

NORTHERN FINANCIAL CORPORATION

**ANNUAL REPORT
MARCH 31, 2007**

June 28, 2007

To Our Shareholders

Year in Review

Our year ended March 31, 2007 was an exciting, yet challenging, year for Northern Financial Corporation (“Northern” or the “Company”) and its wholly owned subsidiary, Northern Securities Inc. (“Northern Securities”).

We restated our financial results for Fiscal 2006 because we determined in discussions with our new auditors that we should use the fair value method in valuing our Broker Warrant portfolio rather than the intrinsic value method. Essentially we were very conservative in valuing our Broker Warrants; we applied a discount to the value of our Broker Warrant portfolio because of the inherent volatility in small cap stocks and their lack of liquidity. However, after review with our auditors, we have adjusted our Broker Warrant portfolio upwards by \$2.7 million by applying the fair value method, which is essentially a calculation of value based on Black-Scholes methodology.

The upward adjustment of our Broker Warrant valuation resulted in substantial net income of \$3.3 million in Fiscal 2006, or \$0.39 per share, on revenue of \$25.7 million, easily our best year ever. While these restated results are in the previous fiscal year, they demonstrate the unrealized strong potential of Northern.

Our financial results were impacted adversely by three events. First, in 2006, when we made the decision to dispose of certain of our merchant banking investments, we recorded an unrealized merchant banking gain of \$5.4 million. We sold our merchant banking positions in fiscal 2007, at a gain of \$2.8 million which was \$2.6 million less than the unrealized gain we took into income in fiscal 2006, thus producing a reported merchant banking loss of \$2.6 million.

Despite the optics of a reported merchant banking loss in the current fiscal year, Northern realized an actual gain of \$2.8 million, which continues our tremendous track record in merchant banking activities, averaging a 76% annualized return on its investments. For each of the 8 merchant banking investments sold by Northern, the investment has been profitable. The total actual gain realized by Northern in its merchant banking investments has been \$8.9 million of which \$5.6 million has been realized by Northern and \$3.3 million has been realized by our investors who participate in these investments.

Second, we incurred an irregular trading loss in our proprietary trading portfolio due to an unfortunate trade that was contrary to our trading limit. We have since implemented very strict trading limits and policies to prevent a recurrence of this very unfortunate event. While we could easily say that the securities business is volatile, which is true, the reality is that this loss was due to a flat-out, not to be repeated mistake.

Third, we took a write-down of \$3.0 million of our goodwill on our balance sheet. We believe this is a positive development. There is some more work to be done. We had \$3.3 million of debt at the end of Fiscal 2006 which we have reduced to \$2.5 million at the date of this report.

The merchant banking accounting loss, the trading loss and the write-down of goodwill are one-time events.

On an operational basis, our results are much better. Northern generated \$4.8 million of cash in its operations in Fiscal 2007 compared with \$0.4 million in Fiscal 2006, which is very positive. We are quite positive about the traction we are getting in our Private Client Group and our Capital Markets Group. Our commission revenue increased 42% year over year. Our strategy of introducing new products and selectively adding quality investment advisors has shown success. During the year we opened an office in Brandon, Manitoba and added Private Client advisors to our Calgary, Edmonton and Vancouver offices.

Our Capital Markets team had some of its most successful transactions on record, including Northern’s largest led financing to date, a \$20 million financing for Acadian Mining Corporation, a client for which we have carried out multiple financings. We carried out Canada’s first out-of-the money bought deal financing raising \$8 million for Acceleware Corp., a unique technology company with a very bright future. The financing was out-of-the-money because Northern provided a firm commitment at a price higher than the closing market price, which was justified

on the heels of a major strategic investment in Acceleware. We completed two financings, totaling \$7 million, for Naikun Wind Energy Group Inc., which proposes to develop a very large offshore wind project in Canada. Northern Securities also raised \$23 million in two financings for Canadian Zinc Corporation, which is pursuing development of a very large zinc-silver-lead project in the Northwest Territories.

We are a dominant Firm in the small cap and micro cap markets. We identify and support unique, distinctive, underappreciated, undervalued high quality small cap and micro cap companies. Our snack bracket market cap is \$25 million to \$150 million. We do accordion out to \$10 million to \$300 million. We have a formidable market share in the junior mining business, and a growing market share in the financing of small cap technology companies. We also finance special situation companies, oil and gas companies, life science companies and retail and consumer product companies.

We have had some enormous successes on our financings for our clients as demonstrated in this Annual Report on pages 4 and 5. We have seen very solid increases from \$0.65 to \$34 per share for Western Silver Corporation, \$0.25 to \$8.19 for UEX Corporation, \$0.40 to \$3.02 for Constellation Copper Corporation, \$0.25 to \$8.40 for Marathon PGM Corporation, \$2.20 to \$12.04 for TransGlobe Energy Corp., \$1.50 to \$26.75 for HudBay Minerals Inc., \$0.25 to \$7.69 for Inspiration Mining Corp., \$0.18 to \$1.33 for Acadian Gold Corporation, \$1.25 to \$24.95 for Absolute Software Corporation and \$0.20 to \$1.39 for Abcourt Mines Inc., \$0.50 to \$3.18 for NaiKun Wind Energy Inc. and \$0.40 to \$2.60 for Critical Outcome Technologies Inc.

The quality of our research is very high as evidenced by the following successes: Constellation Copper Corporation, recommended at \$0.98 reached \$3.02; Acadian Gold Corporation, \$0.19 to \$1.30; Hart Stores Inc., \$3.00 to \$6.55; Divestco Inc. \$3.46 to \$7.00; Le Château Inc., \$55.64 to \$64.99; La Senza Corporation, \$18.20 to \$48.30; Century II Holdings Inc., \$3.70 to \$8.43; Khan Resources Inc., \$1.60 to \$5.25; Stella-Jones Inc., \$22.70 to \$45.50; and Sandvine Corporation, \$3.90 to \$6.00.

Some examples of our merchant banking successes have been: ComnetiX, a 51% return over 3 months or an annualized 204% return; Jura Energy Inc. a profit of \$2.9 million; Cubix Investments a profit of 23% over four months or an annualized return of 67%; and RDM Corporation a profit of 67% over ten and one-half months.

We also made two important investments in Jaguar Nickel Inc. and Lakeside Steel Corporation. Northern now holds a position of significant influence in both of these companies and we look forward to updating you on their progress in the coming year. We invested \$4.2 million in our acquisition of 12.5% of the common shares of Jaguar. Jaguar has been turned into a merchant bank with \$27 million in cash and investments.

At the request of one of our very good clients, Northern formed an investor group to acquire 48% of the issued shares of Lakeside Steel Corporation for \$3 million. Our client owns 48%. Lakeside is in the midst of a restructuring to create shareholder value. Northern has invested \$400,000 of the \$3 million invested.

Team play, our snack bracket market cap, and merchant banking distinguish us from the competition. At Northern it's all about teamwork, and we believe we have in place the best team we have ever had. We added a number of new players to our team this year including a new Senior Vice President of our Private Client group, a new Chief Financial Officer and a new Chief Compliance Officer.

While we are always looking for new opportunities, we remain committed to our core business: a full service investment dealer with a complementary merchant banking business now primarily carried on at Jaguar. We are Canada's small capitalization investment bank.

We look forward to sharing with you our successes in the coming year.

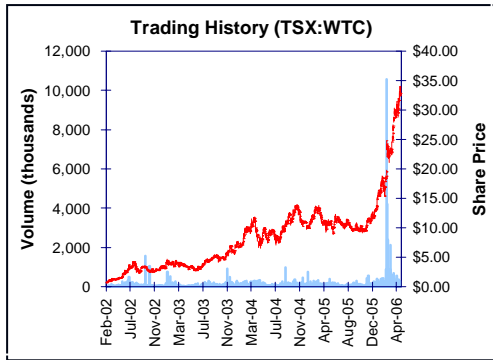
On behalf of the Board of Directors, we thank our employees, clients and shareholders for their ongoing support.

Vic Alboini
Chairman and Chief Executive Officer

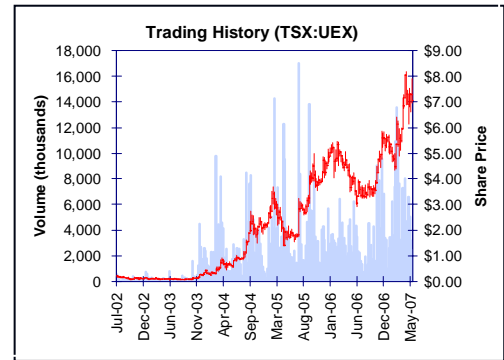
GOALS AND FOCUS

- ◆ We are the Premier Small Cap Investment Bank in Canada
- ◆ Our Small Cap Snack Bracket is \$25 million to \$150 million with an accordion from \$10 million to \$300 million
- ◆ We identify and support unique, distinctive, under-appreciated, undervalued, high quality, small cap companies
- ◆ Examples of accordion Snack Bracket are La Senza, Divestco, Stella-Jones, Acceleware and NaiKun
- ◆ Investment Banking and Merchant Banking are Key Revenue Generators; supported by:
 - Trading
 - Agency business
 - Research
- ◆ Jaguar is our associated Merchant Bank
- ◆ Team play, Snack Bracket Small Cap focus and Merchant Banking distinguish us from our competition
- ◆ Our objective is to expand our Small Cap presence globally: U.S., London and Hong Kong

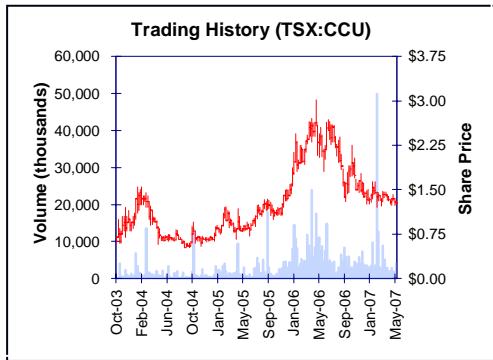
INVESTMENT BANKING SUCCESSES



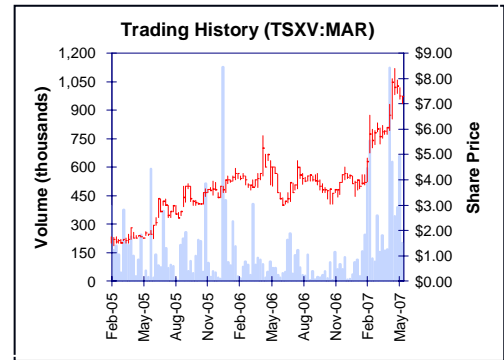
Western Silver Corporation
 Pre-Money Market Cap: \$16 million
 Issue: Feb 25/02
 Post Issue High: \$34.00
 Acquired by Glamis Gold in May/06



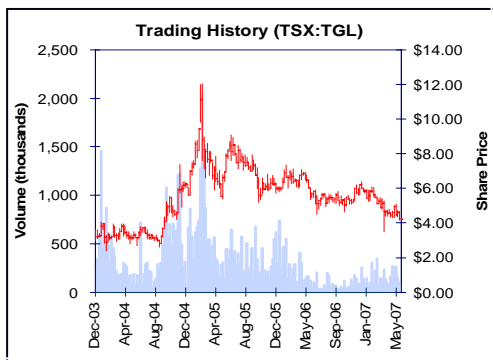
UEX Corporation
 Pre-Money Market Cap: \$19.4 million
 Issue: Jul 17/02
 Post Issue High: \$8.19



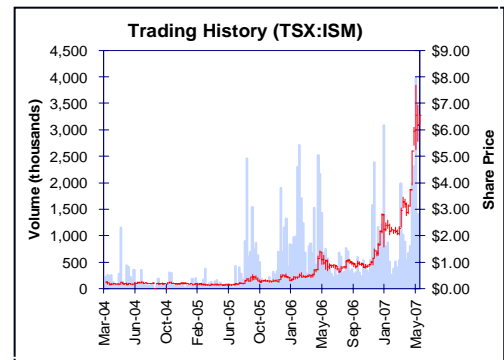
Constellation Copper Corp.
 Pre-Money Market Cap: \$14.3 million
 Issue: Oct 8/03
 Post Issue High: \$3.02



Marathon PGM Corp.
 Pre-Money Market Cap: \$300,000
 Issue: Dec 22/03
 Post Issue High: \$8.40

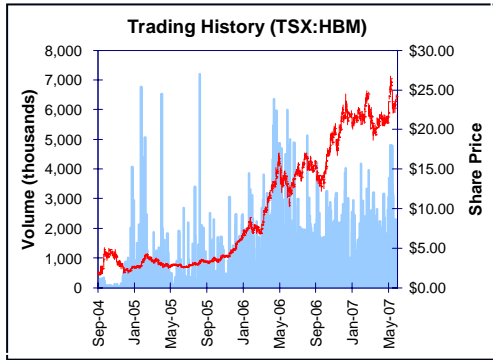


TransGlobe Energy Corp.
 Pre-Money Market Cap: \$115 million
 Issue: Dec 23/03
 Post Issue High: \$12.04

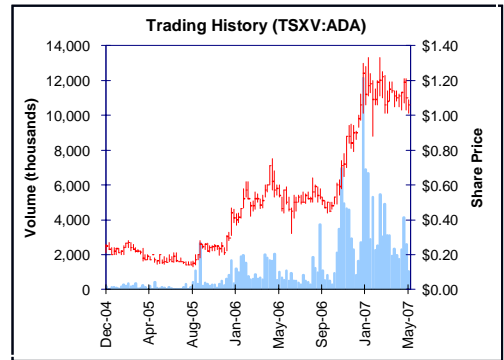


Inspiration Mining Corp.
 Pre-Money Market Cap: \$2.13 million
 Issue: Feb. 26/04
 Post Issue High: \$7.69

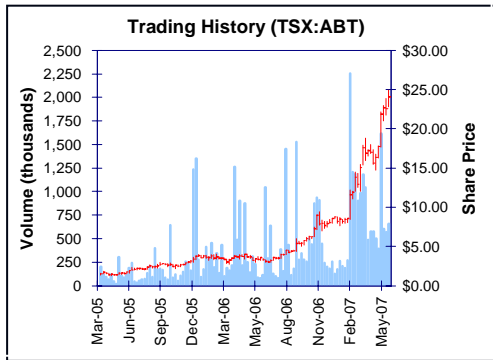
INVESTMENT BANKING SUCCESSES



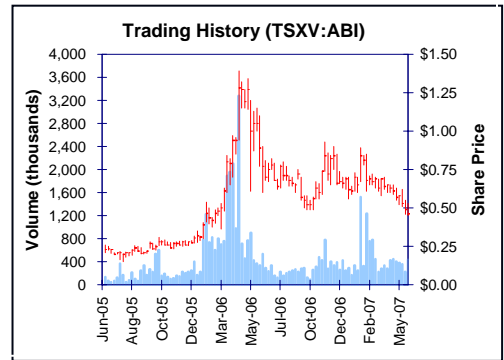
HudBay Minerals Inc.
 Pre-Money Market Cap: \$10.2 million
 Issue: Sep 30/04
 Post Issue High: \$26.75



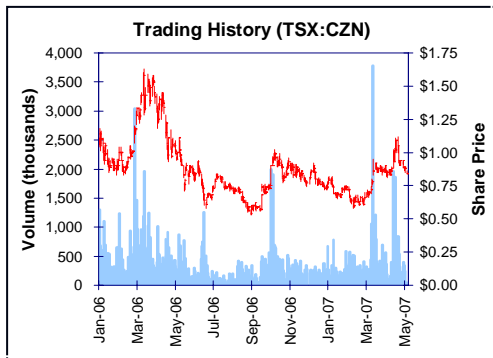
Acadian Mining Corporation
 Pre-Money Market Cap: \$7.4 million
 Issue: Dec 22/04
 Post Issue High: \$1.33



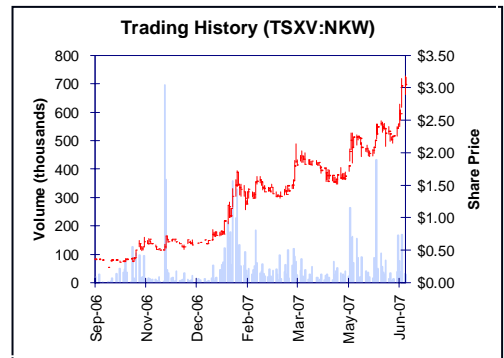
Absolute Software Corp.
 Pre-Money Market Cap: \$20.5 million
 Issue: Mar 22/05
 Post Issue High: \$24.95



Abcourt Mines Inc.
 Pre-Money Market Cap: \$8 million
 Issue: Jun 3/05
 Post Issue High: \$1.39

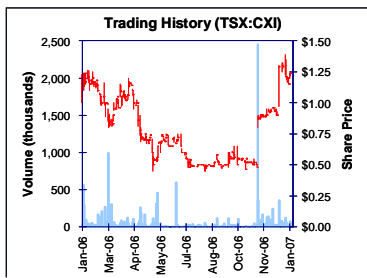


Canadian Zinc Corporation
 Pre-Money Market Cap: \$67 million
 Issue: Jan 30/06
 Post Issue High: \$1.63



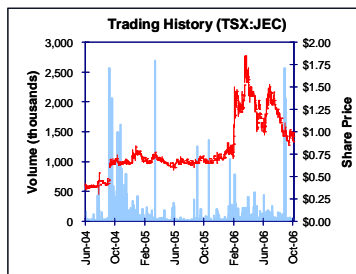
NaiKun Wind Energy Inc.
 Pre-Money Market Cap: \$3.3 million
 Issue: Sep 29/06
 Post Issue High: \$3.18

MERCHANT BANKING SUCCESSES



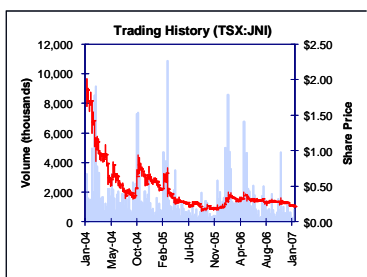
Comnetix Inc.

- 51% return over 3 months, or annualized 204% return
- Risk Arbitrage



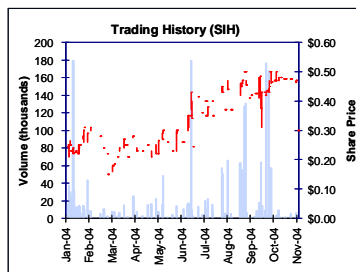
Jura Energy Inc. (Proprietary Industries Inc.)

- Realized profit of \$2.9 million



Jaguar Nickel Inc.

- Acquired control of TSX listed company with \$27 million in cash

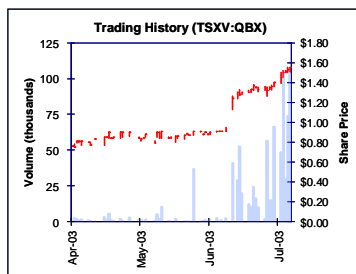


Sylre Ltd.

- Acquired 100% gaining \$2.0 million cash net

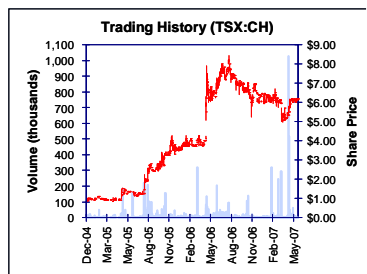
Lakeside Steel Corporation

- Acquired 48% shareholding for \$3 million from Stelco
- One of Canada's largest steel pipe and tubing manufacturers and a leading supplier in North America of small diameter, high-pressure pipe
- Currently in restructuring to create value



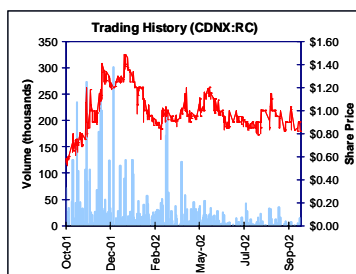
Cubix Investments Ltd.

- Realized profit of 23% over four months, or annualized return of 68%



Century II Holdings Inc.

- Return of 175% over 20 months
- Current holding of 2.7%
- Realized profit of \$1.9 million to date



RDM Corporation

- Realized profit of 67% over ten and a half months, or annualized return of 76%

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 28, 2007

Introduction

Northern Financial Corporation ("Northern" or the "Company") wholly owns Northern Securities Inc. ("NSI"), a member firm of the Investment Dealers Association ("IDA"). 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 audited financial statements and related notes for the year ended March 31, 2007 compared to the year ended March 31, 2006

The audited financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars unless otherwise indicated.

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 that supplements the investment dealer business.

2007 was a challenging year for the Company with a reported net loss of \$9,087,566, compared to a profit of \$3,325,414 in 2006, restated as noted below. This included in the current year the write-down of the Company's goodwill in the amount of \$3,024,468 and Northern's share of the losses in Lakeside Steel Corporation ("Lakeside") and Jaguar Nickel Inc. ("Jaguar") of \$400,000 and \$144,198 respectively. Income from operations was a loss of \$5,518,900 compared to a profit of \$3,325,414 last year. During the fourth quarter of 2006, a decision was made by management to dispose of certain long-term investments of the Company. As a result of this decision, the investments were reported as current assets and carried at fair market value instead of their original cost, resulting in the recognition of \$5.4 million in merchant banking revenue. During 2007, the market value of several of these investments declined. As the Company disposed of these investments, the revenue realized was less than value recognized in the prior year resulting in the reported merchant banking loss; however, the Company did generate realized gains of \$2.8 million.

The Company's balance sheet remains strong with \$10,879,396 in cash, deposits, and securities as at March 31, 2007.

Prior Period Adjustment

During 2007 the Company determined that it should use a different method in valuing its broker warrants. Prior to 2007, the Company was valuing its broker warrants using the intrinsic value method and applying a discount to in-the-money unrealized gains instead of using a fair value method. Management applied a discount to the unrealized gains due to the inherent volatility associated with small capitalization stocks and lack of liquidity. During 2007, with input from its auditors, the Company determined that it should use a fair value method and quantified its valuation for 2007 and the prior period. Accordingly, the adjustment for this revision has been applied retroactively and has affected the amounts previously reported as broker warrants.

The cumulative effect to opening retained earnings as at April 1, 2006 was to increase retained earnings by \$2,711,000 and broker warrants by the equivalent amount. Underwriting and advisory revenue for 2006 has been increased by the same amount on the consolidated statement of operations and deficit.

The adjustment resulted in a substantial increase in net income to \$3.3 million or \$0.39 per share in 2006.

While the fair value method is in accordance with generally accepted accounting principles it may create more volatility in the Company's earnings due to the nature of the underlying small and micro capitalization securities in the broker warrant portfolio. As well, when the Company chooses to exercise and sell any of the securities in the portfolio, it may not realize the full value as calculated by the fair value valuation methodology.

Revenue

Total revenue for the year ended March 31, 2007 was \$15,313,089 compared with \$28,441,802 in the prior year, restated for the broker warrants valuation adjustment. The decline in revenue was a result of a decline in value of the Company's merchant banking investments, trading losses and reduced underwriting and advisory revenue.

Commission revenue of \$9,004,016 for the year ended March 31, 2007 was up 42% from \$6,359,416 in the prior year as the Company expanded its retail sales force capabilities through the addition of new products and advisors. Underwriting and advisory revenue declined \$3,134,844 from a restated \$12,134,377 in 2006 to \$8,999,533 in 2007. This was a direct result of a change in valuation of the broker warrant portfolio year over year. In 2006, the change in value of the portfolio, which is reported as underwriting and advisory revenue, was an increase of \$2.6 million, including the \$2.7 million restatement. In 2007, the portfolio declined in value by over \$0.5 million. Trading revenue was disappointing with a loss of \$1,209,089 in the current year compared to a gain of \$2,359,786 in the prior year. The loss was generated by a limited number of positions that have since been liquidated. Interest revenue of \$1,299,617 was up 13% from \$1,148,436 in 2006.

Merchant banking activities resulted in a loss of \$2,803,950 in 2007 compared to a gain of \$6,439,787 in the prior year. The Company liquidated most of its merchant banking investments during the year. These investments had been recorded at fair market value at the end of 2006 with an unrealized gain reported at that time. During 2007 the market value of many of these investments declined. As the Company sold its investments, it realized gains of less than the amount that had been recorded in the prior year resulting in reported losses. Over the life of the investments, the Company generated an overall gain on most of its investments of \$2.6 million.

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 and particular the value of investments maintained by the Company will have a significant affect of the financial results of the Company.

Expenses

Total expenses for the year ended March 31, 2007, were \$20,831,989 compared with expenses of \$25,116,388 in the prior year. Brokerage operations costs increased to \$19,972,950 from \$18,788,716. The increase is attributable largely to an increase in variable compensation paid by the Company.

Interest expense increased to \$1,183,323 from \$1,028,784. This is attributable to a larger balance of loans outstanding through the year.

Merchant banking expense for the year ended March 31, 2006 was a recovery of \$2,339,497 compared to an expense of \$3,735,076. These recoveries represent a reduction in accrued variable compensation relating to the decline in the value of the merchant banking investments in the prior year.

General and administrative expenses of \$1,776,085 were up \$562,372 from the prior year. This increase was almost entirely the result the Company's London operations. During 2007, the Company expanded its operations by opening an office in London, England. The Company has determined that the capital markets team can substantially carry on business in Europe from its Toronto office and consequently the London office has been closed.

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 \$10,879,396 as at March 31, 2007 compared with \$21,543,003 as at March 31, 2006. The Company generated \$4,853,973 of cash in its operations for the year ended March 31, 2007 compared to \$436,000 last year.

The Company used cash of \$4,593,240 in investing activities for the year ended March 31, 2007 compared with \$212,170 for the year ended March 31, 2006.

The Company generated cash from financing activities in the amount of \$1,080,937 for the year ended March 31, 2007 compared to using \$515,604 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.

The Company has never defaulted on any interest or dividend payments and currently has no amounts in arrears.

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	\$3,106,062	\$3,106,062	-	-	-
Operating Leases	\$1,822,900	\$969,400	\$469,100	\$358,500	25,900
Total Contractual Obligations	\$4,928,962	\$4,075,462	\$469,100	\$358,500	25,900

Annual Financial Information

	Year ended March 31, 2007	Year ended March 31, 2006 (As restated)	Year ended March. 31, 2005
Total revenues	\$15,313,089	\$28,441,802	\$15,037,055
Net income (loss) from operations	(\$5,518,900)	\$3,325,414	(\$3,176,734)
Net income	(\$9,087,566)	\$3,325,414	(\$3,176,734)
Net income (loss) per share	(\$0.98)	\$0.39	(\$0.45)
Long term debt	-	\$1,739,396	\$3,451,000
Total assets	\$16,097,456	\$26,683,331	\$19,684,795

Quarterly Financial Information

As originally reported

	Fiscal year ended March 31, 2007				Fiscal year ended March 31, 2006			
	\$				\$			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Total Revenues	5,840,484	3,412,421	2,391,859	3,668,325	12,341,825	4,478,293	5,013,732	3,896,952
Net Income (Loss)	(4,056,507)	(1,709,039)	(1,687,996)	(1,634,024)	987,394	(113,302)	191,861	(451,539)
Net Income (Loss) per share	(0.42)	(0.18)	(0.18)	(0.19)	0.12	(0.01)	0.02	(0.05)

As restated

	Fiscal year ended March 31, 2007				Fiscal year ended March 31, 2006			
	\$				\$			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Total Revenues	5,936,484	5,108,421	1,426,859	2,841,325	11,432,825	6,302,293	5,364,732	5,341,952
Net Income (Loss)	(3,960,507)	(13,039)	(2,652,996)	(2,461,024)	78,394	1,710,698	542,861	993,461
Net Income (Loss) per share	(0.41)	(0.00)	(0.29)	(0.29)	0.01	0.20	0.06	0.12

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 complete, where as 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. 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.

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.

Share Capital Information

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

Description	Amount
Common shares issued and outstanding	9,679,927
Common share purchase warrants issued and outstanding	nil
Common share purchase options issued and outstanding	142,002
Unissued vested common shares pursuant to the Employee Equity Incentive Plan	11,666

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 March 31, 2007, 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.

During the year, management has identified that it should use a fair value method in valuing its broker warrants.

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 recently added another senior finance staff person to alleviate this concern. This will allow 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 March 31, 2007, the Company had a promissory note payable outstanding in the amount of \$600,000 (2006 – \$1,739,396). The promissory note payable matures on October 12, 2007, 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.

Related Party Transactions

The Company had related party transactions with directors and/or officers of the Company, or companies with which they were associated, which were in the normal course of operations and were measured at the exchange amounts as follows:

During the year ended March 31, 2007, NSI acted as financial advisor with respect to Lakeside Steel Corporation, receiving advisory fees in the amount of \$325,000. For the year ended March 31, 2006 there were no fees paid to NSI by Lakeside.

During the year ended March 31, 2007, NSI acted as investment advisor with respect to Jaguar Nickel Inc., receiving commission in the amount of \$74,055. For the year ended March 31, 2006 there were no commissions paid to NSI by Jaguar.

During the year ended March 31, 2007, the Company paid interest in the amount of \$164,612 (2006 – \$321,507) to Romspen Investment Corporation ("Romspen"), a company of which a director of the Company is also a director and senior officer. As at March 31, 2007 the Company had loans payable to Romspen of \$1,241,062 (2006 – \$1,739,396). This amount has been reduced to \$292,000 as at the date of this report.

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.

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 March 31, 2007, the amount of the Company's excess risk adjusted capital was \$1,640,000 (2006 – \$1,320,000).
- 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.
 - The Company is the defendant in a legal action where the plaintiff is claiming damages of \$106,900. The Company believes that the action is wholly without merit
 - The Company is the defendant in a legal action where two former employees are seeking a judgment in the amount \$231,460 plus costs and interest along with an unspecified amount for damages as a result of breach of contract. The Company believes the action is wholly without merit and the Company has made a counterclaim.
 - The Company has issued a claim against several former employees for damages for breach of contract, breach of fiduciary duty and other causes of action. The former employees have counterclaimed against NSI. It is premature to evaluate any potential liability.

- An inactive wholly owned subsidiary of the Company which has no assets has been named in a class action suit commenced by a former client claiming damages. It is premature to make determination related to this claim.
- Market Regulation Services Inc. ("RS") has commenced a regulatory proceeding against the Company and two of its officers alleging certain historical deficiencies in its supervision and compliance monitoring systems. The Company believes that the allegations are very technical and without merit. No provision for this proceeding has been made. The proceedings have been adjourned indefinitely by order of an RS Hearing Panel on October 10, 2006 in response to the Company's motion to dismiss the proceedings. The adjournment was granted to permit the Ontario Securities Commission (the "Commission") to consider an application by the Company for a hearing and review of decisions concerning the purported retroactive approval by the Commission of the TSX trading rules that are sought to be applied against the Company in the RS regulatory proceedings.
- The Enforcement Branch of the IDA is currently engaged in an investigation into an alleged deficiency on NSI's part to maintain required regulatory capital in July 2005 in connection with an underwriting in which NSI was not the lead underwriter. NSI does not believe there was a capital deficiency. It is not possible at this time to determine the amount of any potential liability to NSI.
- The IDA has advised NSI of an alleged deficiency on NSI's part to maintain required regulatory capital in January 2006 in connection with an underwriting where the issuer and NSI have corrected a mutual mistake in the underwriting agreement. NSI does not believe there was a capital deficiency. It is not possible at this time to determine the amount of any potential liability to NSI.

Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. It is possible that the final resolution of these matters may require the Company to make expenditures over an extended period of time and in a range of amounts that cannot be reasonably estimated and may differ significantly from any amounts recorded in these consolidated financial statements. Should the Company be unsuccessful in its defense or settlement of one or more of these legal actions, there could be a materially adverse effect on the Company's financial position, future expectations, and cash flows.

Future Accounting Policies

In 2005, the CICA issued three new accounting standards; Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement and Section 3865, Hedges. These new standards became effective for the Company on April 1, 2007.

Section 1530 introduces Comprehensive income which is comprised of Net Income and Other Comprehensive Income and represents changes in Shareholders' equity during a period arising from transactions and other events with non owner sources. Other comprehensive income (OCI) includes unrealized gains or losses in assets classified as available-for-sale, unrealized foreign currency translation amounts net of hedging arising from self-sustaining foreign operations, and changes in the effective portion of cash flow hedging instruments. The Corporation's consolidated financial statements will include a Consolidated Statement of Comprehensive Income while the cumulative amount, Accumulated Other Comprehensive Income (AOCI), will be presented as a new category of Shareholders' equity in the Consolidated Balance Sheets.

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities including derivatives be recognized on the balance sheet when the Corporation becomes party to the provisions of the financial instrument or non-financial derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, loans and receivables or other liabilities. Other significant accounting implications arising on adoption of Section 3855 include the use of the effective interest method for the amortization of any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Section 3865 specifies criteria under which hedge accounting can be applied.

The impact of adopting these standards is not expected to be material to the consolidated financial position or results of operations of the Corporation.

Auditors' Report

To the Shareholders of
Northern Financial Corporation

We have audited the consolidated balance sheet of Northern Financial Corporation (the "Company") as at March 31, 2007 and the consolidated statements of operations and retained deficit and of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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.

The consolidated financial statements as at March 31, 2006 and for the year then ended, prior to adjustment for the correction of the broker warrant valuation as described in Note 2, was audited by other auditors who expressed an opinion without reservation on those statements in their report dated May 17, 2006. We have audited the adjustments to the 2006 consolidated financial statements and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
June 13, 2007

NORTHERN FINANCIAL CORPORATION
Consolidated Balance Sheets
As at March 31

	<u>2007</u>	<u>2006</u>
		(As restated Note 2)
ASSETS		
CURRENT		
Cash (Note 3)	\$4,490,414	\$3,148,744
Deposit with carrying broker (Note 4)	1,964,473	831,053
Securities owned, at market value (Note 5)	4,424,509	17,563,206
Investment in associated companies (Note 6)	3,763,562	-
Accounts receivable	40,863	86,413
Forgivable loans (Note 10)	247,934	225,784
Prepaid expenses and deposits	244,218	143,570
Commodity taxes recoverable	39,795	37,514
	<u>15,215,768</u>	<u>22,036,284</u>
LONG-TERM INVESTMENTS (Note 7)	-	738,000
CAPITAL ASSETS (Note 8)	872,076	863,311
GOODWILL (Note 9)	-	3,024,468
INTANGIBLE ASSETS (Note 9)	9,612	21,268
	<u>\$16,097,456</u>	<u>\$26,683,331</u>
LIABILITIES		
CURRENT		
Short-term loan payable (Note 11)	\$1,756,062	\$245,000
Debentures payable (Note 13)	750,000	1,020,000
Accounts payable and accrued liabilities (Note 18)	2,780,649	6,564,283
Deferred revenue	45,148	84,626
Securities sold short, at market value (Note 5)	1,164,720	22,060
Promissory note payable (Note 12)	600,000	-
	<u>7,096,579</u>	<u>7,935,969</u>
PROMISSORY NOTE PAYABLE	-	1,739,396
TOTAL LIABILITIES (Note 12)	<u>7,096,579</u>	<u>9,675,365</u>
COMMITMENTS AND CONTINGENCIES (Note 16)		
SHAREHOLDERS' EQUITY		
Share capital (Note 14)	42,840,987	41,648,487
Warrants (Note 14)	-	129,489
Contributed surplus (Note 14)	1,620,508	1,603,042
Deficit	<u>(35,460,618)</u>	<u>(26,373,052)</u>
	<u>9,000,877</u>	<u>17,007,966</u>
	<u>\$16,097,456</u>	<u>\$26,683,331</u>

APPROVED BY THE BOARD

"Ian Bradley"

Director

"Vic Alboini"

Director

NORTHERN FINANCIAL CORPORATION
Consolidated Statements of Operations and Retained Deficit
For the Years ended March 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
		(As restated Note 2)
REVENUES		
Commissions	\$9,004,016	\$6,359,416
Underwriting and advisory	8,999,533	12,134,377
Merchant banking	(2,803,950)	6,439,787
Trading	(1,209,089)	2,359,786
Interest	1,299,617	1,148,436
Other	22,962	-
	<u>15,313,089</u>	<u>28,441,802</u>
OPERATING EXPENSES		
Brokerage operations	19,972,950	18,788,716
Merchant banking	(2,339,497)	3,735,076
General and administrative	1,776,085	1,213,713
Long-term debt interest expense	84,526	321,507
Other interest expense	1,098,797	707,277
Depreciation and amortization	239,128	350,099
Total operating expenses	<u>20,831,989</u>	<u>25,116,388</u>
	(5,518,900)	3,325,414
EQUITY (LOSS) FROM JAGUAR NICKEL INC. (Note 6)	(144,198)	-
EQUITY (LOSS) FROM LAKESIDE STEEL CORP. (Note 6)	(400,000)	-
GOODWILL IMPAIRMENT (Note 8(a))	<u>(3,024,468)</u>	<u>-</u>
INCOME (LOSS) BEFORE INCOME TAXES	(9,087,566)	3,325,414
INCOME TAXES (Note 15(A))	<u>-</u>	<u>-</u>
NET INCOME (LOSS) FOR THE YEAR	(9,087,566)	3,325,414
DEFICIT, beginning of year	<u>(26,373,052)</u>	<u>(29,698,466)</u>
DEFICIT, end of year	<u>\$(35,460,618)</u>	<u>\$(26,373,052)</u>
EARNINGS (LOSS) PER SHARE – Basic and diluted	(0.98)	0.39
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - Basic and diluted	9,259,480	8,575,077

NORTHERN FINANCIAL CORPORATION
Consolidated Statements of Cash Flows
For the Years ended March 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
		(As restated Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) for the year	\$(9,087,566)	\$3,325,414
Items not affecting cash		
Depreciation and amortization	239,128	350,099
Equity loss from investments in associated companies	544,198	-
Long-term investment impairment	-	335,087
Equity incentive plan	41,206	-
Goodwill impairment	3,024,468	-
Accretion of debentures	60,000	69,000
	<u>(5,178,566)</u>	<u>4,079,600</u>
Changes in non-cash working capital balances		
Deposit with carrying broker	(1,133,420)	114,747
Securities owned and sold short	15,019,357	(7,958,984)
Investment in associated companies	49,243	-
Accounts receivable	45,550	(32,022)
Prepaid expenses & deposits, and forgivable loans	(122,798)	(15,725)
Commodity taxes recoverable	(2,281)	1,809
Accounts payable and accrued liabilities	(3,783,634)	4,211,949
Deferred revenue	(39,478)	34,626
	<u>10,032,539</u>	<u>(3,643,600)</u>
	<u>4,853,973</u>	<u>436,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment	(236,237)	(198,041)
Acquisition of investments in associated companies	(4,357,003)	-
Acquisition of intangible assets	-	(14,129)
Cash flows from investing activities	<u>(4,593,240)</u>	<u>(212,170)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of promissory note	(1,739,396)	(760,604)
Promissory note issued	600,000	-
Increase in short term loans	1,511,062	245,000
Repayment of debenture	(330,000)	-
Proceeds from employee share purchase plan (Note 14)	39,271	-
Proceeds from private placements (Note 14)	1,000,000	-
Cash flows from financing activities	<u>1,080,937</u>	<u>(515,604)</u>
INCREASE (DECREASE) IN CASH	1,341,670	(291,774)
CASH, BEGINNING OF YEAR	3,148,744	3,440,518
CASH, END OF YEAR	<u>\$4,490,414</u>	<u>3,148,744</u>

SUPPLEMENTARY INFORMATION (Note 19)

NORTHERN FINANCIAL CORPORATION
Notes to the Consolidated Financial Statements
March 31, 2007 and 2006

1. NATURE OF OPERATIONS

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 and investment banking business as well as a merchant banking business.

2. PRIOR PERIOD ADJUSTMENT TO BROKER WARRANT VALUATIONS

During 2007 the Company determined that it should use the fair value method in valuing its broker warrants. Prior to 2007, the Company was valuing its broker warrants using the intrinsic value method instead of the fair value method. During 2007, the Company quantified its valuation for 2007 and the prior period. Accordingly, the adjustment for this revision has been applied retroactively and has affected the amounts previously reported as broker warrants.

The cumulative effect to opening retained earnings at April 1, 2006 was to increase retained earnings by \$2.711M and broker warrants by the equivalent amount. The effect on the consolidated financial statements captions is noted in the table below:

	2006		2006
	As Reported	Adjustment	As Restated
Balance Sheet			
Securities owned – at market value	\$14,852,206	\$2,711,000	\$17,563,206
Income Statement			
Net income	\$614,414	\$2,711,000	\$3,325,414

3. 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 with its principal operating subsidiary being a wholly owned investment dealer, Northern Securities Inc. 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 on deposit with 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 at March 31, 2007; 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 operations and deficit.

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.

NORTHERN FINANCIAL CORPORATION
Notes to the Consolidated Financial Statements
March 31, 2007 and 2006

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 which the impairment is identified. Intangible assets with a finite life are amortized on a straight line basis over their expected useful lives, which is 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 initially recorded at their principal amount, are non-interest bearing and 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 operating expenses on the consolidated statement of operations and deficit.

Long-term investments

Long-term investments are carried at cost. If it is determined that an investment has suffered a decline in value that is other than temporary, it is written down to its net realizable value.

Securities transactions

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.

Corporate finance and advisory fees

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

Use of estimates

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. 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.

Broker warrants

Warrants received by the Company in respect of underwriting are measured at fair value. Changes in fair value are recorded in income.

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 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.

Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net income available to common shareholders by the weighted average number of shares outstanding. Diluted earnings (loss) per share is 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.

Comparative figures

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

Future Accounting Policies

In 2005, the CICA issued three new accounting standards; Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement and Section 3865, Hedges. These new standards became effective for the Company on April 1, 2007.

Section 1530 introduces Comprehensive income which is comprised of Net Income and Other Comprehensive Income and represents changes in Shareholders' equity during a period arising from transactions and other events with non owner sources. Other comprehensive income (OCI) includes unrealized gains or losses in assets classified as available-for-sale, unrealized foreign currency translation amounts net of hedging arising from self-sustaining foreign operations, and changes in the effective portion of cash flow hedging instruments. The Company's consolidated financial statements will include a Consolidated Statement of Comprehensive Income while the cumulative amount, Accumulated Other Comprehensive Income (AOCI), will be presented as a new category of Shareholders' equity in the Consolidated Balance Sheets.

NORTHERN FINANCIAL CORPORATION
Notes to the Consolidated Financial Statements
March 31, 2007 and 2006

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities including derivatives be recognized on the balance sheet when the Company becomes party to the provisions of the financial instrument or non-financial derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, loans and receivables or other liabilities. Other significant accounting implications arising on adoption of Section 3855 include the use of the effective interest method for the amortization of any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Section 3865 specifies criteria under which hedge accounting can be applied.

The impact of adopting these standards is not expected to be material to the consolidated financial position or results of operations of the Company.

4. SERVICE AGREEMENT

As at March 31, 2007, 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 March 31, 2007, the Company maintained a deposit with Penson and another carrying broker in the amount of \$1,964,473 (2006 - \$831,053), 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:

	2007	2006 (As Restated – Note 2)
Publicly traded equities	\$1,374,509	\$13,952,206
Broker warrants	3,050,000	3,611,000
	<u>\$4,424,509</u>	<u>\$17,563,206</u>

Securities sold short consist of the following:

	2007	2006
Publicly traded equities	\$1,164,720	\$22,060

6. INVESTMENTS IN ASSOCIATED COMPANIES

Investments in associated companies consist of the following:

	2007	2006
Jaguar Nickel Inc.	\$3,763,562	\$ -
Lakeside Steel Corp.	-	-
	<u>\$3,763,562</u>	<u>\$ -</u>

NORTHERN FINANCIAL CORPORATION
Notes to the Consolidated Financial Statements
March 31, 2007 and 2006

Included in investments in associated companies is an investment in Jaguar Nickel Inc. ("Jaguar") representing 12.8% (March 31, 2006 – 0%) of the outstanding common shares of Jaguar. As at March 31, 2007, the Company together with an investor group, owns or exercises control or direction over a total of approximately 19.8% (March 31, 2006 – 0%) of the outstanding common shares of Jaguar.

Included in investments in associated companies is an investment in Lakeside Steel Corporation ("Lakeside"). The Company formed an investor group, which acquired approximately 48% of the issued shares of Lakeside. The Company invested \$400,000 in the investor group representing approximately 13% of the \$3,000,000 investor group. An additional 48% is owned by a company of which a director of the Company is also a director and a director of Lakeside.

The equity method is used to account for the Company's investments in Jaguar and Lakeside. The Company's share of earnings/losses in these companies is reported in income. The Company's investment in Jaguar has been reduced by \$144,198 and in Lakeside by \$400,000 accordingly.

7. LONG-TERM INVESTMENTS

Long-term investments consist of the following:

	2007	2006
Cybersurf Corp.	\$ -	\$738,000

The Company's long-term investment in Cybersurf Corp. was reclassified to securities owned in the quarter ended June 30, 2006.

8. CAPITAL ASSETS

	2007		
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 791,581	\$ 510,410	\$ 281,180
Leasehold improvements	531,952	292,909	239,043
Computer equipment	1,650,562	1,311,623	338,939
Works of art	12,914	-	12,914
	<u>\$2,987,009</u>	<u>\$2,114,933</u>	<u>\$ 872,076</u>
	2006		
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 702,074	\$ 452,207	\$ 249,867
Leasehold improvements	463,813	244,401	219,412
Computer equipment	1,573,544	1,192,426	381,118
Works of art	12,914	-	12,914
	<u>\$2,752,345</u>	<u>\$1,889,034</u>	<u>\$ 863,311</u>

Depreciation on capital assets for the year was \$225,899 (2006 – \$211,922).

9. GOODWILL AND INTANGIBLE ASSETS

a) *Goodwill*

	2007	2006
Beginning balance	\$ 3,024,468	\$ 3,024,468
Impairment Loss	(3,024,468)	-
Ending balance	<u>\$ -</u>	<u>\$ -</u>

NORTHERN FINANCIAL CORPORATION
Notes to the Consolidated Financial Statements
March 31, 2007 and 2006

Management has determined that the carrying value of the goodwill exceeds its fair market value resulting in an impairment loss of \$3,024,468. This loss has been reflected in current year income. This impairment is due to a decline in the fair market value of the assets and liabilities to be lesser than its carrying value.

b) *Intangibles*

	2007		
	Cost	Accumulated Amortization	Net Book Value
Client agreements and relationships	\$ 377,000	\$ 377,000	\$ -
Computer software	535,012	525,400	9,612
Patents and trademarks	8,624	8,624	-
	<u>\$ 920,636</u>	<u>\$ 911,024</u>	<u>\$ 9,612</u>

	2006		
	Cost	Accumulated Amortization	Net Book Value
Client agreements and relationships	\$ 377,000	\$ 375,082	\$ 1,918
Computer software	533,438	516,455	16,983
Patents and trademarks	8,624	6,257	2,367
	<u>\$ 919,062</u>	<u>\$ 897,794</u>	<u>\$ 21,268</u>

Amortization on intangible assets for the year was \$13,230 (2006 - \$138,176).

10. FORGIVABLE LOANS

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

	2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Forgivable loans	\$588,969	\$341,035	\$247,934	\$225,784

The forgiven amount for the year of \$142,849 (2006 – \$198,186) is recorded as operating expense on the consolidated statement of operations and deficit.

11. 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 March 31, 2007, the balance owing under the credit facility was \$165,000 (2006 – \$245,000).

As at March 31, 2007, the Company had equity loans outstanding in the amount of \$950,000. These loans are used to fund a portion of the Company's investment in the shares of Jaguar. The loans do not bear interest, receive 50% of their pro rata share of any gain resulting from a liquidity event for the Jaguar shares and mature at the earlier of (i) the date the Jaguar shares are sold and (ii) 9 months following the date of the equity loan.

As at March 31, 2007, the Company had a loan outstanding in the amount of \$641,062, used to fund a portion of the Company's investment in the shares of Jaguar. The loan is unsecured, repayable in three equal monthly payments beginning in April 2007 and bears interest at 12%.

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12. PROMISSORY NOTE PAYABLE

As at March 31, 2007, the Company had a promissory note payable outstanding in the amount of \$600,000 (2006 - \$1,739,396). The promissory note payable matures on October 12, 2007, 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. Interest expense related to the promissory note payable approximated \$168,386 (2006 - \$358,000).

13. DEBENTURES PAYABLE

As at March 31, 2007, the Company had issued debentures with a principal face value of \$750,000. (2006 - \$1,020,000). The debentures are unsecured, mature on May 15, 2007, do not bear interest and had one share purchase warrants for each ten dollar of principal amount issued. The share purchase warrants have expired as at March 31, 2007.

14. CAPITAL STOCK

a) *Share capital*

Authorized		
Unlimited number of common shares		
2,000,000 voting, convertible, redeemable, preference shares		
Issued and outstanding		
9,679,927 common shares		\$42,840,987

Share capital activity for the years ended March 31, 2007 and 2006 is summarized as follows:

	Shares #	Amount
Balance, March 31, 2005	8,567,141	\$41,617,237
Services and debt settlement (i)	15,609	31,250
Share consolidation adjustment (ii)	396	-
Balance March 31, 2006	8,583,146	41,648,487
Shares issued under equity incentive plan (iii)	85,129	153,229
Private placement (iv)	965,934	1,000,000
Shares issued under equity incentive plan (v)	45,718	39,271
Balance, March 31, 2007	9,679,927	\$42,840,987

- (i) Certain employees receive a portion of their compensation in common shares of the Company. During 2006, 15,609 common shares were granted to employees in settlement of compensation.
- (ii) Effective November 20, 2005 the common shares of the Company were consolidated on a 1 for 100 basis.
- (iii) The Company issued 85,219 common shares under the equity incentive plan in settlement of compensation amount in the amount of \$153,229.
- (iv) During 2007, the Company raised gross proceeds of \$1,000,000 upon the completion of private placements for the issuance of 965,934 common shares of the Company as follows: 519,305 common shares at \$1.10 per share and 446,629 common shares at \$0.96 per share. A total of 682,499 shares for gross proceeds of \$718,843 were subscribed for by the President of the Company and a corporation controlled by the President of the Company. An additional 52,420 common shares for gross proceeds of \$55,562 were subscribed for by directors of the Company.
- (v) The Company issued 45,718 common shares for gross proceeds of \$39,272 under the Company's employee share purchase plan. Under the terms of the plan, twice yearly, qualifying employees are allowed to purchase common shares of the Company up to 5% of their compensation to a maximum of \$2,500 at the volume weighted average price for the 20 trading day period immediately before the issue date. The Company will match the number of shares purchased at no cost to the employee over a three-year vesting period.

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b) *Capital requirements*

The Company's investment dealer subsidiary, NSI, is subject to rules of the 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, 2007 the capital of NSI exceeded the requirements of the IDA.

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 March 31, 2007, 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.

Stock option activity for the years ended March 31, 2007 and 2006 is summarized as follows:

	Stock Options #	Weighted Average Exercise Price
Balance, March 31, 2005	174,051	\$11.04
Expired	(32,249)	9.96
Balance, March 31, 2007 and 2006	142,002	\$14.71

The following is a summary of common share purchase options outstanding as at March 31, 2007:

Range of Exercise Prices	Stock Options #	Weighted Average Remaining Life (Years)	Weighted Average Price
\$ 3.50-5.00	69,937	5.33	\$ 3.79
\$8.00-9.00	43,350	3.97	\$8.96
\$30.00-40.00	6,158	3.48	30.33
\$49.00-70.00	22,557	2.30	\$55.35
	142,002	4.35	\$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.

During 2006 and 2007, the following transactions pursuant to the equity incentive plan took place:

- (i) 125,000 common shares were granted, vesting in equal installments on June 1, 2005, 2006 and 2007. 30,000 of these common shares vested in 2005 and the Company settled its obligation related to these vested shares. A total of 71,666 common shares of the initial grants were cancelled prior to vesting requirements being met. 11,666 common shares vested in 2006 and were issued. 11,668 common shares remain, vesting on June 1, 2007. Included in contributed surplus is an accrual of approximately \$34,000 related to these common shares.

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- (ii) 6,000 common shares were granted vesting in equal installments on June 15, 2005 and 2006. On June 15, 2005, 3,000 common shares vested and the Company settled its obligation related to these vested shares. The remaining 3,000 shares were cancelled prior to vesting requirements being met.
- (iii) \$100,000 of common shares were granted, vesting on each of August 2, 2005, 2006 and 2007. On August 2, 2005, shares valued at \$100,000 vested and the Company settled its obligation related to these vested shares by extinguishing amounts owed to the Company of approximately \$56,000 and by issuing 46,191 common shares of the Company valued at approximately \$44,000. The remaining \$200,000 of common shares were cancelled.

e) *Warrants*

As at March 31, 2007, there were no common share purchase warrants issued and outstanding.

Common share purchase warrant activity for the years ended March 31, 2007 and 2006 is summarized as follows:

	Warrants #	Weighted Average Exercise Price \$
Balance, March 31, 2005	249,477	7.36
Exercised	(124,893)	9.96
Balance, March 31, 2006	124,584	4.94
Expired	(124,584)	4.94
Balance, March 31, 2007	-	-

f) *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:

March 31, 2006	8,575,077
March 31, 2007	9,259,480

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

g) *Contributed surplus:*

Contributed surplus activity for the years ended March 31, 2007 and 2006 is summarized as follows:

Balance, March 31, 2005	\$ 1,033,175
Guarantee fees	61,000
Equity incentive plan	185,867
Expired warrants	323,000
Balance March 31, 2006	1,603,042
Equity incentive plan	34,026
Guarantee fees	7,180
Share issuance	(153,229)
Expired warrants (Note 13(e))	129,489
Balance, March 31, 2007	\$ 1,620,508

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15. INCOME TAXES

a) *Provision for income taxes*

Major items causing the Company's income tax rate to differ from the Canadian combined federal and provincial statutory rate of approximately 36% (2006 - 36%) are as follows:

	2007	2006 (As restated Note 2)
Income (loss) before taxes	\$ (9,087,566)	\$ 3,325,414
Expected income tax (benefit) based on statutory rate	(3,282,000)	1,201,000
Forgiveness of IPO loans	-	517,000
Goodwill impairment	1,092,000	-
Equity loss from associated companies	197,000	(2,000)
Amortization	87,000	118,000
Finance cost	(63,000)	(84,000)
Utilization of prior year losses	-	(1,780,000)
Other non-tax deductible expenses	26,000	26,000
Other	(1,000)	4,000
	(1,944,000)	-
Current year valuation allowance	1,944,000	-
Income tax expense	\$ -	\$ -

b) *Future tax balances*

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

	2007	2006
Future tax assets		
Non-capital losses carried forward	\$ 5,998,994	\$ 5,964,110
Share issue costs	22,113	86,000
Equipment and intangible assets	1,035,403	(9,000)
Resource deductions	1,524,000	1,524,000
	8,580,510	7,565,110
Valuation allowance	(8,589,510)	(7,565,110)
Total	\$ -	\$ -

The Company has loss carry forwards in Canada of approximately \$17,388,389, which under certain circumstances may be utilized to offset future taxable income. The benefit of these losses has not been recognized in the financial statements. These losses expire as follows:

2008	\$ 5,887,071
2009	1,147,460
2010	3,044,408
2014	1,089,480
2015 and thereafter	6,219,961
	<u>\$17,388,389</u>

16. 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 March 31, 2007, the amount of the Company's excess risk adjusted capital was \$1,640,000 (2006 – \$1,320,000).

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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.

- The Company is the defendant in a legal action where the plaintiff is claiming damages of \$106,900. The Company believes that the action is wholly without merit
- The Company is the defendant in a legal action where two former employees are seeking a judgment in the amount \$231,460 plus costs and interest along with an unspecified amount for damages as a result of breach of contract. The Company believes the action is wholly without merit and the Company has made a counterclaim.
- The Company has issued a claim against several former employees for damages for breach of contract, breach of fiduciary duty and other causes of action. The former employees have counterclaimed against NSI. It is premature to evaluate any potential liability.
- An inactive wholly owned subsidiary of the Company which has no assets has been named in a class action suit commenced by a former client claiming damages. It is premature to make determination related to this claim.
- Market Regulation Services Inc. ("RS") has commenced a regulatory proceeding against the Company and two of its officers alleging certain historical deficiencies in its supervision and compliance monitoring systems. The Company believes that the allegations are very technical and without merit. No provision for this proceeding has been made. The proceedings have been adjourned indefinitely by order of an RS Hearing Panel on October 10, 2006 in response to the Company's motion to dismiss the proceedings. The adjournment was granted to permit the Ontario Securities Commission (the "Commission") to consider an application by the Company for a hearing and review of decisions concerning the purported retroactive approval by the Commission of the TSX trading rules that are sought to be applied against the Company in the RS regulatory proceedings.
- The Enforcement Branch of the IDA is currently engaged in an investigation into an alleged deficiency on NSI's part to maintain required regulatory capital in July 2005 in connection with an underwriting in which NSI was not the lead underwriter. NSI does not believe there was a capital deficiency. It is not possible at this time to determine the amount of any potential liability to NSI.
- The IDA has advised NSI of an alleged deficiency on NSI's part to maintain required regulatory capital in January 2006 in connection with an underwriting where the issuer and NSI have corrected a mutual mistake in the underwriting agreement. NSI does not believe there was a capital deficiency. It is not possible at this time to determine the amount of any potential liability to NSI.

Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. It is possible that the final resolution of these matters may require the Company to make expenditures over an extended period of time and in a range of amounts that cannot be reasonable estimated and may differ significantly from any amounts recorded in these consolidated financial statements. Should the Company be unsuccessful in its defense or settlement of one or more of these legal actions, there could be a materially adverse effect on the Company's financial position, future expectations, and cash flows.

c) The future minimum annual payments for each fiscal year on equipment and office premises under existing operating leases approximate the following:

2008	\$ 969,400
2009	240,600
2010	228,500
2011	184,800
2012	173,700
2013 and thereafter	25,900
	\$1,822,900

d) The Company is required to share certain gains on disposal of its investments. Accruals for these sharing arrangements have been made based upon the fair value of the investments at the balance sheet date.

- e) 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 March 31, 2007, \$165,000 was owing under the credit facility.

17. FINANCIAL INSTRUMENTS

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. 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.

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.

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.

18. RELATED PARTY TRANSACTIONS

The Company had related party transactions with directors and/or officers of the Company, or companies with which they were associated, which were in the normal course of operations and were measured at the exchange amounts as follows:

During the year ended March 31, 2007, NSI acted as financial advisor with respect to Lakeside Steel Corporation, receiving advisory fees in the amount of \$325,000. For the year ended March 31, 2006 there were no fees paid to NSI by Lakeside.

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During the year ended March 31, 2007, NSI acted as investment advisor with respect to Jaguar Nickel Inc., receiving commission in the amount of \$74,055. For the year ended March 31, 2006 there were no commissions paid to NSI by Jaguar.

During the year ended March 31, 2007, the Company paid interest in the amount of \$164,612 (2006 - \$321,507) to Romspen Investment Corporation ("Romspen"), a company of which a director of the Company is also a director and senior officer. As at March 31, 2007 the Company had loans payable to Romspen of \$1,241,062 (2006 - \$1,739,396).

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.

19. SUPPLEMENTAL INFORMATION – STATEMENT OF CASH FLOWS

	<u>2007</u>	<u>2006</u>
Interest paid	<u>\$ 967,105</u>	<u>\$ 1,028,784</u>
Cash consists of the following		
Cash	\$ 1,164,323	\$ 398,097
Cash at carrying broker	3,326,091	1,524,000
Total	<u>\$ 4,490,414</u>	<u>\$ 3,148,744</u>

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Romspen Investment Corporation

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