

**NORTHERN FINANCIAL CORPORATION**

**ANNUAL REPORT  
MARCH 31, 2009**

**June 17, 2009**

## **To Our Shareholders**

### **Year in Review**

The year ended March 31, 2009, was a challenging one for Northern Financial Corporation ("Northern" or the "Company") and its wholly owned subsidiary, Northern Securities Inc. ("NSI"), as it was for all financial institutions. We witnessed unprecedented economic and capital markets turmoil, which in turn had a major impact on the financial results of the entire financial services industry.

What began as the asset backed commercial paper issue and resulting credit crunch, soon became a full-scale global financial crisis. Credit markets deteriorated, disrupting global stock markets causing massive corrections and upheaval. Difficult liquidity conditions resulted in equity market volatility and lack of investor confidence. Despite central bank intervention, global markets stagnated through most of the year. Several major financial institutions in the United States were allowed to fail while others were sold at major discounts. The economy officially went into recession and governments around the world scrambled to implement recovery and stimulus plans.

While there are some signs that the worst may be over, these tumultuous economic conditions persisted throughout the Company's 2009 fiscal year and directly contributed to the Company's net loss of \$7,778,357 as business activity was substantially reduced. \$2,813,875 of the loss was a non-cash loss representing the Company's share of the loss of its associated merchant banking company, Jaguar Financial Corporation ("Jaguar"), and a further \$418,675 represented a non-cash write-down of its investment in Jaguar. The large decline seen in capital markets throughout the year also produced a downward non-cash valuation adjustment of \$1,050,000 in the Company's broker warrant portfolio.

Notwithstanding the losses incurred in 2009, the Company took significant steps to mitigate the impact of declining revenue. In early 2009, the Company enacted a series of measures to reduce its fixed cost base. We reduced our staffing levels by over 20% and closed unprofitable branch locations. The senior management team took a major reduction in compensation and we adjusted our variable compensation policies. We sold our online brokerage operations, eNorthern, and implemented numerous other cost saving measures. We continue to seek out other cost reduction opportunities, as our revenue outlook remains uncertain.

For fiscal 2009 NSI generated a loss of \$1.3 million on its revenue of \$12.3 million.

We told you last year about our investment in Jaguar and subsequently turning it into a successful merchant bank in fiscal 2008. Along with most other merchant banks and investment funds, Jaguar suffered during the economic turmoil of last year. Jaguar reported a net loss of \$24,102,323 for its year ended December 31, 2008. We account for our investment in Jaguar using the equity accounting method, taking into income our pro rata share of Jaguar's earnings or losses. In fiscal 2009 Jaguar contributed \$3.2 million to Northern's loss.

On an encouraging note, Jaguar reported net income of \$682,840 for its quarter ended March 31, 2009, largely on the strength of a very successful investment in the shares of HudBay Minerals Inc. ("HudBay"). In November of 2008, Hudbay and Lundin Mining Corporation ("Lundin") announced a proposed acquisition by HudBay of Lundin that was very dilutive for HudBay shareholders and did not require HudBay shareholder approval. Upon this announcement, HudBay's share price immediately fell and Jaguar acquired 1,500,000 shares of HudBay. In January 2009, Jaguar appealed the TSX's decision granting conditional approval to the proposed acquisition to the Ontario Securities Commission (the "OSC"), asking the OSC for orders setting aside the TSX decision. On January 23, 2009, the OSC set aside the TSX's decision and required shareholder approval for the Lundin acquisition. The proposed acquisition of Lundin was terminated and the HudBay board of directors was replaced. HudBay's share price increased substantially. and Jaguar realized a substantial gain on its investment.

Despite the losses we have seen, we believe we are well-positioned take advantage of any change in market sentiment. We are now a much leaner organization, focused on our core businesses and strengths. We continue to seek growth opportunities in all of our offices across the country.

We remain a unique company in the Canadian investment industry, a full service investment dealer with a complementary merchant banking business focusing on Canada's underserved 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 17, 2009

### Introduction

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

The Company's common shares are 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, 2009, compared to the year ended March 31, 2008.

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.

This report and the Company's other public filings, including its most recent Annual Information Form, can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

### 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 its main activities through NSI, 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 on investment banking activities, and commissions on institutional sales and trading and retail investment advisors, 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.

### Business Environment

Global capital markets experienced unprecedented volatility and were extremely challenging throughout the Company's 2009 fiscal year. Credit markets deteriorated, disrupting global stock markets causing massive corrections and upheaval. Continued difficult liquidity conditions have resulted in equity market volatility and lack of investor confidence. In addition, the economy officially slipped into recession and governments around the world scrambled to implement recovery and stimulus plans. Despite central bank intervention, global markets continued to stagnate. Several major financial institutions in the United States were allowed to fail while others were sold at major discounts. With this backdrop, investor confidence in the capital markets was weak. Client trading volumes, investment banking activity, and equity market pricing all declined during the year.

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

## **Results of Operations**

The difficult business environment resulted in the Company reporting a net loss of \$7,778,357 for the year ended March 31, 2009, compared to net income of \$311,791 in 2008. \$2,813,875 of the loss was a non-cash loss representing the Company's share of the loss of Jaguar Financial Corporation ("Jaguar"), compared to non-cash income of \$505,313 in the prior year. The Company also determined that its investment in Jaguar was impaired and recorded a non-cash write-down of its investment of \$418,675. NSI generated a loss of \$1.3 million on revenue of \$12.3 million.

The Company has \$4,612,968 in cash, deposits, and securities as at March 31, 2009.

## **Revenue**

Total revenue for the year ended March 31, 2009, was \$12,044,857 compared with \$23,446,763 in the prior year. The decrease in revenue was seen in almost all major revenue categories as difficult market conditions caused significantly reduced business activity in the investment banking industry.

Commission revenue was \$5,527,107 for the year ended March 31, 2009, compared to the prior year amount of \$8,961,594. All areas of the business including retail, institutional and high net worth were down year over year as investors remained on the sidelines, lacking confidence in the capital markets. Underwriting and advisory revenue decreased to \$4,286,015 from \$8,863,221 in 2008. The decrease was driven by a reduced level of financings, as issuers delayed coming to market with depressed stock prices. A non-cash valuation adjustment of \$1,050,000 in the Company's broker warrant portfolio resulted in a loss of \$768,030 on broker warrants compared to a gain \$1,956,814 in the prior year. The large decline seen in capital markets throughout the year produced a downward valuation of the portfolio compared to an increased valuation in the prior year. Trading revenue was \$903,076 compared to \$505,364 in the prior year, as the Company was able to take advantage of volatile markets in its proprietary trading business. Interest revenue of \$1,031,159 was down from \$1,497,992 in 2008 due to lower client account balances.

Merchant banking activities generated revenue of \$965,103 in 2009 compared to \$1,686,206 in the prior year. The revenue in 2009 primarily relates to the Company's successful transaction relating to High Desert Gold Corporation. In fiscal 2008, the Company sold its investment in Lakeside Steel Inc. ("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 will have a significant effect on the financial results of the Company.

## **Expenses**

Total expenses for the year ended March 31, 2009, were \$16,590,664 compared with expenses of \$23,344,902 in the prior year. Brokerage operations costs decreased to \$13,976,899 from \$21,572,134 in 2008. The decrease is attributable to a decrease in variable compensation driven by lower revenue, as well as expense reduction measures enacted by the Company to help mitigate the reduction in revenue. Merchant banking expenses were \$266,381 compared to \$151,068 in the prior year.

Interest expense decreased to \$663,120 from \$923,680 in 2008. This is attributable to a lower balance of loans outstanding through the year.

General and administrative expenses increased to \$1,263,637 from \$259,316 in the prior year due to increased legal fees and the cost of the Company's equity incentive plan.

Depreciation and amortization expenses decreased to \$420,627 from \$438,704 in 2008.

## 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 \$4,612,968 as at March 31, 2009, compared with \$6,079,574 as at March 31, 2008. The Company used \$1,874,155 of cash in its operations for the year ended March 31, 2009 compared with \$396,996 in the prior year.

While the Company has prepared its consolidated financial statements on the basis of accounting principles applicable to a going concern, several adverse conditions create uncertainty upon this assumption. The Company incurred a loss of \$7,778,357 in the past year, has not fully repaid its matured promissory note, and has a significant amount of debt maturing within 12 months. The Company's continued operation is dependent upon its ability to obtain replacement debt or equity financing when the existing debt matures and to restore and maintain profitable operations.

As at March 31, 2009, the Company had a promissory note payable outstanding in the amount of \$475,000. The promissory note payable matured 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. The Company is currently in discussions with the holder of the promissory note regarding a repayment schedule for the balance of the promissory note. Subsequent to year-end, a repayment in the amount of \$125,000 was made on the promissory note.

At March 31, 2009, the Company had borrowed \$1,178,325 for a specific investment opportunity. These loans are repaid once the related investments are sold, in accordance with each loan agreement. The loans mature at the earlier of (i) the date the related investment is sold, or (ii) 6 months following the date of the issuance of the loan. Subsequent to year-end, the underlying investment was sold and the loans in the amount of \$1,178,325 were repaid.

At March 31, 2009, the Company had borrowed \$616,000 for another specific investment opportunity. These loans are repaid once the related investments are sold, in accordance with each loan agreement. The loans mature at the earlier of (i) the date the related investment is sold, or (ii) 9 months following the date of the issuance of the loan.

Periodically, the Company may negotiate credit facilities for the potential acquisition of investments. These facilities are generally acquired on a standby commitment basis and drawn down when required.

A portion of the cash of the Company is maintained by NSI, the Company's wholly owned subsidiary. The Company must receive consent from IIROC prior to the repatriation of any cash.

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

### Payments Due by Period

Contractual Obligations	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Debt	\$2,784,782	\$2,784,782	-	-	-
Operating Leases	\$4,565,200	\$1,514,200	\$2,308,400	\$742,600	-
Total Contractual Obligations	\$7,349,982	\$4,298,982	\$2,308,400	\$742,600	-

## Annual Financial Information

	Year ended March 31, 2009	Year ended March 31, 2008	Year ended March 31, 2007 (As restated)
Total revenues	\$12,044,857	\$23,446,763	\$15,313,089
Net income (loss) from operations	(\$4,545,807)	\$101,861	(\$5,518,900)
Net income (loss)	(\$7,778,357)	\$311,791	(\$8,453,283)
Earnings (loss) per share	(\$0.78)	\$0.03	(\$0.91)
Long term debt	-	-	-
Total assets	\$7,692,372	\$12,473,859	\$16,731,739

## Quarterly Financial Information

	Fiscal year ended March 31, 2009				Fiscal year ended March 31, 2008			
	\$				\$			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Total revenues	3,445,004	3,422,589	2,152,389	3,024,875	3,313,083	8,661,971	4,619,904	6,851,805
Net income (loss)	(1,463,268)	(2,153,499)	(2,367,017)	(1,794,573)	(2,093,174)	1,384,561	516,531	503,873
Earnings (loss) per share	(0.15)	(0.22)	(0.24)	(0.18)	(0.21)	0.14	0.05	0.05

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, whereas merchant banking revenue is based on mark-to-market adjustments. In addition, commission revenue is generally dependent on many market factors, which may lead to the fluctuations in quarterly revenue.

### Management of Capital

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

The Company's capital structure includes the following:

	2009	2008
Short-term loans payable	\$ 2,339,876	\$ 220,000
Promissory note payable	475,000	600,000
Shareholder's equity comprised of		
Share capital	42,904,348	42,964,227
Contributed surplus	1,928,787	1,624,886
Deficit	(42,331,789)	(34,553,432)
	\$ 5,316,222	\$ 10,855,681

The Company's objectives when managing capital are to (i) provide financial capacity and flexibility in order to preserve its ability to meet its strategic objectives and financial obligations and continue as a going concern; (ii) maintain a capital structure which allows the Company to respond to changes in economic and/or marketplace conditions and affords the Company the ability to participate in new investments; (iii) optimize the use of its capital to provide an appropriate investment return to its shareholders equal with the level of risk; (iv) maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk; and (v) meets the regulatory requirements of IIROC.

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by: (i) realizing proceeds from the disposition of its investments; (ii) utilizing leverage in the form of margin loans on its investments; (iii) raising capital through loans from third party investors/lenders who seek to participate in investment opportunities; (iv) raising capital through the issuance of securities; and (v) purchasing the Company's own shares for cancellation pursuant to its normal course issuer bid.

The Company's investment dealer subsidiary, NSI, is subject to rules of IIROC, which require NSI to maintain a certain level of regulatory capital. IIROC Dealer Member Rule 17.1 sets a minimum capital requirement for each firm based on its size and business model to ensure that the investment dealer not only has capital available to cover known risks but also excess capital to cover unforeseen risks. IIROC's minimum capital requirements are aimed at ensuring that investment dealers do not assume excessive leverage or engage in business practices which expose them to too much risk. This capital was provided by the Company and is eliminated upon consolidation as a loan between the parent and subsidiary. As at March 31, 2009, the amount of this loan was \$12,240,000 (2008 - \$12,240,000). Repayment of the loan requires IIROC approval. As at March 31, 2009, the capital of NSI exceeded the requirements of IIROC.

IIROC has advised NSI of an alleged deficiency on NSI's part to maintain required regulatory capital in October 2008 in connection with a client accumulation account. NSI does not believe there was a capital deficiency. This matter is still under discussion with IIROC.

To date, the Company has not declared any cash dividends to its shareholders as part of its capital management program. The Company's management is responsible for the management of capital and monitors the Company's use of various forms of leverage on a daily basis.

### **Critical Accounting Estimates**

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Certain estimates, including the valuation of broker warrants, forgivable loans, contingent liabilities, and future tax assets and liabilities, require management to make subjective or complex judgments. Accordingly actual results may vary from the current estimates. Accounting policies that require management's judgment and estimates are described below:

#### **Broker Warrants:**

Broker warrants received by the Company in respect of underwriting are measured at fair value using complex pricing models. 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. Imprecision in estimating valuations could affect the amount of revenue or loss recorded for a particular warrant. Management believes the estimates of fair value are reasonable given the process for obtaining external market inputs and the consistent application of its valuation approach from period to period.

The broker warrant portfolio was valued at \$713,674 at March 31, 2009 and included warrants issued by 60 public companies and 5 private companies with expiry dates to March 2011. The Black-Scholes valuation model uses as inputs the quoted closing bid price of the underlying security at valuation date in active markets where available, a 52 week volatility, and the Government of Canada treasury bill rate for equivalent maturity dates. When quoted prices in active markets are not available, determination of the fair value of the underlying security is based on reference to the issue price and consideration of other observable market data.

#### **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 using the discounted cash flow approach based on the prevailing prime interest rate on the recorded date. The difference between the fair value of these loans and the cash consideration is recorded as compensation expense 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 varies in length from six months to four years. The forgiven amount is recorded as brokerage operations expense on the consolidated statement of operations, comprehensive income and retained deficit. Management considers the valuation reasonable.

#### **Contingent Liabilities:**

The Company and its subsidiaries are involved in legal proceedings, including regulatory investigations, in the ordinary course of business. Loss provisions are recorded by the Company when it is probable that the Company will incur a loss and the amount of the loss can be reasonably estimated. Management and the Company's external advisors periodically assess the likelihood of loss and estimate the amount of any loss involved. While there is an inherent difficulty in predicting the outcome of such matters, 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.

### **Future Tax Assets and Liabilities:**

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. Management uses judgment in the estimation of current and future income taxes and in its determination of valuation allowances.

### **Financial Instruments**

The Company holds securities, including broker warrants, for investment purposes and receives loans to fund these investments.

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 ask price on the valuation date, the fair value is determined using valuation models. Realized and unrealized changes in fair value are recognized in income in the period in which the changes occur and reported as trading revenue on the consolidated statement of operations, comprehensive (loss) income and retained deficit.

Broker warrants received by the Company in respect of underwriting are measured at fair value and are included in securities owned. 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. Realized and unrealized changes in fair value are recognized in income in the period in which the changes occur and reported as broker warrants revenue on the consolidated statement of operations, comprehensive (loss) income and retained deficit.

Where the Company issues an instrument with an embedded derivative, the Company will bifurcate the derivative where it is not otherwise closely related to its host contract. This derivative is then carried at fair value with changes in fair value recognized in income in the period in which the changes occur and reported as merchant banking expense on the consolidated statement of operations, comprehensive (loss) income and retained deficit.

The following is a 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. As at March 31, 2009, based on a 1% change in the fair value of the Company's

securities, the estimated sensitivity of the Company's net income (loss) was (\$15,700) (2008 – (\$25,300)), based on a decrease and \$15,700 (2008 – \$25,300), based on an increase.

#### **Credit Risk:**

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

Credit risk is managed by applying credit standards to the counterparties the Company transacts business with, applying limits to client transactions and requiring settlements of security transactions on a cash basis or delivery against payments. The Company also regularly monitors credit exposure. Margin transactions are collateralized by securities in the client's accounts in accordance with limits established by the Company and applicable regulatory requirements. During the year ended March 31, 2009, the Company did not suffer any material loss from counterparty default.

As at March 31, 2009, NSI maintained a deposit with Penson Financial Services ("Penson") in the amount of \$1,729,559 (2008 - \$1,998,875) and a receivable balance from Penson in the amount of \$991,138 (2008 – \$1,121,008).

#### **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. 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 foreign exchange risk. The Company holds minimal financial instruments in foreign currencies.

#### **Liquidity Risk:**

Liquidity risk is the risk that results from the Company's potential inability to meet its financial obligations as they come due. The Company generates cash flow primarily from its commission and fee based businesses as well as its investments.

The Company manages liquidity risk by reviewing the amount of cash available, on a daily basis, to ensure that it can meet its current obligations. The Company holds investments, which can be readily converted into cash when required.

As at March 31, 2009, the Company had a promissory note payable outstanding in the amount of \$475,000. The promissory note payable matured 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 Chairman and Chief Executive Officer of the Company. The Company is currently in discussions with the holder of the promissory note regarding a repayment schedule for the balance of the promissory note. Subsequent to year-end, a repayment in the amount of \$125,000 was made on the promissory note.

At March 31, 2009, the Company had borrowed \$1,178,325 for a specific investment opportunity. These loans are repaid once the investment is sold, in accordance with each loan agreement. The loans mature at the earlier of (i) the date the related investment is sold, or (ii) 6 months following the date of the issuance of the loan. Subsequent to year-end, the underlying investment was sold and the loans in the amount of \$1,178,325 were repaid.

At March 31, 2009, the Company had borrowed \$616,000 for another specific investment opportunity. These loans are repaid once the investment is sold, in accordance with each loan agreement. The loans

mature at the earlier of (i) the date the related investment is sold, or (ii) 9 months following the date of the issuance of the loan.

## Share Capital Information

Outlined below is selected current share capital information related to the Company as March 31, 2009:

Description	Amount
Common shares issued and outstanding	10,083,073
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, 2009, and has concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its subsidiaries would have been known to them.

## Internal Control Over Financial Reporting

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

Although management has been able to reach this conclusion, certain weaknesses have been identified in the Company's ICFR. Given the small size of the Company's finance staff, the ability to achieve a significant level of segregation of duties does not exist. The Chief Financial Officer is responsible for much of the day-to-day finance activities of the Company, approving invoices, signing cheques, and preparing financial statements. A second signing officer, the integrity and reputation of the Chief Financial Officer and an open and candid discussion regarding this weakness with the Audit Committee mitigate this weakness. The small size of the finance staff also creates potential capacity issues wherein there may not be enough finance staff to perform all the necessary activities. The Company added another senior finance staff person in 2008 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 based on careful judgment and have been properly reflected in the financial statements.

## 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, 2009, NSI acted as financial advisor with respect to Lakeside Steel Corporation receiving advisory fees and commissions in the amount of \$300,000 (2008 - \$1,931,333).

During the year ended March 31, 2009, NSI acted as investment advisor and financial advisor with respect to Jaguar receiving commissions, fees, and cost recoveries in the amount of \$2,719,830 (2008 - \$1,986,751).

During the year ended March 31, 2008, NSI also paid Jaguar \$144,249 in commissions relating to certain transactions. As at March 31, 2009, an amount of \$nil (2008 - \$7,295) 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.

For a period of time during the year ended March 31, 2009, the Chief Executive Officer and another officer of NSI served as directors of Blue Note Mining Inc. and Forest Gate Resources Inc. During that period NSI acted as financial advisor with respect to these companies, receiving fees in the amount of \$275,000 and \$50,000, respectively.

During the year ended March 31, 2009, the Company paid interest in the amount of \$76,567 (2008 - \$335,055) 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, 2009, the Company had loans payable to Romspen of \$475,000 (2008 - \$600,000).

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

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

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**

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 on delivery of securities to Penson, NSI has agreed to pay Penson an amount up to its "excess risk adjusted capital". As at March 31, 2009, the amount of NSI's excess risk adjusted capital was \$846,000 (2008 - \$1,874,000).

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. 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.

### **Significant Changes in Accounting Policies**

Effective April 1, 2008, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1400.08A to 1400.08C, Going Concern, Section 1535 Capital Disclosure, Section 3862, Financial Instruments - Disclosure, and Section 3863 Financial Instruments - Presentation.

Section 1400.08A through 1400.08C establishes the standards by which management should assess an entity's ability to continue as a going concern, when preparing financial statements.

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

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

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

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

In January 2009, the CICA Emerging Issues Committee (“EIC”) issued Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (“EIC-173”). EIC-173 requires an entity to take into account its own credit risk and that of the relevant counterparty when determining the fair value of the financial assets and financial liabilities, including derivative instruments. This standard, which was effective for the Company for the year-ended March 31, 2009, had no material impact on the statement of financial position or operations and deficit.

### **Future Accounting Policies**

The Company will adopt CICA Handbook Section 3064 Goodwill and Intangible Assets beginning April 1, 2009. Section 3064 prescribes when expenditures qualify for recognition as intangible assets and provides guidance on the recognition and measurement of internally generated goodwill and intangible assets. The Company does not expect the effect of this standard to be significant.

The Company will adopt the use of International Financial Reporting Standards (“IFRS”) effective April 1, 2011. IFRS will replace Canadian GAAP currently followed by the Company. The Company will be required to begin reporting under IFRS for its fiscal year ended March 31, 2012 and will be required to provide information that conforms with IFRS for the comparative periods presented. The Company is currently evaluating the impact of the transition to IFRS including its effect on accounting policies, disclosures, financial systems, and internal controls.



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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, 2009 and 2008 and the consolidated statements of operations, comprehensive (loss) income, retained earnings and 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, 2009 and 2008 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  
June 11, 2009

**NORTHERN FINANCIAL CORPORATION**  
**Consolidated Balance Sheets**  
**As at March 31**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash (Note 2 and Note 16)	\$1,311,595	\$1,549,066
Deposit with carrying broker (Note 3)	1,729,559	1,998,875
Securities owned (Note 4)	1,571,814	2,531,633
Investment in associated companies (Note 5)	948,102	4,180,652
Accounts receivable	418,318	292,228
Forgivable loans (Note 8)	90,176	235,139
Prepaid expenses and deposits	178,936	249,969
Commodity taxes recoverable	25,539	38,192
	<u>6,274,039</u>	<u>11,075,754</u>
<b>OTHER ASSETS</b>	158,436	206,010
<b>CAPITAL ASSETS</b> (Note 6)	1,253,107	1,187,319
<b>INTANGIBLE ASSETS</b> (Note 7)	6,790	4,776
<b>TOTAL ASSETS</b>	<u>\$7,692,372</u>	<u>\$12,473,859</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Short-term loans payable (Note 9)	\$2,339,876	\$220,000
Accounts payable and accrued liabilities (Note 15)	2,357,990	1,503,604
Deferred revenue	17,500	22,500
Securities sold short (Note 4)	660	92,074
Promissory note payable (Note 10)	475,000	600,000
	<u>5,191,026</u>	<u>2,438,178</u>
<b>TOTAL LIABILITIES</b>	<u>5,191,026</u>	<u>2,438,178</u>
<b>COMMITMENTS AND CONTINGENCIES</b> (Note 13)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 11)	42,904,348	42,964,227
Contributed surplus (Note 11)	1,928,787	1,624,886
Accumulated other comprehensive income	-	-
Deficit	(42,331,789)	(34,553,432)
	<u>2,501,346</u>	<u>10,035,681</u>
	<u>\$7,692,372</u>	<u>\$12,473,859</u>

APPROVED BY THE BOARD

*"Ian Bradley"*

Director

*"Vic Alboini"*

Director

**NORTHERN FINANCIAL CORPORATION**  
**Consolidated Statements of Operations, Comprehensive (Loss) Income and Retained Deficit**  
**For the Years ended March 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
REVENUES (Note 15)		
Commissions	\$5,527,107	\$8,961,594
Underwriting and advisory	4,286,015	8,863,221
Broker warrants	(768,030)	1,956,814
Merchant banking	965,103	1,686,206
Trading	903,076	505,364
Interest	1,031,159	1,497,992
Other	100,427	(24,428)
	<u>12,044,857</u>	<u>23,446,763</u>
OPERATING EXPENSES		
Brokerage operations (Note 8)	13,976,899	21,572,134
Merchant banking	266,381	151,068
General and administrative	1,263,637	259,316
Interest expense	663,120	923,680
Depreciation and amortization	420,627	438,704
Total operating expenses	<u>16,590,664</u>	<u>23,344,902</u>
Net (loss) income from operations	(4,545,807)	101,861
SHARE OF (LOSS) EARNINGS OF JAGUAR FINANCIAL CORPORATION (Note 5)	(2,813,875)	505,313
SHARE OF (LOSS) OF LAKESIDE STEEL INC. (Note 5)	-	(295,383)
IMPAIRMENT OF INVESTMENT IN JAGUAR FINANCIAL CORPORATION (Note 5)	<u>(418,675)</u>	<u>-</u>
(LOSS) INCOME BEFORE INCOME TAXES	(7,778,357)	311,791
INCOME TAXES (Note 12(A))	<u>-</u>	<u>-</u>
NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	(7,778,357)	311,791
DEFICIT, beginning of year	(34,553,432)	(34,826,335)
DEFICIT, end of year	<u>\$(42,331,789)</u>	<u>\$(34,553,432)</u>
<b>(LOSS) EARNINGS PER SHARE – Basic and diluted</b>	(0.78)	0.03
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - Basic and diluted</b>	9,912,129	9,731,694

**NORTHERN FINANCIAL CORPORATION**  
**Consolidated Statements of Cash Flows**  
**For the Years ended March 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES</b>		
Net (loss) income for the year	\$(7,778,357)	\$311,791
Items not affecting cash		
Depreciation and amortization	420,627	438,704
Share of earnings of associated companies	2,813,875	(209,930)
Equity incentive plan / employee share purchase plan	383,101	29,518
Investment impairment	418,675	-
	<u>(3,742,079)</u>	<u>570,083</u>
Changes in non-cash working capital balances		
Securities owned and sold short	868,405	820,230
Accounts receivable	(126,090)	(251,365)
Prepaid expenses and deposits, and forgivable loans	263,570	(237,854)
Commodity taxes recoverable	12,653	1,603
Accounts payable and accrued liabilities	854,386	(1,277,045)
Deferred revenue	(5,000)	(22,648)
	<u>1,867,924</u>	<u>(967,079)</u>
Cash flows (used in) from operating activities	<u>(1,874,155)</u>	<u>(396,996)</u>
<b>CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES</b>		
Acquisition of capital assets	(488,429)	(749,111)
(Acquisition) / disposition of investments in associated companies	-	427,123
Deposit with carrying broker	269,316	(34,402)
Cash flows (used in) investing activities	<u>(219,113)</u>	<u>(356,390)</u>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>		
Repayment of promissory note	(125,000)	-
Increase / (decrease) in short-term loans	2,119,876	(1,536,062)
Repayment of debenture	-	(750,000)
Proceeds from employee share purchase plan	62,334	105,092
Repurchase of shares under normal course issuer bid	(12,732)	(6,992)
Repurchase of shares for reissue	(188,681)	-
Cash flows from (used in) financing activities	<u>1,855,797</u>	<u>(2,187,962)</u>
<b>(DECREASE) INCREASE IN CASH</b>	<b>(237,471)</b>	<b>(2,941,348)</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>1,549,066</b>	<b>4,490,414</b>
<b>CASH, END OF YEAR</b>	<b>\$1,311,595</b>	<b>\$1,549,066</b>

SUPPLEMENTARY INFORMATION (Note 16)

**1. NATURE OF OPERATIONS**

In 1999, Northern Financial Corporation (the "Company") acquired Northern Securities Inc. ("NSI"), a member firm of the Investment Industry Regulatory Organization of Canada ("IIROC"). The Company carries on a traditional brokerage and investment banking business, as well as a merchant banking business.

**2. 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:

*Going concern*

While these consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, several adverse conditions create uncertainty upon the validity of this assumption.

The Company incurred a loss of \$7,778,357 in the past year, has not fully repaid its matured promissory note, and has a significant amount of debt maturing within 12 months.

The Company's continued operation is dependent upon its ability to obtain replacement debt or equity financing when the existing debt matures and to restore and maintain profitable operations.

If the going concern assumption were not appropriate for these financial statements, adjustments would be necessary in the carrying values of assets and liabilities, the reported net earnings and the balance sheet classifications used.

*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. The loss in value of an investment in an associated company where that Company has significant influence is considered to be other than a temporary decline when there is significant or prolonged decline in the fair value of an investment below its carrying value.

*Cash*

The Company considers all highly liquid debt instruments with an original maturity date of three months or less to be cash equivalents. Included in cash is cash at the carrying broker. This amount can be used in normal operations.

*Foreign currency translation*

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

*Securities owned and securities sold short*

Securities are classified, based on management's intentions, as held-for-trading. Securities owned and securities sold short are stated at fair values at the balance sheet date. Obligations to deliver trading securities sold but not yet purchased are recorded as liabilities. The fair value of securities is determined at the end of the valuation date by the closing bid price for securities owned and closing ask price for securities sold short, on the stock exchange where the investment is listed. For investments where market quotations are not readily available or, if there is no closing bid or ask 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.

**NORTHERN FINANCIAL CORPORATION**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2009 and 2008**

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Broker warrants received by the Company in respect of underwriting are measured at fair value and are included in securities owned. 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.

Where the Company issues an instrument with an embedded derivative, the Company will bifurcate the derivative where it is not otherwise closely related to its host contract. This derivative is then carried at fair value with changes in fair value recorded in the statement of income.

*Securities transactions*

Securities transactions, including merchant banking, commissions and related clearing expenses are recorded on a trade date basis.

*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

*Intangible assets*

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 using the discounted cash flow approach based on the prevailing prime interest rate on the recorded date. The difference between the fair value of these loans and the cash consideration is recorded as compensation expense 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 varies in length from six months to four years. The forgiven amount is recorded as brokerage operations expense 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 these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Certain estimates, including the valuation of broker warrants, forgivable loans, contingent liabilities, and future tax assets and liabilities, require management to make subjective or complex judgments. Accordingly actual results may vary from the current estimates. These estimates are reviewed periodically by management and, as adjustments become necessary, they are reported in income in the period in which they become known.

*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*

Effective April 1, 2008, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1400.08A to 1400.08C, Going Concern, Section 1535 Capital Disclosure, Section 3862, Financial Instruments – Disclosure, and Section 3863 Financial Instruments – Presentation.

Section 1400.08A through 1400.08C establishes the standards by which management should assess an entity's ability to continue as a going concern, when preparing financial statements.

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

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

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

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

The note disclosures required are included in Notes 4, 10 and 14.

In January 2009, the CICA Emerging Issues Committee ("EIC") issued Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 requires an entity to take into account its own credit risk and that of the relevant counterparty when determining the fair value of the financial assets and financial liabilities, including derivative instruments. This standard, which was effective for the Company for the year-ended March 31, 2009, had no material impact on the statement of financial position or operations and deficit.

**NORTHERN FINANCIAL CORPORATION**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2009 and 2008**

*Future Accounting Policies*

The Company will adopt CICA Handbook Section 3064 Goodwill and Intangible Assets beginning April 1, 2009. Section 3064 prescribes when expenditures qualify for recognition as intangible assets and provides guidance on the recognition and measurement of internally generated goodwill and intangible assets. The Company does not expect the effect of this standard to be significant.

The Company will adopt the use of International Financial Reporting Standards ("IFRS") effective April 1, 2011. IFRS will replace Canadian GAAP currently followed by the Company. The Company will be required to begin reporting under IFRS for its fiscal year ended March 31, 2012, and will be required to provide information that conforms with IFRS for the comparative periods presented. The Company is currently evaluating the impact of the transition to IFRS including its effect on accounting policies, disclosures, financial systems, and internal controls.

**3. SERVICE AGREEMENT**

As at March 31, 2009, 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, 2009, the Company maintained a deposit with Penson in the amount of \$1,729,559 (2008 - \$1,998,875), which cannot be used in the normal course of operations. As at March 31, 2009, Penson has offset \$nil (2008 - \$nil) against this deposit for under margined and delinquent accounts of NSI.

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.

**4. SECURITIES OWNED AND SECURITIES SOLD SHORT**

Securities owned consist of the following:

	2009	2008
Publicly traded equities	\$ 858,140	\$ 767,502
Broker warrants	713,674	1,764,131
	<u>\$1,571,814</u>	<u>\$2,531,633</u>

Included in broker warrants are warrants issued by 60 (2008 – 80) public companies and 5 (2008 – 5) private companies with expiry dates to March 2011. Broker warrants are valued using a Black-Scholes model using the quoted closing bid price of the underlying security at valuation date in active markets where available, a 52 week volatility, and the Government of Canada treasury bill rate for equivalent maturity dates. When quoted prices in active markets are not available, determination of the fair value of the underlying security is based on reference to the issue price and consideration of other observable market data.

Securities sold short consist of the following:

	2009	2008
Publicly traded equities	\$660	\$92,074

**5. INVESTMENT IN ASSOCIATED COMPANY**

Investment in associated company consists of the following:

	2009	2008
Jaguar Financial Corporation	\$948,102	\$4,180,652
Lakeside Steel Inc.	-	-
	<u>\$948,102</u>	<u>\$4,180,652</u>

**NORTHERN FINANCIAL CORPORATION**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2009 and 2008**

Included in investments in associated companies is an investment in Jaguar Financial Corporation (“Jaguar”) representing 12.6% (2008 – 12.6%) of the outstanding common shares of Jaguar as March 31, 2009.

In the year ended March 31, 2009, management determined that the carrying value of its investment in Jaguar exceeded its fair market value and that this impairment was other than temporary. An impairment loss of \$418,675 was reflected in income to bring the carrying value to fair market value, determined using the quoted closing bid price of Jaguar as at March 31, 2009.

The Company has determined that it exercises significant influence over the strategic operating, investing and financing policies of Jaguar due to the following factors: the Company holds a 12.6% equity interest in Jaguar; (ii) the Chairman and Chief Executive Officer of the Company holds or has control or direction over a 7.8% equity interest in Jaguar; (iii) the Chairman and Chief Executive Officer of the Company is also the Chairman and Chief Executive Officer of Jaguar; (iv) the Chairman and Chief Executive Officer of the Company owns or has control or direction over a 32% equity interest in the Company; and (v) the Chief Financial Officer of the Company is also the Chief Financial Officer of Jaguar.

The equity method is used to account for the Company’s investment in Jaguar. The Company’s share of earnings or losses is reported in income. The Company’s investment in Jaguar has been reduced by \$2,813,875 in 2009 accordingly (increased by \$505,313 in fiscal 2008).

During the year ended March 31, 2008, the Company sold its interest in Lakeside Steel Inc. (“Lakeside”) for proceeds of \$1,905,513 generating a gain of \$1,566,613. See Note 15.

**6. CAPITAL ASSETS**

	2009		
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 929,767	\$ 649,015	\$ 280,752
Leasehold improvements	1,552,109	750,264	801,845
Computer equipment	1,723,849	1,566,253	157,596
Works of art	12,914	-	12,914
	<u>\$4,218,639</u>	<u>\$2,965,532</u>	<u>\$ 1,253,107</u>

  

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

Depreciation on capital assets for the year was \$416,732 (2008 – \$433,868).

**7. INTANGIBLE ASSETS**

	2009		
	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 540,922	\$ 534,132	\$ 6,790

  

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

Amortization on intangible assets for the year was \$3,896 (2008 – \$4,836).

**NORTHERN FINANCIAL CORPORATION**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2009 and 2008**

**8. FORGIVABLE LOANS**

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

	2009	Net Book	2008
Cost	Accumulated Amortization	Value	Net Book Value
Forgivable loans	\$1,085,719	\$964,805	\$120,914
			\$263,565

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

	2009	2008
Forgivable within 1 year	\$ 90,176	\$ 235,139
Forgivable in greater than 1 year	30,738	28,426
	\$ 120,914	\$ 263,565

The forgiven amount for the year of \$272,651 (2008 – \$312,231) is recorded as brokerage operations expense on the consolidated statement of operations, comprehensive (loss) income and retained deficit.

**9. SHORT-TERM LOANS 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 Chairman and Chief Executive Officer of the Company and a corporation wholly owned by the Chairman and Chief Executive Officer of the Company. As at March 31, 2009, the balance owing under the credit facility was \$225,000 (2008 – \$220,000).

As at March 31, 2009, the Company had loans outstanding in the amount of \$1,178,325 (2008 – nil), used to fund one of the Company's investments. The loans are unsecured, bear interest of 10% per annum, receive 50% of their pro rata share of any gain resulting from a liquidity event for the investment and mature at the earlier of (i) the date the investment is sold, or (ii) 6 months following the date of the issuance of the loan. These loans were issued January 21, 2009 through March 31, 2009. Subsequent to March 31, 2009, the underlying investment was sold and the full amount of the loans was repaid.

As at March 31, 2009, the Company had loans outstanding in the amount of \$616,000 (2008 – nil), used to fund one of the Company's investments. The loans are unsecured, bear interest of 5% per annum, receive 50% of their pro rata share of any gain resulting from a liquidity event for the investment and mature at the earlier of (i) the date the investment is sold, or (ii) 9 months following the date of the issuance of the loan. These loans were issued February 25, 2009 through March 27, 2009. A director of the Company provided \$20,000 of the loans.

As at March 31, 2009, the Company had a loan outstanding in the amount of \$290,457 (2008 – nil), at a rate of prime plus two percent. Security is provided by a charge on all of the Company's marketable securities.

**10. PROMISSORY NOTE PAYABLE**

As at March 31, 2009, the Company had a promissory note payable outstanding in the amount of \$475,000 (2008 - \$600,000). The promissory note payable matured 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 Chairman and Chief Executive Officer 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 \$76,567 (2008 – \$78,000).

Subsequent to March 31, 2009, \$125,000 of the promissory note was repaid.

**NORTHERN FINANCIAL CORPORATION**  
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**11. CAPITAL STOCK**

a) *Share capital*

Authorized	
Unlimited number of common shares	
2,000,000 voting, convertible, redeemable, preference shares	
Issued and outstanding	
10,083,073 common shares	\$42,904,348

Share capital activity for the years ended March 31, 2009 and 2008 is summarized as follows:

	Shares #	Amount \$
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 issued under equity incentive plan (d)	98,146	93,151
Shares issued under employee share purchase plan (e)	154,342	90,599
Shares cancelled under normal course issuer bid (f)	(12,800)	(55,871)
Balance, March 31, 2009	10,083,073	43,093,029
Shares repurchased for reissue – not yet reissued	(381,500)	(188,681)
Balance, March 31, 2009	9,701,573	42,904,348

(i) The total cost of share based compensation for the year ended March 31, 2009 was \$308,101 (2008 – \$94,310). As at March 31, 2009 the Company had an accrual of \$272,578 (2008 – \$85,893) related to share based compensation.

b) *Capital management*

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

The Company's capital structure includes the following:

	2009	2008
Short-term loans payable	\$ 2,339,876	\$ 220,000
Promissory note payable	475,000	600,000
Shareholder's equity comprised of		
Share capital	42,904,348	42,964,227
Contributed surplus	1,928,787	1,624,886
Deficit	(42,331,789)	(34,553,432)
	\$ 5,316,222	\$ 10,855,681

The Company's objectives when managing capital are to (i) provide financial capacity and flexibility in order to preserve its ability to meet its strategic objectives and financial obligations and continue as a going concern; (ii) maintain a capital structure which allows the Company to respond to changes in economic and/or marketplace conditions and affords the Company the ability to participate in new investments; (iii) optimize the use of its capital to provide an appropriate investment return to its shareholders equal with the level of risk; (iv) maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk; and (v) meets the regulatory requirements of IIROC.

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by: (i) realizing proceeds from the disposition of its investments; (ii) utilizing leverage in the form of margin loans on its investments; (iii) raising capital through loans from third party investors/lenders who seek to participate in investment opportunities; (iv) raising capital through the issuance of securities; and (v) purchasing the Company's own shares for cancellation pursuant to its normal course issuer bid.

**NORTHERN FINANCIAL CORPORATION**  
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The Company's investment dealer subsidiary, NSI, is subject to rules of IROC, which require NSI to maintain a certain level of regulatory capital. IROC Dealer Member Rule 17.1 sets a minimum capital requirement for each firm based on its size and business model to ensure that the investment dealer not only has capital available to cover known risks but also excess capital to cover unforeseen risks. IROC's minimum capital requirements are aimed at ensuring that investment dealers do not assume excessive leverage or engage in business practices which expose them to too much risk. This capital was provided by the Company and is eliminated upon consolidation as a loan between the parent and subsidiary. As at March 31, 2009, the amount of this loan was \$12,240,000 (2008 - \$12,240,000). Repayment of the loan requires IROC approval. As at March 31, 2009 the capital of NSI exceeded the requirements of IROC.

IROC has advised NSI of an alleged deficiency on NSI's part to maintain required regulatory capital in October 2008 in connection with a client accumulation account. NSI does not believe there was a capital deficiency. This matter is still under discussion with IROC.

To date, the Company has not declared any cash dividends to its shareholders as part of its capital management program. The Company's management is responsible for the management of capital and monitors the Company's use of various forms of leverage on a daily basis.

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, 2009, 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, 2009 and 2008.

The following is a summary of common share purchase options outstanding as at March 31, 2009:

Range of Exercise Prices	Stock Options #	Weighted Average Remaining Life (Years)	Weighted Average Price
\$ 3.50-5.00	69,937	3.33	\$ 3.79
\$8.00-9.00	43,350	1.96	\$ 8.96
\$30.00-40.00	6,158	1.48	\$30.33
\$49.00-70.00	22,557	0.30	\$55.35
	<u>142,002</u>	<u>2.35</u>	<u>\$14.71</u>

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.

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f) *Normal course issuer bid*

On February 22, 2008, the Company announced a normal course issuer bid. According to the terms of the bid, and in accordance with the rules of the TSX, during the period commencing February 26, 2008, and ending February 25, 2009, the Company may purchase a maximum of 652,933 of its common shares, which represents approximately 10% of the public float. Purchases of common shares will be affected 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, 2009, the Company purchased, from the commencement date of the bid, 19,700 common shares of the Company. The Company, during that period, cancelled 19,700 common shares.

The normal course issuer bid has expired and has not been renewed.

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, 2008	9,731,694
March 31, 2009	9,912,129

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, 2009 and 2008 is summarized as follows:

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
Employee equity incentive plan	255,555
Employee share purchase plan	6,130
Normal course issuer bid	42,216
Balance, March 31, 2009	\$ 1,928,787

**12. 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 33.5% (2008 – 36%) are as follows:

	2009	2008
Income (loss) before taxes	\$ 7,778,357	\$ 311,791
Expected income tax (benefit) based on statutory rate	(2,605,750)	112,245
Equity (gain) loss from associated companies	942,648	(75,575)
Amortization	140,910	157,933
Utilization of prior year losses	-	(185,114)
Finance cost	(41,522)	(34,229)
Other non-tax deductible expenses	8,247	24,740
Other	-	-
	(1,555,467)	-
Current year valuation allowance	1,555,467	-
Income tax expense	\$ -	\$ -

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b) *Future tax balances*

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

	2009	2008
Future tax assets		
Non-capital losses carried forward	\$ 4,626,460	\$ 3,408,381
Share issue costs	41,522	41,522
Equipment and intangible assets	1,126,629	1,138,430
Resource deductions	1,417,876	1,524,000
	<u>7,212,487</u>	<u>6,112,333</u>
Valuation allowance	(7,212,487)	(6,112,333)
Total	<u>\$ -</u>	<u>\$ -</u>

The Company has loss carry forwards in Canada of approximately \$13,810,329, 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:

2010	\$ 2,684,634
2014	1,089,489
2015	837,597
2027	5,382,364
2029	3,820,240
	<u>\$13,814,324</u>

**13. 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 on delivery of securities to Penson, NSI has agreed to pay Penson an amount up to its "excess risk adjusted capital". As at March 31, 2009, the amount of NSI's excess risk adjusted capital was \$846,000 (2008 – \$1,874,000).
- b) The Company is party to legal proceedings in the ordinary course of its operations. Management does not expect the outcome of any of these proceedings to have a materially adverse effect on the results of the Company's financial position or operations.

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.

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

2010	\$ 1,514,200
2011	1,190,500
2012	1,117,900
2013	700,100
2014	42,500
	<u>\$4,565,200</u>

- 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 Chairman and Chief Executive Officer of the Company and a corporation controlled by the President of the Company. As at March 31, 2009, \$225,000 was owing under the credit facility.

## **14. 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. As at March 31, 2009, based on a 1% change in the fair value of the Company's securities, the estimated sensitivity of the Company's net income (loss) was (\$15,700) (2008 – (\$25,300)), based on a decrease and \$15,700 (2008 – \$25,300), based on an increase.

### *Credit risk*

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

Credit risk is managed by applying credit standards to the counterparties the Company transacts business with, applying limits to client transactions and requiring settlements of security transactions on a cash basis or delivery against payments. The Company also regularly monitors credit exposure. Margin transactions are collateralized by securities in the client's accounts in accordance with limits established by the Company and applicable regulatory requirements. During the year ended March 31, 2009, the Company did not incur any material loss from counterparty default.

As at March 31, 2009, NSI maintained a deposit with Penson in the amount of \$1,729,559 (2008 - \$1,998,875) (see Note 3) and a receivable balance from Penson in the amount of \$991,138 (2008 – \$1,121,008).

### *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. The Company also has issued borrowings that are interest bearing.

### *Foreign exchange risk*

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

### *Liquidity risk*

Liquidity risk is the risk that results from the Company's potential inability to meet its financial obligations as they come due. The Company generates cash flow primarily from its commission and fee based businesses as well as its investments.

The Company manages liquidity risk by reviewing the amount of cash available, on a daily basis, to ensure that it can meet its current obligations. The Company holds investments, which can be readily converted into cash when required.

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The contractual maturities of the Company's significant financial liabilities and contractual commitments as at March 31, 2009, are shown in the following table:

**Payments Due by Period**

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1 to 3 years</b>	<b>4 to 5 years</b>	<b>After 5 years</b>
Debt	\$2,784,782	\$2,784,782	-	-	-
Operating Leases	\$4,565,200	\$1,514,200	\$2,308,400	\$742,600	-
Total Contractual Obligations	\$7,349,982	\$4,298,982	\$2,308,400	\$742,600	-

**15. 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, 2009, NSI acted as financial advisor with respect to Lakeside Steel Corporation receiving advisory fees and commissions in the amount of \$300,000 (2008 - \$1,931,333).

During the year ended March 31, 2009, NSI acted as investment advisor and financial advisor with respect to Jaguar receiving commissions, fees, and cost recoveries in the amount of \$2,719,830 (2008 - \$1,986,751). During the year ended March 31, 2008, NSI also paid Jaguar \$144,249 in commissions relating to certain transactions. As at March 31, 2009, an amount of \$nil (2008 - \$7,295) 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.

For a period of time during the year ended March 31, 2009, the Chief Executive Officer and another officer of NSI served as directors of Blue Note Mining Inc. and Forest Gate Resources Inc. During that period NSI acted as financial advisor with respect to these companies, receiving fees in the amount of \$275,000 and \$50,000, respectively.

During the year ended March 31, 2009, the Company paid interest in the amount of \$76,567 (2008 - \$335,055) 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, 2009, the Company had loans payable to Romspen of \$475,000 (2008 - \$600,000).

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

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

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.

**16. SUPPLEMENTAL INFORMATION – STATEMENT OF CASH FLOWS**

	2009	2008
Interest paid	\$ 640,310	\$ 1,160,424
Cash consists of the following		
Cash	\$ 320,457	\$ 428,058
Cash at carrying broker	991,138	1,121,008
Total	\$ 1,311,595	\$ 1,549,066

**17. SUBSEQUENT EVENTS**

- a) On April 2, 2009, NSI reached an agreement to settle an outstanding legal action where the plaintiff was claiming damages of \$106,900. NSI will pay the plaintiff \$75,000 over a period of 180 days, in satisfaction of all claims, costs, and interest. A provision was made to reflect the settlement amount.
- b) On May 14, 2009, through May 29, 2009, the Company secured debt financing in the amount of \$900,000. The loans bear interest at 10%, mature six months from the advance date, and are secured by marketable securities held by the Company and certain guarantees provided personally by the Chairman and Chief Executive Officer of the Company.

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William Grant, *Consultant*  
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*Romspen Investment Corporation*

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