NORTHERN FINANCIAL CORPORATION

ANNUAL REPORT
MARCH 31, 2008

June 16, 2008

To Our Shareholders

Year in Review

The year ended March 31, 2008 was a good year for Northern Financial Corporation ("Northern" or the "Company") and its wholly owned subsidiary, Northern Securities Inc. ("Northern Securities").

Operationally, we enjoyed one of our most successful years ever with reported net income of $0.3 million compared to a restated loss last year of $8.5 million. Virtually all areas of our business showed improvement. Commission revenue remained relatively flat year over year while underwriting and advisory, merchant banking, and trading revenue all showed significant gains.

We restated our financial results for Fiscal 2007 because subsequent to completion of the Company's consolidated financial statements for fiscal 2007, which were released on June 29, 2007, Lakeside Steel Corporation ("Lakeside") finalized its net income on July 30, 2007, which resulted in a change in the Company's share of Lakeside's net income. The adjustment in Lakeside's net income related to its fiscal year ended March 31, 2007, and, accordingly, the Company's share of earnings of Lakeside for such fiscal year has been retroactively adjusted by $634,283. This resulted in a lower restated net loss for fiscal 2007 of $8,453,283, down from $9,087,566.

In April 2006 we formed an investor group to acquire 48% of the issued shares of Lakeside for $3 million. Northern invested $400,000 of the $3 million. This year we worked closely with management of Lakeside in a restructuring of the business, led a $10 million financing for Lakeside and acted as an M&A advisor on a reverse takeover transaction with Added Capital Corporation ("Added"), which acquired all of the issued and outstanding common shares of Lakeside. This qualifying transaction enabled Lakeside to complete a going pubic transaction. We sold our investment in Lakeside for a profit of $1.6 million.

The other significant investment we made last year was in Jaguar Nickel Inc., which was subsequently renamed Jaguar Financial Inc. ("Jaguar"). We invested $4.2 million in the acquisition of 12.5% of the common shares of Jaguar. Jaguar has been turned into a merchant bank and we have worked closely with Jaguar providing advice on numerous transactions. The most significant investment was in Century II Holdings Inc. ("Century"). On July 30, 2007, Jaguar announced an offer to acquire all of the common shares it did not already own of Century, at a cash price of $6.75 per share. Subsequent to Jaguar's offer, TransForce Income Fund ("Transforce") offered to purchase all of the common shares of Century for $10.20 per share. Jaguar supported Transforce's offer and tendered its shares to Transforce on October 31, 2007, realizing a gain of $10.2 million. We account for our investment in Jaguar using the equity accounting method, taking into income our pro rata share of Jaguar's earnings. In fiscal 2008 Jaguar contributed $0.5 million to Northern's earnings. We also generated $2.0 million in fees and commissions providing services to Jaguar.

Subsequent to fiscal 2008, Northern Securities settled a proceeding with Market Regulations Services ("RS") which began in October 2005 with RS's Notice of Hearing and Statement of Allegations (the "Original Allegations"). Under the settlement, RS withdrew allegations that Northern Securities i) made purchases of the shares of two companies while these securities were on its grey list; ii) conducted an improper off-marketplace trade; iii) failed to comply with its best price obligation to a client; and iv) failed to properly mark certain trades, all of which were contained in the Original Allegations. Northern Securities and RS agreed upon various facts in a revision of the remaining Original Allegations, including that Northern Securities lacked certain appropriate trading supervision, compliance oversight and testing, and did not update certain policies and procedures in a timely manner. Northern Securities agreed to a fine of $125,000 and to pay costs incurred by RS in the amount of $50,000 for an aggregate amount of $175,000, which is payable over an 18 month period.

In addition, under the settlement agreement RS withdrew all of the Original Allegations relating to myself and Chris Shaule, Senior Vice President. The proceedings by RS against myself and Chris Shaule described in the Original Allegations were discontinued and permanently stayed by the Hearing Panel. A commitment to compliance best practices has always been one of Northern Securities' core values and we are pleased that the settlement agreement with RS recognizes the significant effort Northern Securities has made in developing its compliance department since 2003.

While our overall results for fiscal 2008 were a significant improvement over the prior year, we, along with the financial services industry generally, experienced a reduction in business volume in the latter part of the year. Many brokerage firms and financial institutions worldwide have experienced very substantial losses due to the asset backed commercial paper crisis and resulting credit crunch, and in some cases have required large capital injections. Worldwide markets have suffered corrections and upheaval. Most investors are waiting on the sidelines and issuers are reluctant to come to market. Wall Street and Bay Street investment banks have reduced staffing levels by 20% or more now and in the future.

We have managed to avoid the huge losses experienced by other brokerage firms and we have not required a capital injection. We have, however, taken significant steps to mitigate the impact of the revenue reduction we have experienced since January 1, 2008 by reducing our fixed cost base. We have reduced our staffing levels by approximately 20% and closed unprofitable branch locations. The executive team has taken a major reduction in compensation and we have adjusted our variable compensation policies to take account of lower business volumes. We have also implemented several cost saving measures. We are also looking to sell eNorthern. We believe these measures will allow us to be profitable even with the reduced volumes currently being experienced in the market place.

Notwithstanding the reductions we have made, we are always seeking growth opportunities. We are actively recruiting retail investment advisors in our Vancouver and Calgary locations and capital markets professionals in our Toronto office. We will continue to focus on our core businesses and strengths.

While the level of financings has dropped in the small cap sector generally, we are very busy in mergers and acquisitions on behalf of our clients.

We do believe we have a unique place in the Canadian investment industry. We are a full service investment dealer with a complementary merchant banking business focusing on Canada’s under served small capitalization market.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 16, 2008

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, 2008 compared to the year ended March 31, 2007.

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.

The Company recovered from a very difficult fiscal 2007 reporting net income of $311,791 for the year ended March 31, 2008, compared to a net loss of $8,453,283 in 2007, restated as noted below. The current year included Northern's share of earnings in Jaguar Financial Inc. ("Jaguar") of $505,313 and share of losses in Lakeside Steel Corporation ("Lakeside") of $295,383 respectively.

The Company has $6,079,574 in cash, deposits, and securities as at March 31, 2008.

Prior Period Adjustment

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

The cumulative effect to opening retained earnings at April 1, 2007 was to increase retained earnings by $634,283 and the Company's investment in Lakeside by the equivalent amount. The Company's share of earnings of Lakeside for 2007 has been increased by the same amount on the consolidated statement of income, comprehensive income and retained deficit.

Revenue

Total revenue for the year ended March 31, 2008 was $23,446,763 compared with $15,313,089 in the prior year. The increase in revenue was seen in almost all major revenue categories.

Commission revenue of $8,961,594 for the year ended March 31, 2008 was comparable to the prior year amount of $9,004,016. Underwriting and advisory revenue increased to $10,820,035 from $8,999,533 in 2007 as the firm undertook more financings and advisory assignments during the year. Trading revenue was $505,364 compared to a loss of $1,209,089 in the prior year. The prior year loss was generated by a limited number of positions that were subsequently disposed of. Interest revenue of $1,497,992 was up from $1,299,617 in 2007.

Merchant banking activities generated revenue of $1,686,206 in 2008 compared to a loss of $2,803,950 in the prior year. During the year the Company sold its investment in Lakeside generating a gain of $1,566,616.

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, 2008, were $23,344,902 compared with expenses of $20,831,989 in the prior year. Brokerage operations costs increased to $21,572,134 from $19,972,950 in 2007. The increase is attributable largely to an increase in variable compensation paid by the Company.

Interest expense decreased to $923,680 from $1,183,323 in 2007. This is attributable to a lower balance of loans outstanding through the year.

Merchant banking expense for the year ended March 31, 2008 was $151,068 compared to a recovery of $2,339,497 in the prior year. The recovery represented 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 declined to $259,316 from $1,776,085 in the prior year. The decline is a result of lower professional fees, the closure of the Company's London office at the end of fiscal 2007 and a recovery of costs previously incurred.

Depreciation and amortization expenses increased to $438,704 from $239,128 in 2007. During the year, the Company relocated to new office premises in most of its locations across the country. Consequently, any remaining value of existing leasehold improvements in those locations was written off.

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 $6,079,574 as at March 31, 2008 compared with $10,879,396 as at March 31, 2007. The Company used $396,996 of cash in its operations for the year ended March 31, 2008 compared to generating $5,987,393 in the prior year.

The Company used cash of $356,390 in investing activities for the year ended March 31, 2008 compared with $5,726,660 for the year ended March 31, 2007.

The Company used cash in financing activities in the amount of $2,187,962 for the year ended March 31, 2008 compared to generating $1,080,937 in the prior year.

A portion of the cash of the Company is maintained by NSI, the Company's wholly owned subsidiary. The Company must receive consent from NSI's 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	$820,000	$820,000	-	-	-
Operating Leases	$6,500,900	$1,906,300	$2,556,200	$1,996,300	$42,100
Total Contractual Obligations	$7,320,900	$2,726,300	$2,556,200	$1,996,300	$42,100

Annual Financial Information

	Year ended March 31, 2008	Year ended March 31, 2007 (As restated)	Year ended March. 31, 2006 (As restated)
Total revenues	$23,446,763	$15,313,089	$28,441,802
Net income (loss) from operations	$101,861	($5,518,900)	$3,325,414
Net income (loss)	$311,791	($8,453,283)	$3,325,414
Earnings (loss) per share	$0.03	($0.91)	$0.39
Long term debt	-	-	$1,739,396
Total assets	$12,473,859	$16,731,739	$26,683,331

Quarterly Financial Information

	Fiscal year ended March 31, 2008 $					Fiscal year ended March 31, 2007 $			
	Fourth Quarter	Third Quarter	Second Quarter (As restated)	First Quarter		Fourth Quarter (As restated)	Third Quarter	Second Quarter	First Quarter
Total revenues	3,313,083	8,661,971	4,619,904	6,851,805		5,936,484	5,108,421	1,426,859	2,841,325
Net income (loss)	(2,093,174)	1,384,561	516,531	503,873		(3,326,224)	(13,039)	(2,652,996)	(2,461,024)
Earnings (loss) per share	(0.21)	0.14	0.05	0.05		(0.34)	(0.00)	(0.29)	(0.29)

A large portion of the Company's revenue was derived from underwriting and advisory revenue, merchant banking revenue and commission 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, foreign exchange 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 foreign exchange rates. The Company does not use derivatives to modify its exposure to foreign exchange risk.

Share Capital Information

Outlined below is selected current share capital information related to the Company as March 31, 2008:

Description	Amount
Common shares issued and outstanding	9,843,385
Common share purchase warrants issued and outstanding	nil
Common share purchase options issued and outstanding	142,002

Disclosure Controls

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

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at March 31, 2008, and has concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its subsidiaries would have been known to them.

During fiscal 2007, management identified that it should use a fair value method in valuing its broker warrants. In fiscal 2008, the Company used a Black-Sholes model to value its broker warrant portfolio.

Internal Control Over Financial Reporting

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

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

Management's Responsibility for Financial Statements

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

Promissory Note Payable

As at March 31, 2008, the Company had a promissory note payable outstanding in the amount of $600,000 (2007 – $600,000). The promissory note payable matures on October 13, 2008, bears interest at 13% and is secured by a general security agreement, covering all property of the Company, and a personal guarantee by the President of the Company. A director of the Company is also a director and officer of the trustee of the promissory note payable.

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, 2008, NSI acted as financial advisor and underwriter with respect to Lakeside Steel Corporation, receiving advisory fees and commissions in the amount of $1,931,333 (2007 - $325,000).

During the year ended March 31, 2008, NSI acted as financial advisor with respect to Added Capital Corporation, receiving advisory fees in the amount of $100,000 (2007 - $nil).

During the year ended March 31, 2008, NSI acted as investment advisor and financial advisor with respect to Jaguar, receiving commissions and fees in the amount of $1,986,751 (2007 - $74,055). NSI also paid Jaguar $144,249 (2007 - $nil) in commissions relating to certain transactions. The Company also recovered legal fees and shareholder communications costs in the amount of $466,644 (2007 - $nil) from Jaguar. As at March 31, 2008, an amount of $7,295 (2007 – $nil) was receivable from Jaguar.

The Company sold 7,057,455 shares of Lakeside to Jaguar for proceeds of $1,905,513 on November 29, 2007 generating a gain of $1,566,613.

During the year ended March 31, 2008, NSI paid a corporation controlled by an officer and director of NSI, $203,586 (2007 - $500,952) for services rendered in the completion of certain transactions entered into by NSI.

During the year ended March 31, 2007, the Company paid interest in the amount of $335,055 (2007 - $164,612) 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, 2008, the Company had loans payable to Romspen of $600,000 (2007 – $1,241,062).

During the year ended March 31, 2008, the President of the Company provided repayment of equity loans in the amount of $150,000.

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) NSI 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, NSI has agreed to pay Penson an amount up to its "excess risk adjusted capital". As at March 31, 2008, the amount of NSI's excess risk adjusted capital was $1,874,000 (2007 – $1,640,000).

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 is the defendant in a legal actions where two former employees are claiming damages totaling $925,000. The Company believes the actions are without merit.
- 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.
- The Company, along with one of its registered representatives, is the defendant in a legal action for breach of contract, breach of duty and breach of fiduciary duty where the plaintiff is claiming damages of $1,500,000. It is premature to make a determination related to this claim.
- The Company is the defendant in an oppression and misrepresentation action. The plaintiffs are seeking damages of $175,000. A provision of $90,000 has been made. Potential liability is estimated between $90,000 and $300,000.
- 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. Subsequent to March 31, 2008, the Company entered into a settlement agreement with RS. A provision of $175,000 has been made.
- 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 it's 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.

Significant Changes in Accounting Policies

On April 1, 2007, the Company adopted new accounting standards: the CICA Handbook Section 1530, Comprehensive Income, Section 1506, Accounting Changes, Section 3855, Financial Instruments – Recognition and Measurement and Section 3865, Hedges and Section 3251, Equity.

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 include a Consolidated Statement of Comprehensive Income, however there were no items of other comprehensive income as a result of adopting this standard.

Section 3251, Equity discusses components of equity and was modified to include Accumulated Other Comprehensive Income as a category of shareholder equity.

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, held to maturity, loans and receivables or other financial liabilities. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition.

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies.

Section 1506, Accounting Changes, prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

Comparative amounts for prior years have not been restated. The transitional adjustments attributable to the remeasurement of financial assets and financial liabilities at fair value were recognized in opening retained earnings as of April 1, 2007. The total adjustment was a loss of $38,888 relating to changes in the fair value of certain financial instruments in compliance with the measurement basis under the new guidelines.

Future Accounting Policies

The Company will adopt CICA Handbook Sections 1535 Capital Disclosures, 3862 Financial Instruments – Disclosures and 3863 Financial Instruments – Presentation in fiscal 2009. The Company expects that additional disclosures will be required to comply with this standard.

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Auditors' Report

To the Shareholders of
Northern Financial Corporation

We have audited the consolidated balance sheets of Northern Financial Corporation (the "Company") as at March 31, 2008 and 2007 and the consolidated statements of operations, comprehensive income and retained deficit and the cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
May 23, 2008

NORTHERN FINANCIAL CORPORATION
Consolidated Balance Sheets
As at March 31

	2008	2007 (As restated Note 2)
ASSETS		
CURRENT		
Cash (Note 2 and Note 18)	$1,549,066	$4,490,414
Deposit with carrying broker (Note 4)	1,998,875	1,964,473
Securities owned (Note 5)	2,531,633	4,424,509
Investment in associated companies (Note 6)	4,180,652	4,397,845
Accounts receivable	292,228	40,863
Forgivable loans (Note 9)	235,139	247,934
Prepaid expenses and deposits	249,969	244,218
Commodity taxes recoverable	38,192	39,795
	11,075,754	15,850,051
OTHER ASSETS	206,010	-
CAPITAL ASSETS (Note 7)	1,187,319	872,076
GOODWILL (Note 8)	-	-
INTANGIBLE ASSETS (Note 8)	4,776	9,612
TOTAL ASSETS	$12,473,859	$16,731,739
LIABILITIES		
CURRENT		
Short-term loan payable (Note 10)	$220,000	$1,756,062
Debentures payable (Note 12)	-	750,000
Accounts payable and accrued liabilities (Note 17)	1,503,604	2,780,649
Deferred revenue	22,500	45,148
Securities sold short (Note 5)	92,074	1,164,720
Promissory note payable (Note 11)	600,000	600,000
	2,438,178	7,096,579
TOTAL LIABILITIES	2,438,178	7,096,579
COMMITMENTS AND CONTINGENCIES (Note 15)		
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	42,964,227	42,840,987
Contributed surplus (Note 13)	1,624,886	1,620,508
Accumulated other comprehensive income	-	-
Deficit	(34,553,432)	(34,826,335)
	10,035,681	9,635,160
	$12,473,859	$16,731,739

APPROVED BY THE BOARD

"Ian Bradley"

Director

"Vic Alboini"

Director

NORTHERN FINANCIAL CORPORATION
Consolidated Statements of Income, Comprehensive Income and Retained Deficit
For the Years ended March 31, 2008 and 2007

	2008	**2007** (As restated Note 2)
REVENUES (Note 17)		
Commissions	$8,961,594	$9,004,016
Underwriting and advisory	10,820,035	8,999,533
Merchant banking	1,686,206	(2,803,950)
Trading	505,364	(1,209,089)
Interest	1,497,992	1,299,617
Other	(24,428)	22,962
	23,446,763	15,313,089
OPERATING EXPENSES		
Brokerage operations (Note 9)	21,572,134	19,972,950
Merchant banking	151,068	(2,339,497)
General and administrative	259,316	1,776,085
Long-term debt interest expense	-	84,526
Other interest expense	923,680	1,098,797
Depreciation and amortization	438,704	239,128
Total operating expenses	23,344,902	20,831,989
Net income (loss) from operations	101,861	(5,518,900)
SHARE OF EARNINGS (LOSS) OF JAGUAR FINANCIAL INC. (Note 6)	505,313	(144,198)
SHARE OF EARNINGS (LOSS) OF LAKESIDE STEEL CORPORATION (Note 6)	(295,383)	234,283
GOODWILL IMPAIRMENT (Note 8(a))	-	(3,024,468)
INCOME (LOSS) BEFORE INCOME TAXES	311,791	(8,453,283)
INCOME TAXES (Note 14(A))	-	-
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	311,791	(8,453,283)
DEFICIT, beginning of year	(34,826,335)	(26,373,052)
Transitional adjustment Section 3855	(38,888)	-
DEFICIT, end of year	$(34,553,432)	$(34,826,335)
EARNINGS (LOSS) PER SHARE – Basic and diluted	0.03	(0.91)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - Basic and diluted	9,731,694	9,259,480

NORTHERN FINANCIAL CORPORATION
Consolidated Statements of Cash Flows
For the Years ended March 31, 2008 and 2007

	2008	2007
		(As restated Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) for the year	$311,791	$(8,453,283)
Items not affecting cash		
Depreciation and amortization	438,704	239,128
Share of earnings of associated companies	(209,930)	(90,085)
Equity incentive plan / employee share purchase plan	29,518	41,206
Goodwill impairment	-	3,024,468
Accretion of debentures	-	60,000
	570,083	(5,178,566)
Changes in non-cash working capital balances		
Securities owned and sold short	820,230	15,019,357
Investment in associated companies	-	49,243
Accounts receivable	(251,365)	45,550
Prepaid expenses and deposits, and forgivable loans	(237,854)	(122,798)
Commodity taxes recoverable	1,603	(2,281)
Accounts payable and accrued liabilities	(1,277,045)	(3,783,634)
Deferred revenue	(22,648)	(39,478)
	(967,079)	11,165,959
Cash flows from operating activities	(396,996)	5,987,393
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital assets	(749,111)	(236,237)
(Acquisition) / disposition of investments in associated companies	427,123	(4,357,003)
Deposit with carrying broker	(34,402)	(1,133,420)
Cash flows from investing activities	(356,390)	(5,726,660)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of promissory note	-	(1,739,396)
Promissory note issued	-	600,000
Increase / (decrease) in short term loans	(1,536,062)	1,511,062
Repayment of debenture	(750,000)	(330,000)
Proceeds from employee share purchase plan (Note 13)	105,092	39,271
Repurchase of shares under normal course issuer bid	(6,992)	-
Proceeds from private placements (Note 13)	-	1,000,000
Cash flows from financing activities	(2,187,962)	1,080,937
INCREASE (DECREASE) IN CASH	(2,941,348)	1,341,670
CASH, BEGINNING OF YEAR	4,490,414	3,148,744
CASH, END OF YEAR	$1,549,066	$4,490,414

SUPPLEMENTARY INFORMATION (Note 18)

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 SHARE OF EARNINGS OF LAKESIDE STEEL CORPORATION

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

The cumulative effect to opening retained earnings at April 1, 2007 was to increase retained earnings by $634,283 and the Company's investment in Lakeside by the equivalent amount. The effect on other consolidated financial statement captions is noted in the table below:

	2007		2007
	As Reported	Adjustment	As Restated
Consolidated Balance Sheets			
Investment in associated companies	$ 3,763,562	$ 634,283	$ 4,397,845
Total assets	$ 16,097,456	$ 634,283	$ 16,731,739
Consolidated Statements of Income, Comprehensive Income and Retained Deficit			
Share of Earnings (Loss) of Lakeside Steel Corp.	($ 400,000)	$ 634,283	$ 234,283
Net Income (Loss)	($ 9,087,566)	$ 634,283	($ 8,453,283)
Earnings (Loss) Per Share – Basic and diluted	($ 0.98)	$ 0.07	($ 0.91)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of consolidation

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

Cash

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

Foreign currency translation

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

Securities owned and securities sold short

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

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

Capital assets

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

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

Goodwill and intangible assets

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

Forgivable loans

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

Underwriting and advisory fees

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

Use of estimates and assumptions

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The most significant estimates are related to the valuation of broker warrants, contingent liabilities, and future tax assets and liabilities. Accordingly, actual results could differ from those estimates and thereby impacting our consolidated financial statements. Management believes that the estimates are reasonable.

Leases

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

Stock-based compensation plan

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

Income taxes

The Company accounts for and measures future tax assets and liabilities in accordance with the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to loss carryforwards and to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and the net asset is reduced accordingly.

Earnings (loss) per share

Basic earnings (loss) per share 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.

Recent Accounting Pronouncements

On April 1, 2007, the Company adopted new accounting standards: the CICA Handbook Section 1530, Comprehensive Income, Section 1506, Accounting Changes, Section 3855, Financial Instruments – Recognition and Measurement and Section 3865, Hedges and Section 3251, Equity.

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 include a Consolidated Statement of Comprehensive Income, however there were no items of other comprehensive income as a result of adopting this standard.

Section 3251, Equity discusses components of equity and was modified to include Accumulated Other Comprehensive Income as a category of shareholder equity.

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, held to maturity, loans and receivables or other financial liabilities. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition.

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies.

Section 1506, Accounting Changes, prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

Comparative amounts for prior years have not been restated. The transitional adjustments attributable to the remeasurement of financial assets and financial liabilities at fair value were recognized in opening retained earnings as of April 1, 2007. The total adjustment was a loss of $38,888 relating to changes in the fair value of certain financial instruments in compliance with the measurement basis under the new guidelines.

Future Accounting Policies

The Company will adopt CICA Handbook Sections 1535 Capital Disclosures, 3862 Financial Instruments – Disclosures and 3863 Financial Instruments – Presentation in fiscal 2009. The Company expects that additional disclosures will be required to comply with these standards.

4. SERVICE AGREEMENT

As at March 31, 2008, the Company has contracted Penson Financial Services (“Penson”) to perform certain trading and clearing activities for the clients of the Company, according to the Introducing Broker Agreement (the "Agreement") between Penson and the Company. As a Type 2 Introducing Broker, the Company does not carry client accounts, nor receive, deliver or hold cash and securities in connection with such clients. At March 31, 2008, the Company maintained a deposit with Penson and another carrying broker in the amount of $1,998,875 (2007 - $1,964,473), 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:

	2008	2007
Publicly traded equities	$ 767,502	$1,374,509
Broker warrants	1,764,131	3,050,000
	$2,531,633	$4,424,509

Securities sold short consist of the following:

	2008	2007
Publicly traded equities	$92,074	$1,164,720

6. INVESTMENTS IN ASSOCIATED COMPANIES

Investments in associated companies consist of the following:

	2008	2007 (As restated Note 2)
Jaguar Financial Inc.	$4,180,652	$3,763,562
Lakeside Steel Corp.	-	634,283
	$4,180,652	$4,397,845

Included in investments in associated companies is an investment in Jaguar Financial Inc. ("Jaguar") representing 12.6% (March 31, 2007 – 12.8%) of the outstanding common shares of Jaguar as March 31, 2008.

During the year ended March 31, 2008, the Company sold its interest in Lakeside for proceeds of $1,905,513 generating a gain of $1,566,613. See Note 16.

The equity method is used to account for the Company's investments in Jaguar and Lakeside. The Company's share of earnings or losses in these companies is reported in income. The Company's investment in Jaguar has been increased by $505,313 in 2008 accordingly (reduced by $144,198 in fiscal 2007). The Company's investment in Lakeside had been reduced by $295,383 in 2008 (increased by $234,283 in fiscal 2007) prior to the sale.

7. CAPITAL ASSETS

	2008		
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	$ 927,891	$ 579,671	$ 348,220
Leasehold improvements	1,076,343	549,699	526,644
Computer equipment	1,718,971	1,419,430	299,541
Works of art	12,914	-	12,914
	$3,736,119	$2,548,800	$ 1,187,319

	2007		
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	$ 791,581	$ 510,401	$ 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
	$2,987,009	$2,114,933	$ 872,076

Depreciation on capital assets for the year was $433,868 (2007 – $225,899).

8. GOODWILL AND INTANGIBLE ASSETS

a) Goodwill

	2008	2007
Beginning balance	$ -	$ 3,024,468
Impairment Loss	-	(3,024,468)
Ending balance	$ -	$ -

In the year ended March 31, 2007, management determined that the carrying value of goodwill exceeded its fair market value resulting in an impairment loss of $3,024,468. This loss was reflected in income in fiscal 2007. This impairment was due to a decline in the fair market value of the assets and liabilities to be lesser than its carrying value.

b) Intangibles

	2008		
	Cost	Accumulated Amortization	Net Book Value
Computer software	$ 535,012	$ 530,236	$ 4,776

	2007		
	Cost	Accumulated Amortization	Net Book Value
Computer software	$ 535,012	$ 525,400	$ 9,612

Amortization on intangible assets for the year was $4,836 (2007 – $13,230).

9. FORGIVABLE LOANS

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

	2008			2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Forgivable loans	$955,719	$692,154	$263,565	$247,934

	Amount
Net book value, March 31, 2007	$247,934
Transitional adjustment Section 3855	(38,888)
Opening carrying value, April 1, 2007	$209,046

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

	2008	2007
Forgivable within 1 year	$ 235,139	$ 247,934
Forgivable in greater than 1 year	28,426	-
	$ 263,565	$ 247,934

The forgiven amount for the year of $312,231 (2007 – $142,849) is recorded as brokerage operations expense on the consolidated statement of income, comprehensive income and retained deficit.

10. SHORT-TERM LOAN PAYABLE

The Company has available a credit facility in the amount of $250,000 at prime plus 1%, secured by a general security agreement covering all assets of the Company and certain guarantees provided personally by the President of the Company and a corporation wholly owned by the President of the Company. As at March 31, 2008, the balance owing under the credit facility was $220,000 (2007 – $165,000).

As at March 31, 2007, the Company had equity loans or other short term loans outstanding of $1,591,062. These loans were used to fund a portion of the Company's investment in the shares of Jaguar. During the year ended March 31, 2008, the President of the Company provided repayment of equity loans in the amount of $150,000, which was in the normal course of operations and was recorded at the exchange amount. The remaining portion of the equity loans or other short term loans was also repaid by the Company during fiscal 2008.

11. PROMISSORY NOTE PAYABLE

As at March 31, 2008, the Company had a promissory note payable outstanding in the amount of $600,000 (2007 - $600,000). The promissory note payable matures on October 13, 2008, bears interest at 13% and is secured by a general security agreement, covering all property of the Company, and a personal guarantee by the President of the Company. A director of the Company is also a director and officer of the trustee of the promissory note payable. Interest expense related to the promissory note payable approximated $78,000 (2007 – $168,386).

12. DEBENTURES PAYABLE

As at March 31, 2008, the Company had no debentures outstanding (2007 - $750,000).

13. CAPITAL STOCK

a) Share capital

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

Issued and outstanding	
9,843,385 common shares	$42,964,227

Share capital activity for the years ended March 31, 2008 and 2007 is summarized as follows:

	Shares #	Amount
Balance, March 31, 2006	8,583,146	$41,648,487
Shares issued under equity incentive plan (d)	85,129	153,229
Private placement (a)(i)	965,934	1,000,000
Shares issued under employee share purchase plan (e)	45,718	39,271
Balance March 31, 2007	9,679,927	42,840,987
Shares issued under equity incentive plan (d)	11,666	40,831
Shares issued under employee share purchase plan (e)	158,692	113,450
Shares cancelled under normal course issuer bid (f)	(6,900)	(30,118)
Balance, March 31, 2008	9,843,385	42,965,150
Shares repurchased for cancellation – not yet cancelled	(1,100)	(923)
Balance, March 31, 2008	9,842,285	$42,964,227

(i) During the year ended March 31, 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.

(ii) The total cost of share based compensation for the year ended March 31, 2008 was $199,956 (2007 – $51,414). As at March 31, 2008 the Company had an accrual of $85,893 (2007 – $27,221) related to share based compensation.

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

There was no stock option activity for the years ended March 31, 2008 and 2007.

The following is a summary of common share purchase options outstanding as at March 31, 2008:

Range of Exercise Prices	Stock Options #	Weighted Average Remaining Life (Years)	Weighted Average Price
$ 3.50-5.00	69,937	4.33	$ 3.79
$8.00-9.00	43,350	2.96	$ 8.96
$30.00-40.00	6,158	2.48	$30.33
$49.00-70.00	22,557	1.30	$55.35
	142,002	3.35	$14.71

All options are currently exercisable.

d) *Employee equity incentive plan*

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

e) *Employee share purchase plan*

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

f) *Normal course issue bid*

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

As at March 31, 2008, the Company purchased, from the commencement date of the bid, 8,000 common shares of the Company. The Company, during that period, cancelled 6,900 common shares.

g) *Earnings per share data*

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

March 31, 2007	9,259,480
March 31, 2008	9,731,694

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

h) *Contributed surplus:*

Contributed surplus activity for the years ended March 31, 2008 and 2007 is summarized as follows:

Balance, March 31, 2006	1,603,042
Employee equity incentive plan	34,026
Guarantee fees	7,180
Share issuance	(153,229)
Expired warrants	129,489
Balance, March 31, 2007	1,620,508
Employee equity incentive plan	(27,221)
Employee share purchase plan	7,551
Normal course issuer bid	24,048
Balance, March 31, 2008	$ 1,624,886

14. 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% (2007 – 36%) are as follows:

	2008	2007 (As restated Note 2)
Income (loss) before taxes	$ 311,791	$ (9,087,566)
Expected income tax (benefit) based on statutory rate	112,245	(3,282,000)
Goodwill impairment	-	1,092,000
Equity (gain) loss from associated companies	(75,575)	197,000
Amortization	157,933	87,000
Utilization of prior year losses	(185,114)	-
Finance cost	(34,229)	(63,000)
Other non-tax deductible expenses	24,740	26,000
Other	-	(1,000)
	-	(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:

	2008	2007
Future tax assets		
Non-capital losses carried forward	$ 3,408,381	$ 5,998,994
Share issue costs	41,522	22,113
Equipment and intangible assets	1,138,430	1,035,403
Resource deductions	1,524,000	1,524,000
	6,112,333	8,580,510
Valuation allowance	(6,112,333)	(8,580,510)
Total	$ -	$ -

The Company has loss carry forwards in Canada of approximately $10,174,272, 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:

2009	$ 180,188
2010	2,684,634
2014	1,089,489
2015	837,597
2027	5,382,364
	$10,174,272

15. COMMITMENTS AND CONTINGENCIES

a) NSI 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, NSI has agreed to pay Penson an amount up to its "excess risk adjusted capital". As at March 31, 2008, the amount of NSI's excess risk adjusted capital was $1,874,000 (2007 – $1,640,000).

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 is the defendant in a legal actions where two former employees are claiming damages totaling $925,000. The Company believes the actions are without merit.
- 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.
- The Company along with one of its registered representatives, is the defendant in a legal action for breach of contract, breach of duty and breach of fiduciary duty where the plaintiff is claiming damages of $1,500,000. It is premature to make a determination related to this claim.
- The Company is the defendant in an oppression and misrepresentation action. The plaintiffs are seeking damages of $175,000. A provision of $90,000 has been made. Potential liability is estimated between $90,000 and $300,000.
- 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. Subsequent to March 31, 2008, the Company entered into a settlement agreement with RS. A provision of $175,000 has been made. (Note 18)
- 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:

2009	$ 1,906,300
2010	1,306,200
2011	1,250,000
2012	1,226,300
2013	770,000
2014 and thereafter	42,100
	$6,500,900

d) The Company is required to share certain gains on disposal of its investments with clients. 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, 2008, $220,000 was owing under the credit facility.

16. RISK MANAGEMENT

Fair value of financial assets and financial liabilities

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

Market risk

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

Credit risk

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of a counterparty on its obligation to the Company. 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.

17. 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, 2008, NSI acted as financial advisor and underwriter with respect to Lakeside Steel Corporation, receiving advisory fees and commissions in the amount of $1,931,333 (2007 - $325,000).

During the year ended March 31, 2008, NSI acted as financial advisor with respect to Added Capital Corporation, receiving advisory fees in the amount of $100,000 (2007 - $nil).

During the year ended March 31, 2008, NSI acted as investment advisor and financial advisor with respect to Jaguar, receiving commissions and fees in the amount of $1,986,751 (2007 - $74,055). NSI also paid Jaguar $144,249 (2007 - $nil) in commissions relating to certain transactions. The Company also recovered legal fees and shareholder communications costs in the amount of $466,644 (2007 - $nil) from Jaguar. As at March 31, 2008, an amount of $7,295 (2007 - $nil) was receivable from Jaguar.

The Company sold 7,057,455 shares of Lakeside to Jaguar at a price of $0.27 per share on November 29, 2007.

During the year ended March 31, 2008, NSI paid a corporation controlled by an officer and director of NSI, $203,586 (2007 - $500,952) for services rendered in the completion of certain transactions entered into by NSI.

During the year ended March 31, 2008, the Company paid interest in the amount of $335,055 (2007 - $164,612) 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, 2008, the Company had loans payable to Romspen of $600,000 (2007 – $1,241,062).

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.

18. SUPPLEMENTAL INFORMATION – STATEMENT OF CASH FLOWS

	2008	2007
Interest paid	$ 1,160,424	$ 967,105
Cash consists of the following		
Cash	$ 428,058	$ 1,164,323
Cash at carrying broker	1,121,008	3,326,091
Total	$ 1,549,066	$ 4,490,414

19. SUBSEQUENT EVENT

On May 30, 2008, the Company announced that a Hearing Panel of the Hearing Committee of RS has approved a final settlement between NSI and RS.

NSI entered into the settlement agreement with RS on May 14, 2008, to settle the proceedings brought by RS as described in the Notice of Hearing and Statement of Allegations on October 20, 2005 (the “Original Allegations”).

Under the settlement, RS has withdrawn allegations that Northern Securities i) made purchases of the shares of two companies while these securities were on its grey list; ii) conducted an improper off-marketplace trade; iii) failed to comply with its best price obligation to a client; and iv) failed to properly mark certain trades, all of which were contained in the Original Allegations.

NSI and RS have agreed upon various facts in a revision of the remaining Original Allegations, including that NSI lacked certain appropriate trading supervision, compliance oversight and testing, and did not update certain policies and procedures in a timely manner. NSI has agreed to a fine of $125,000 and to pay costs incurred by RS in the amount of $50,000 for an aggregate amount of $175,000, which is payable over an 18 month period.

In addition, under the settlement agreement RS has withdrawn all of the Original Allegations relating to Vic Alboini, Chairman and Chief Executive Officer of NSI and Chris Shaule, Senior Vice President of NSI. The proceedings by RS against Vic Alboini and Chris Shaule as described in the Original Allegations were discontinued and permanently stayed by the Hearing Panel.

The settlement agreement and related materials will be publicly available on the website of RS.

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