000. For the year ended March 31, 2004, there were no profits from the GP operations and therefore no amount payable pursuant to the agreement.

13. FINANCIAL INSTRUMENTS

Fair Value:

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash and cash equivalents, deposits with carrying brokers, securities owned, accounts receivable, prepaid expenses and deposits, income taxes recoverable and accounts payable and accrued liabilities on the balance sheet approximate fair value because of the limited term of these instruments.

Risk Management:

Risk management at the Company is an integrated process with independent oversight, which requires constant communication, judgment and knowledge of specialized products and markets. The Company's senior management takes an active role in the risk management process and has developed policies and procedures that require specific administration and business functions to assist in the identification, assessment and control of various risks.

Market Risk:

Market risk refers to the risk that a change in the level of one or more market prices, interest rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses. As financial instruments and investments held are recognized at fair value or net recoverable amounts, these changes affect reported earnings as they occur. The Company manages market risk on a corporate level and on an individual product basis.

Credit Risk:

In the normal course of operations, the Company executes and settles various client transactions through a carrying broker. The Company incurs credit risk when entering into, settling and financing various proprietary and client transactions. Credit risk arises from the potential that investees, clients or counterparties fail to satisfy their obligations. Credit risk is managed by dealing with counterparties the Company believes to be creditworthy and by actively monitoring credit exposure and the financial health of the counterparties.

Interest Rate Risk:

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company does not hedge its exposure to interest rate risk as it is minimal.

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.

14. RELATED PARTY TRANSACTIONS

The Company had the following transactions, excluding compensation, with the President of the Company and a corporation controlled by the President of the Company:

	<u>2004</u>	<u>2003</u>
	\$	\$
Expenses paid or accrued during the year ended March 31:		
Standby fee (cost of issue of rights offering)	-	49,000
Interest expense	4,654	37,567
Amounts owing at March 31:		
Accounts payable and accrued liabilities	63,174	104,655
Debentures	-	140,000
Transactions involving shares and warrants during the year ended March 31, 2004 were as follows:	<u>Shares</u>	<u>Amount</u>
	#	\$
Settlement of interest with shares	155,160	4,654
Settlement of salary with shares	11,098,297	238,568
Transactions involving shares and warrants during the year ended March 31, 2003 were as follows:	<u>Shares</u>	<u>Amount</u>
	#	\$
Settlement of debentures with shares	24,272,888	546,140
Settlement of advances with shares	6,556,000	163,900
Settlement of interest with shares	2,006,720	50,168
Settlement of standby fee with shares	1,960,000	49,000
Settlement of salary with shares	3,383,539	131,250
Settlement of commissions with shares	1,875,160	46,879
Subscription pursuant to the rights offering	3,694,002	92,350

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

15. SUPPLEMENTAL INFORMATION - STATEMENT OF CASH FLOWS

	<u>2004</u>	<u>2003</u>
	\$	\$
Interest paid	279,757	75,250
Debt and services settled by the issuance of shares	773,769	448,437
Debentures settled by the issuance of shares	650,000	546,140
Settlement of subordinated loan by the issuance of shares	300,000	-
Assets acquired by the issuance of shares	-	133,640
Common shares issued to acquire IPO	-	637,759

Cash and cash equivalents consists of the following:

	<u>2004</u>	<u>2003</u>
	\$	\$
Cash	4,168,670	952,490
Treasury bills	-	1,345,480
	<u>4,168,670</u>	<u>2,297,970</u>

Continued

6. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with the current year's presentation.

17. SUBSEQUENT EVENTS

See Notes 10(a), 10(b) and 10 (e).

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