

| Discipline Notice |

May 30, 2008

No. 2008-002

Suggested Routing

- Trading
- Legal and Compliance

NORTHERN SECURITIES INC.

UMIR Provisions Contravened

- 7.1 – Trading Supervision
Obligations
- Policy 7.1

Summary

A Hearing Panel constituted under the Universal Market Integrity Rules today approved a settlement agreement between RS and Northern Securities Inc. In the settlement agreement, Northern Securities Inc. agrees that between January 2003 and August 2005, it contravened UMIR 7.1 and Policy 7.1. Northern Securities Inc. was fined \$125,000, plus \$50,000 in costs.

Appendices

- Settlement Agreement
- Statement of Allegations
- Schedule A

Questions / Further Information

For further information or questions concerning this notice contact:

Charles Corlett
Enforcement Counsel
Investigations & Enforcement, Eastern Region

Telephone: 416.646.7253

Fax: 416.646.7285

e-mail: charles.corlett@rs.ca

DISCIPLINARY NOTICE – NORTHERN SECURITIES INC.

May 30, 2008

Person Disciplined

On May 30, 2008, a Hearing Panel of the Hearing Committee of Market Regulation Services Inc. (“RS”) approved a settlement agreement (the “Settlement Agreement”) concerning Northern Securities Inc. (“NSI”).

Requirement Contravened

Under the terms of the Settlement Agreement, NSI admits that the following Requirement was contravened:

- (a) between January 2003 and August 2005, NSI failed to i) update its written trading supervision and compliance policies and procedures in a timely way; ii) implement certain appropriate trading supervision and compliance oversight and testing procedures; and, iii) maintain adequate evidence of internal compliance testing, contrary to Rule 7.1 and Policy 7.1 of UMIR.

Sanctions Approved

The following sanctions were approved:

- (a) A fine of \$125,000.00 payable by NSI to RS; and
- (b) Costs of \$50,000.00 payable to RS.

Summary of Facts

In the period January 2003 to August 2005 (the “Relevant Period”), NSI lacked an effective trading supervision and compliance system as required under Rule 7.1 and Policy 7.1 of UMIR.

NSI failed to make the implementation of such a system a priority for most of the Relevant Period. Instead, NSI’s priorities were focused on several operational matters, including (i) the operational and cultural integration of two securities dealers (Georgia Pacific Securities Corporation (“GP”) and IPO Capital Corp. (“IPO”) which NSI purchased in late 2002 and early 2003; (ii) the transition of its client accounts to a new carrying broker; (iii) the transfer of Georgia Pacific’s client accounts in its self-clearing business to NSI’s carrying broker; (iv) the transfer of clients from IPO Capital’s carrying broker to NSI’s carrying broker; and (v) the exit from its Early Warning status with the Investment Dealers Association (“IDA”) in 2003.

RS conducted trade desk reviews (“TDR”) in the fall of 2003 and 2004, which found insufficient supervision of certain trading practices and procedures and compliance testing practices; and, UMIR deficiencies, most notably related to audit trail and order entry designation. Many of the 2004 TDR findings were repeat findings from the 2003 TDR.

RS’ 2005 TDR found some improvement in NSI’s testing procedures and other compliance and supervision issues, but there were certain deficiencies identified in the

DISCIPLINARY NOTICE – NORTHERN SECURITIES INC.

May 30, 2008

previous TDRs that remained including: certain compliance testing procedures were insufficiently documented and the failure to adequately document all internal testing; and, while there were fewer deficiencies, there were UMIR deficiencies relating to audit trail and order entry designation.

RS's investigation disclosed that during the Relevant Period, NSI did not undertake some supervision and compliance duties required by Rule 7.1 and Policy 7.1 of UMIR, as follows:

- (a) For the period January 2003 to July 2003, NSI did not fully conduct compliance testing for purposes of Policy 7.1.
- (b) For the period August 2003 to August 2005, NSI has provided inadequate evidence of compliance testing for purposes of Policy 7.1. The results of the reviews that were conducted by NSI were not quantified or summarized and there is limited backup material kept on record to evidence how the reviews were conducted and whether there was follow up on issues identified during testing.
- (c) NSI failed to conduct the required quarterly testing under Policy 7.1. NSI has told RS that it conducted daily and monthly compliance testing but, that it did not conduct the required quarterly testing under Policy 7.1 as it believed that its daily and monthly testing was adequate for a firm of its size.
- (d) NSI did not have a proper training program in place during most of the Relevant Period nor were Christopher Shaule ("Shaule"), who became Chief Compliance Officer in December 2003 or Gary Mulder ("Mulder") and George Magill ("Magill"), who conducted the majority of the compliance testing for purposes of Policy 7.1, sufficiently trained in relation to UMIR Requirements to adequately and effectively carry out their respective duties.
- (e) There was confusion between Shaule and Mulder concerning Mulder's responsibilities for compliance testing.
- (f) During the Relevant Period, there was no documented annual review of the supervision system and no formal reporting of compliance and supervision issues to NSI's Board of Directors.
- (g) NSI was not testing adequately for possible wash trading in proprietary accounts during the Relevant Period.

During the Relevant Period, NSI lacked certain appropriate trading supervision and compliance oversight and testing. The 2004 and 2005 TDR findings outline the issues relating to inadequate policies and procedures, testing methodologies and documentation of such testing.

During the Relevant Period, NSI increased the risk to its clients and the integrity of the marketplaces on which NSI trades by failing to adopt an effective trading supervision and

DISCIPLINARY NOTICE – NORTHERN SECURITIES INC.

May 30, 2008

compliance system as required by UMIR to protect clients and the integrity of markets. During the Relevant Period, there were no investor losses and there was no financial benefit to NSI as a result of any failure to comply with these trading supervision and compliance matters. NSI had only 3 client complaints in 2007.

RS acknowledges that NSI has since implemented changes to address these issues. In 2005, NSI undertook an outside review by Fasken to improve its compliance system and more recently agreed to engage a consulting firm to implement an additional review of its UMIR compliance.

At the conclusion of the Approval Hearing, RS notified the Hearing Panel that RS would not advance or continue any hearing relating to the Notice of Hearing and Statement of Allegations issued October 20, 2005 against Northern Securities Inc., Victor Alboini and Christopher Shaule and RS requested that the Hearing Panel permanently stay that proceeding. The Hearing Panel granted that request and ordered the proceeding stayed.

Panel Members

Chair: The Honourable Stanley Kurisko
Industry Member: Mr. Guenther Kleberg
Industry Member: Mr. Peter Nares

Further Information

Participants who require additional information should direct questions to Charles Corlett, Enforcement Counsel, Investigations & Enforcement, Eastern Region, Market Regulation Services Inc. at 416-646-7253.

About Market Regulation Services Inc. (RS)

RS is the independent regulation services provider for Canadian equity marketplaces, including TSX, TSX Venture Exchange, Canadian Trading and Quotation System, Bloomberg Tradebook Canada Company, Liquidnet Canada Inc., Blockbook, Pure Trading, MATCH Now, OMEGA ATS and Chi-X Canada. RS is recognized by the securities commissions of Ontario, British Columbia, Alberta and Manitoba and by the *Autorité des marchés financiers* in Québec to regulate the trading of securities on these marketplaces by participant firms and their trading and sales staff. RS helps protect investors and ensure market integrity by ensuring all equities transactions are executed properly, fairly and in compliance with trading rules.

**IN THE MATTER OF
THE UNIVERSAL MARKET INTEGRITY RULES**

AND

**IN THE MATTER OF
NORTHERN SECURITIES INC.**

OFFER OF SETTLEMENT

A. INTRODUCTION

1. Market Regulation Services Inc. (“RS”) has conducted an investigation (the “Investigation”) into the conduct of Northern Securities Inc. (“NSI”).
2. The Investigation has disclosed matters for which RS seeks certain sanctions against NSI pursuant to Rule 10.5 of the Universal Market Integrity Rules (“UMIR”).
3. If this Offer of Settlement is accepted by NSI, the resulting settlement agreement (the “Settlement Agreement”), which has been negotiated in accordance with Part 3 of UMIR Policy 10.8, is conditional upon the approval by a hearing panel (the “Hearing Panel”) of the Hearing Committee appointed under Part 10 of UMIR Policy 10.8.
4. NSI agrees to waive all rights under UMIR to a hearing or to an appeal or review if the Settlement Agreement is approved by the Hearing Panel.

5. RS and NSI jointly recommend that the Hearing Panel accept this Settlement Agreement.

B. AGREEMENT AS TO REQUIREMENT CONTRAVENED

6. It is agreed that between January 2003 and August 2005, NSI failed to i) update its written trading supervision and compliance policies and procedures in a timely way; ii) implement certain appropriate trading supervision and compliance oversight and testing procedures; and, iii) maintain adequate evidence of internal compliance testing, contrary to Rule 7.1 and Policy 7.1 of UMIR.

C. ADMITTED FACTS

7. RS and NSI agree with and rely upon the admitted facts and conclusions which are set out in the Statement of Allegations attached as Appendix "A" to this Settlement Agreement.

D. DISPOSITION

8. For the contravention in paragraph 6 above, RS and NSI have agreed upon the following disposition:
 - (a) A fine of \$125,000.00 payable by NSI to RS; and
 - (b) Costs of \$50,000.00 payable to RS.
9. If this Settlement Agreement is accepted by a Hearing Panel, NSI agrees to pay the amounts referred to in paragraph 8 in three (3) installments as follows:
 - (1) \$65,000 within 30 days of acceptance of the Settlement Agreement by a Hearing Panel;

- (2) \$60,000 within 12 months; and
- (3) \$50,000 within 18 months.

E. PROCEDURES FOR ACCEPTANCE OF OFFER OF SETTLEMENT AND APPROVAL OF SETTLEMENT AGREEMENT

- 10. NSI shall have until the close of business on May 14, 2008 to accept the Offer of Settlement and serve an executed copy thereof on RS.
- 11. This Settlement Agreement shall be presented to a Hearing Panel at a public hearing (the "Approval Hearing") held for the purpose of approving the Settlement Agreement, in accordance with the procedures described in UMIR Policy 10.8 in addition to any other procedures as may be agreed upon between the parties. NSI acknowledges that RS shall notify the public and media of the Approval Hearing in such manner and by such media as RS sees fit.
- 12. Pursuant to Part 3.4 of UMIR Policy 10.8, the Hearing Panel may accept or reject this Settlement Agreement.
- 13. In the event the Settlement Agreement is accepted by a Hearing Panel, the matter becomes final, there can be no appeal or review of the matter, the disposition of the matter agreed upon in this Settlement Agreement will be included in the permanent record of RS in respect of NSI, and RS will publish a summary of the Requirements contravened, the facts, and the disposition agreed upon in the Settlement Agreement.
- 14. In the event the Hearing Panel rejects the Settlement Agreement, RS may proceed with a hearing of the matter before a differently constituted Hearing

Panel pursuant to Part 3.7 of UMIR Policy 10.8 and this Settlement Agreement may not be referred to without the consent of all parties.

F. OTHER MATTERS

15. NSI agrees that, in the event NSI fails to comply with any of the terms of the Settlement Agreement, RS may enforce this settlement in any manner it deems appropriate and may, without limiting the generality of the foregoing, suspend NSI's access to marketplaces regulated by RS until RS determines that NSI is in full compliance with all terms of the Settlement Agreement.
16. In the event the Settlement Agreement is accepted by a Hearing Panel, RS will notify the Hearing Panel that RS will not advance or continue any hearing pursuant to Part 9 of UMIR Policy 10.8 relating to the Notice of Hearing and Statement of Allegations issued October 20, 2005 against Northern Securities Inc., Victor Alboini and Christopher Shaule (the "2005 Proceeding") and RS will request that the Hearing Panel permanently stay the 2005 Proceeding. RS shall notify the public and media of the stay of proceedings in such manner and by such media as RS sees fit.
17. RS acknowledges that Northern Financial Corporation, which wholly owns NSI, is a reporting issuer and may issue a press release reporting on the terms of the Settlement Agreement in such manner as it sees fit to discharge its continuous disclosure obligations.
18. NSI agrees that neither it, nor anyone on its behalf, will make a public statement inconsistent with this Settlement Agreement.

IN WITNESS WHEREOF the parties have signed this Settlement Agreement as of the dates noted below.

DATED at Toronto, Ontario on the 14th day of May, 2008.

"Kyler Wells"
Witness Signature

"Victor Alboini"
Northern Securities Inc.

Per: Vic Alboini
Chairman and Chief
Executive Officer

Kyler Wells
Name of Witness

84 Riverwood Parkway, Toronto, ON, M8Y 4E8
Address of Witness

DATED at Toronto, Ontario on the 14th day of May, 2008.

Per: "Maureen Jensen"
Maureen Jensen
President and Chief Executive Officer
Market Regulation Services Inc.

This foregoing Settlement Agreement is hereby accepted this 30th day of May, 2008, by the following hearing panel constituted to review the terms thereof:

Per: "Hon. Stanley Kurisko"
Panel Chair

Per: "Guenther Kleberg"
Panel Member

Per: "Peter Nares"
Panel Member

**IN THE MATTER OF
THE UNIVERSAL MARKET INTEGRITY RULES**

AND

**IN THE MATTER OF
NORTHERN SECURITIES INC.**

OFFER OF SETTLEMENT

Market Regulation Services Inc.
Suite 900, Box 939
145 King Street West
Toronto, Ontario M5H 1J8

Charles Corlett
Enforcement Counsel
Investigations and Enforcement
Telephone: 416-646-7253
Facsimile: 416-646-7285

**IN THE MATTER OF
THE UNIVERSAL MARKET INTEGRITY RULES**

AND

IN THE MATTER OF

NORTHERN SECURITIES INC.

STATEMENT OF ALLEGATIONS

I. REQUIREMENTS CONTRAVENED

1. Northern Securities Inc. ("NSI") agrees that it failed to i) update its written trading supervision and compliance policies and procedures in a timely way; ii) implement certain appropriate trading supervision and compliance oversight and testing procedures; and, iii) maintain adequate evidence of internal compliance testing, contrary to Rule 7.1 and Policy 7.1 of the Universal Market Integrity Rules ("UMIR").
2. The text of the relevant Requirements is set out at Schedule "A".

II. THE FACTS RELIED UPON

Overview

3. In the period January 2003 to August 2005 (the "Relevant Period"), NSI lacked an effective trading supervision and compliance system as required under Rule 7.1 and Policy 7.1 of UMIR.
4. NSI failed to make the implementation of such a system a priority for most of the Relevant Period. Instead, NSI's priorities were focused on several operational matters, including (i) the operational and cultural integration of two

securities dealers (Georgia Pacific Securities Corporation (“GP”) and IPO Capital Corp. (“IPO”) which NSI purchased in late 2002 and early 2003; (ii) the transition of its client accounts to a new carrying broker; (iii) the transfer of Georgia Pacific’s client accounts in its self-clearing business to NSI’s carrying broker; (iv) the transfer of clients from IPO Capital’s carrying broker to NSI’s carrying broker; and (v) the exit from its Early Warning status with the Investment Dealers Association (“IDA”) in 2003.

5. RS conducted trade desk reviews (“TDR”) in the fall of 2003 and 2004, which found:
 - Insufficient supervision of certain trading practices and procedures and compliance testing practices; and,
 - UMIR deficiencies, most notably related to audit trail and order entry designation.

Many of the 2004 TDR findings were repeat findings from the 2003 TDR.

6. On October 15, 2004, after the completion of the 2004 TDR, NSI was informed that the findings would be referred to RS Investigations and Enforcement.
7. RS’s investigation of NSI began in November 2004 and NSI was informed of the investigation by letter dated November 2, 2004.
8. In August 2005, RS conducted its 2005 TDR at NSI. While the 2005 TDR found some improvement in NSI’s testing procedures and other compliance and supervision issues, there were certain deficiencies identified in the previous TDRs that remained including:
 - Certain compliance testing procedures were insufficiently documented and the failure to adequately document all internal testing; and,
 - While there were fewer deficiencies, there were UMIR deficiencies relating to audit trail and order entry designation.

9. RS's investigation disclosed that during the Relevant Period, NSI did not undertake some supervision and compliance duties required by Rule 7.1 and Policy 7.1 of UMIR, as follows:
- (a) For the period January 2003 to July 2003, NSI did not fully conduct compliance testing for purposes of Policy 7.1.
 - (b) For the period August 2003 to August 2005, NSI has provided inadequate evidence of compliance testing for purposes of Policy 7.1. The results of the reviews that were conducted by NSI were not quantified or summarized and there is limited backup material kept on record to evidence how the reviews were conducted and whether there was follow up on issues identified during testing.
 - (c) NSI failed to conduct the required quarterly testing under Policy 7.1. NSI has told RS that it conducted daily and monthly compliance testing but, that it did not conduct the required quarterly testing under Policy 7.1 as it believed that its daily and monthly testing was adequate for a firm of its size.
 - (d) NSI did not have a proper training program in place during most of the Relevant Period nor were Christopher Shaule ("Shaule"), who became Chief Compliance Officer in December 2003 or Gary Mulder ("Mulder") and George Magill ("Magill"), who conducted the majority of the compliance testing for purposes of Policy 7.1, sufficiently trained in relation to UMIR Requirements to adequately and effectively carry out their respective duties.
 - (e) There was confusion between Shaule and Mulder concerning Mulder's responsibilities for compliance testing.
 - (f) During the Relevant Period, there was no documented annual review of the supervision system and no formal reporting of compliance and supervision issues to NSI's Board of Directors.

- (g) NSI was not testing adequately for possible wash trading in proprietary accounts during the Relevant Period.

Corporate structure

10. NSI is a Participant and is a wholly owned subsidiary of Northern Financial Corporation (“NFC”), which is a publicly listed company.
11. On December 20, 2002, NFC purchased all of the assets of GP and by February 1, 2003, all of the operations of GP were combined with those of NSI.
12. On March 31, 2003, NFC acquired IPO. The operations of IPO were combined with NSI’s during April and May 2003.
13. Prior to the acquisition of GP and IPO, NSI was only located in Toronto. With these acquisitions, NSI added branch and sub-branch offices in Calgary and Vancouver.
14. NSI’s Toronto office was initially involved in retail and investment banking, but in the spring of 2004, it began building an institutional sales division. The Vancouver office is involved primarily with retail sales, but also has a group of proprietary traders. Calgary is involved in investment banking, retail sales and has one proprietary trader.
15. NSI also offers discount direct access brokerage services through eNorthern.
16. During the Relevant Period, the NFC Board of Directors consisted of Victor Alboini (“Alboini”), who is Chairman and Chief Executive Officer of NSI and NFC, and two independent directors.

NSI Personnel

Alboini

17. Alboini has been the President, Chief Executive Officer, Chairman and Ultimate Designated Person of NSI since July 1999 and the Chairman, Chief

Executive Officer and President of NFC since August 2000. During the Relevant Period, Alboini, the President and Chief Executive Officer of NSI, was the only member of the NSI Board of Directors except during the period January 2003 to April 2003, when there was one other individual in addition to Alboini. There have been two directors on the NSI Board since September 2005.

Chief Compliance Officers in the Relevant Period

18. Shaule joined NSI as Chief Financial Officer in October 2003. Shaule took over the additional role of Chief Compliance Officer in December 2003.
19. Prior to joining NSI, Shaule worked in the securities industry, primarily in finance related positions, including as a Chief Financial Officer, since 1996.
20. As of May 24, 2005, Shaule ceased to be the Chief Compliance Officer and returned to the sole role of Chief Financial Officer.
21. NSI had two other Chief Compliance Officers in the Relevant Period: one between January and June 2003 and one between June and October 2003.
22. During the Relevant Period, therefore, NSI had three Chief Compliance Officers, which, as a result of the acquisitions of GP and IPO, caused administrative difficulties for NSI in relation to its compliance and supervisory system.

Compliance/Supervision Structure

23. For most of the Relevant Period, Mulder was the individual responsible for conducting UMIR compliance monitoring and testing for the Toronto office for purposes of Policy 7.1 of UMIR. Mulder was also responsible for UMIR compliance monitoring and testing for the Calgary branch, including the grey and restricted list, testing for high closing and manipulative and deceptive trading (which was supposed to include testing for wash trading).

24. Mulder joined NSI on March 31, 2003. He came to NSI from IPO as part of that acquisition. Prior to March 2003, Mulder had worked in the securities industry, but had not been responsible for compliance testing in reference to UMIR or the previous TSE rules relating to trading.
25. The Branch Manager for the Calgary office, Robert Fong ("Fong") was responsible for the balance of compliance testing under Policy 7.1 for Calgary which was not conducted by Mulder.
26. The Vice-President Compliance for NSI, Magill was responsible for compliance testing for purposes of Policy 7.1 for the Vancouver branches. Magill received training by GP related to Rule 7.1 and Policy 7.1 of UMIR, and after the acquisition by NSI he did not receive further training until May 2005.
27. From November 2003 to May 23, 2005, all three of these individuals reported to Shaule in relation to their compliance monitoring under Policy 7.1.

The Trade Desk Review Process

RS's 2003 Trade Desk Review ("2003 TDR")

28. In October 2003, RS conducted its 2003 TDR at NSI. As of that date, Policy 7.1 of UMIR had been in effect since April 2002.
29. By letter dated October 14, 2003, addressed to Alboini with a copy to the then Chief Compliance Officer, RS provided NSI with its 2003 TDR findings.
30. The 2003 TDR findings were:
 - A. **Supervision of Trading**
 - NSI's compliance policies and procedures needed further development to meet the requirements of UMIR Policy 7.1;
 - NSI had not documented written methodologies on how it conducts each of the tests as required by the Policy;

- Testing results were not quantified and summarized for RS' review;
- NSI had not documented how it would address problems that were found during their reviews; and,
- There was no evidence that compliance issues were formally reported to the Board of Directors.

NSI was required to:

- Adopt written policies and procedures to ensure compliance with UMIR rules and policies;
- Conduct the Minimum Compliance Procedures as set out in UMIR Policy 7.1, Part 3, and document its testing procedures and results;
- Give specifics as to what the policies should encompass; and,
- Submit a copy of the revised policies and procedures to RS with its response to the 2003 TDR findings.

B. Client Priority

- NSI did not have written policies and procedures which set out how the exemptions included in the client priority rule were to be used.

NSI was required to:

- Develop and implement policies and procedures which set out how the exemptions in the client priority rule were to be used; and,
- Submit a copy of these policies and procedures to RS with a response to the 2003 TDR findings.

C. Completeness of Audit Trail

- Testing revealed problems with the completeness of the audit trail including missing information on tickets, such as time stamps, quantity of shares and sale price.

NSI was required to:

- take steps to comply with the requirements for audit trail completeness and document them.

D. Order Entry Designation

- Testing revealed certain problems with order entry designations relating to improper marking of non-client, principal and jitney trades.

NSI was required:

- to take steps to comply with the requirements for order designation and document them.

31. When Shaule became Chief Compliance Officer in November 2003, it was his responsibility to draft the necessary policies and procedures and to otherwise respond to the 2003 TDR findings from RS.
32. On November 28, 2003, RS issued Market Integrity Notice 2003-025 entitled “Guidelines on Trading Supervision Obligations” (the “Notice”). The Notice reminded Participants, among other things, that a failure to develop and implement appropriate policies and procedures in accordance with the requirements of Policy 7.1 may result in disciplinary action against the firm, its management and directors.

33. NSI's written response addressing these issues was to be provided to RS by December 15, 2003. On or about the due date, RS agreed to extend the date for delivery of NSI's response to January 15, 2004.
34. As of January 20, 2004, RS had not received NSI's written response to the 2003 TDR. An e-mail inquiry was made by RS on January 20, 2004, concerning the status of the response.
35. On January 22, 2004, RS spoke with Alboini who advised Shaule to contact RS. That same day, two voice mail messages were left for Shaule, but the calls were not returned.
36. By letter dated January 23, 2004, RS advised NSI that it must respond to the 2003 TDR findings by January 30, 2004, and that any failure to do so could result in an enforcement action.
37. On February 19, 2004, NSI provided a response including revised policies and procedures, which RS found to be inadequate.
38. On April 1, 2004, a meeting was held between Shaule and RS to discuss NSI's response to the 2003 TDR findings. As a result of the meeting, RS requested by letter dated April 4, 2004, that NSI submit a revised supervision policy by April 8, 2004. NSI was also required to submit summary reports of monthly compliance testing for April, May and June 2004.
39. On June 4, 2004, RS received a revised supervision policy from NSI which RS believed was not complete. In addition, testing for April 2004 which was due on May 21, 2004, was provided with the policy.
40. NSI provided testing for May 2004 on its due date, June 18, 2004.
41. On July 16, 2004, RS was provided with a revised supervision policy from NSI. RS was advised that the wrong file had been provided to RS on June 4, 2004. The TDR group determined that it would review NSI's revised supervision policy during the next TDR which was to be conducted later that summer.

42. On the due date, July 23, 2004, RS received NSI's testing for June 2004. RS did not have any further questions or comments on the testing for these three months.

RS's 2004 Trade Desk Review ("2004 TDR")

43. In September 2004, RS conducted its 2004 TDR at NSI.
44. By letter dated October 15, 2004, addressed to Alboini and copied to Shaule, NSI was provided by RS with its 2004 TDR findings.
45. The 2004 TDR findings were:

A. Supervision of Trading

- There was no evidence of a report to the Board of Directors on compliance issues or a review of the supervision system as required under Part II, subsection 9 of Policy 7.1. This was a repeat finding from the 2003 TDR;
- Compliance testing procedures were inadequate in relation to testing for manipulative and deceptive trading (there were no procedures to test for wash trading, other than inter-dealer wash trades, double printing and off-exchange trades), sales from control block, order handling rules, order markers, and trade disclosure, as required under Part II, subsections 2 and 5 and Part III of Policy 7.1. This was a repeat finding from the 2003 TDR; and,
- The evidence of internal compliance testing was not adequately documented as required by Part II, subsection 8 of Policy 7.1. This was a repeat finding from the 2003 TDR.

NSI was required to:

- advise its Board of Directors of this report;

- develop, implement and document policies and procedures that meet or exceed the requirements of Policy 7.1;
- ensure NSI adheres to all of its documented policies and procedures; and
- develop and document procedures for evidencing internal compliance testing.

B. Order Entry Designation

- RS found that certain proprietary trades were marked incorrectly as non-client and that there were additional problems with proprietary order designation;
- In addition, the review found that trades for the account of NSI's parent, NFC, were being marked incorrectly as non-client rather than principal (although the marking as non-client would ensure compliance with the client priority rule); and,
- This was a repeat finding from the 2003 TDR.

NSI was required to:

- take steps to comply with the requirements for order designation and document them.

C. Completeness of Audit Trail

- Some tickets reviewed were missing the quantity of shares, price, time stamp or had late timestamps;
- This was a repeat finding from the 2003 TDR; and,
- There was no improvement in respect of audit trail compliance from the 2003 TDR.

NSI was required to:

- take steps to comply with the requirements for the completeness and accuracy of the audit trail and document them.

D. Short Sale Finding

- RS's review found thirteen instances of unmarked sales through the proprietary inventory accounts, eight of which were done below the last sale price. Ten of the thirteen should have been marked short and the remaining three should have been marked short exempt.

NSI was required to:

- take steps to comply with the requirements for short sales; and
- take steps to ensure that the traders know how to use the relevant markers and document them.

E. Principal Disclosure / Related Issuer / Average Price Disclosure

- The Review identified concerns in these areas.
46. The 2004 TDR findings and covering letter from RS advised NSI that given RS's concerns with supervision and other findings, as well as past findings, the 2004 TDR findings were being forwarded to the Investigations and Enforcement Division for further review.
 47. The 2004 TDR findings also noted that there were numerous delays in NSI's response to RS's 2003 TDR. RS advised NSI that its delays in responding to RS raised additional concerns with NSI's supervision.
 48. RS's investigation of NSI began in November 2004 and NSI was informed of the investigation by letter dated November 2, 2004.

49. On December 9, 2004, NSI provided RS with a revised policies and procedures manual in response to the 2004 TDR findings which, on its face, appeared to address the 2004 TDR findings. NSI was advised that RS would determine if the policies and procedures had actually been implemented effectively at the next TDR.
50. On May 24, 2005, NSI hired a new Chief Compliance Officer and Shaule resumed his sole role as Chief Financial Officer.
51. In March 2005, NSI retained the law firm of Fasken Martineau DuMoulin LLP ("Fasken") to conduct a review of NSI's supervisory and regulatory compliance practices and procedures.
52. The Fasken report was delivered to RS on August 10, 2005, and highlighted some of the same deficiencies in NSI's trading supervision system which were listed in RS's 2004 TDR. The Fasken report encouraged NSI to implement and maintain the recommendations made by RS in the 2004 TDR. In addition, the Fasken report highlighted some of the best practices that had been adopted by Northern in its compliance and supervisory system. The report concluded that "with the implementation of the recommendations outlined above, as well as the continued implementation and maintenance of the recommendations made by RS and the IDA pursuant to their most recent reviews, we are confident that NSI will be able to achieve supervision and compliance practices that are considered 'best practices' for a firm of its size."
53. NSI has represented to RS that it has implemented all of the recommendations in the Fasken report.

RS's 2005 Trade Desk Review ("2005 TDR")

54. In August 2005, RS conducted its 2005 TDR at NSI. Certain 2005 TDR findings were consistent with previous TDR findings. They include:

A. Supervision of Trading

- This is a repeat finding from the 2003 and 2004 TDRs.
- NSI's documented compliance testing procedures lack specific detail in the following sections: audit trail; order designation testing including short sales marking; testing for average price and principal disclosure; testing for manipulative and deceptive trading; testing for wash trading, double printing and off-exchange trades; order handling testing for order exposure, watch list review and client priority review;
- Evidence of internal compliance testing was not adequately documented. There is no discernable way to determine what specific daily review is being performed nor are there monthly or quarterly summaries detailing specific testing results. Evidence of detection, escalation and prevention is lacking; and,
- NSI's policies and procedures do not identify many of the actual beneficial practices of the trading and compliance staff. For example, the newly created short sale report tool used daily by compliance is not detailed in NSI's policies and procedures. Furthermore, NSI's policies and procedures detail some practices of the compliance staff that are not being done.

B. Order Entry Designation

- This is a repeat finding from the 2003 and 2004 TDRs;
- Testing revealed that some proprietary trades were marked incorrectly as non-client; and,
- Testing revealed that trades for the account of NSI's parent company, NFC, were being marked incorrectly as non-client which

should have been marked as Principal (nonetheless the non –client marker ensured that client priority is maintained). This was specifically detailed in the 2004 Trade Desk Review as a practice to be abolished. As requested by RS, NSI provided evidence of three monthly compliance reviews in 2005. RS had no further questions or comments on these three compliance reviews.

C. Completeness of Audit Trail

- This is a repeat finding from the 2003 and 2004 TDRs; and,
- Testing found that some tickets were missing either quantity, price or time stamp and that some tickets had late time stamps.

D. Principal Disclosure/Average Price Disclosure

- The review identified concerns in this area; and,
- This was a repeat finding from the 2004 TDR.

Findings of the Enforcement Investigation

Insufficient Policies and Procedures / Failure to Test / Lack of Evidence of Compliance Testing at NSI

Toronto and Calgary Offices of NSI

January 2003 – July 2003 Period

55. The 2003 TDR found that NSI's compliance policies and procedures needed further development, including documenting written methodologies on how the firm conducts each of the tests under Policy 7.1.
56. For the period January 2003 to July 2003, NSI failed to conduct compliance testing for purposes of UMIR 7.1.

August 2003 – September 2004 Period

57. RS's 2004 TDR found that compliance testing procedures were inadequate in several areas including testing for manipulative and deceptive trading, order handling and order markers.
58. In August 2003, NSI began using a compliance chart which listed the requirements found in the matrix for "minimum compliance procedures for trading supervision" in Policy 7.1. The chart was to be used by Mulder, or other applicable staff, who were to conduct the testing. The chart had an area to confirm (usually by check mark) if the review for each requirement was conducted and a place for notes.
59. In August 2003, the compliance chart was used daily for the first week and thereafter, it was filled out on a weekly basis until September 22, 2003. The chart was not used again until October 20, 2003, after which time it was used daily, although some days were missed in December 2003 and January and February 2004.
60. On most days, the compliance chart contained only checkmarks, with the occasional notation on some. In addition, the section for signatures evidencing testing was never used.
61. The results of the testing documented on the chart were not quantified or summarized and limited supporting material has been kept by NSI to demonstrate what was reviewed to conduct the testing or to evidence follow-up on issues noted on the chart.

October 2004 – August 2005 Period

62. As noted in the RS 2005 TDR findings, the lack of detail in NSI's policies and procedures regarding compliance testing and insufficient evidence of compliance testing were not fully addressed in the period October 2004 to August 2005.

Vancouver Office of NSI

January 2003 – August 2005 Period

63. The documentation provided by NSI to evidence compliance monitoring and testing for purposes of Policy 7.1 for NSI's Vancouver office fails to establish that sufficient compliance testing was being conducted. The Vancouver reviewer, Magill, did not use the NSI compliance chart utilized for Toronto until May 2005 (8 months after the 2004 TDR and after the commencement of this investigation) nor was there any other form of summary evidencing such review.
64. Prior to May, 2005, Magill's testing for purposes of Policy 7.1 consisted of "scrolling through" pro and client account activity he received in electronic form for anything suspicious. He did not review trading blotters, commission reports or trade tickets unless he found something he thought was suspicious. No one at NSI reviewed his testing procedures.
65. Magill began testing for artificial pricing and correct order marking in May 2005.
66. The compliance testing in the Vancouver office concerned RS due to the regulatory enforcement records of the former firms GP and IPO acquired by NSI in respect of their Vancouver operations.

NSI's Supervision Policies – Frequency of Testing

67. The various manuals provided by NSI to RS during the TDR process provided for daily and monthly testing to be conducted to test for violations of certain UMIR Requirements which, on their face, exceeded the quarterly review mandated by Part 3 of Policy 7.1 for some Requirements: for example, testing for audit trail and order handling violations and frontrunning. NSI did not conduct quarterly testing for these particular Requirements.

68. The purpose of quarterly testing is to provide a Participant with the opportunity to take a snapshot of trading in the firm over several days and look for patterns of abusive trading or other rule violations that might not be evident from a daily review.
69. However, if a firm wishes to “exceed” the minimum compliance procedures set out in Part 3 of Policy 7.1 by conducting daily testing, this would be encouraged by RS, as long as the daily testing results are sufficiently summarized to allow the firm, on a periodic basis, to review these summaries for such patterns over time.
70. As stated above, any daily testing by NSI was not summarized in any manner which would allow the firm to carry out a review comparable to a quarterly review. As such, the lack of summarization of daily testing combined with the lack of quarterly testing fails to meet the minimum requirements for an effective trading supervision and compliance system under Policy 7.1.

Confusion at NSI Concerning Who Had Testing Responsibilities

71. The investigation disclosed confusion between Shaule and Mulder as to Mulder’s responsibilities for compliance testing and illustrates that certain testing was not being conducted, as follows:

- (a) Audit Trail Requirements

According to Mulder, he conducted testing for the Toronto office only. Shaule believed Mulder was responsible for testing for both Toronto and Calgary. In fact, Fong was testing for audit trail requirements in Calgary.

- (b) Testing for Manipulative and Deceptive Trading

According to Mulder, although he did some testing for manipulative and deceptive trading for both Toronto and Calgary, in the period September 2003 to November 2004, Mulder only tested for possible wash trading

by retail customers. He did not test for wash trading in institutional or proprietary trading, nor did he test at all for double printing. As noted below, several NSI traders engaged in undetected wash trading in NSI proprietary accounts in this time period. RS believes the wash trading was inadvertent. Shaule was unaware of this lack of testing.

No Formal Escalation Process for Compliance Issues at NSI

72. NSI did not have any written guidelines or requirements concerning when and how Mulder and the other reviewers should escalate matters to Shaule and then Shaule to Alboini. NSI has told RS that it did have a regular, informal practice of escalating matters to the Chief Compliance Officer and then from the Chief Compliance Officer to Alboini if necessary.
73. Meetings between Shaule and Mulder and Shaule and Magill were “event driven” and rarely documented.
74. Likewise, contact between Mulder, Fong and Magill on compliance related issues were rarely documented.

Lack of Evidence of Reporting to the Board of Directors

75. Policy 7.1 requires that a summary of compliance reviews and results of the supervision system must be provided at least annually to the Board of Directors of the Participant. This requirement was implemented so the Board would review the trading supervision and compliance system to ensure that it is adequate and there is accountability within the firm if it is not.
76. At NSI neither a summary of any compliance reviews nor a review of the supervision system were reported as a formal matter to the Board of Directors in the Relevant Period. NSI has told RS that many compliance reviews were undertaken as an informal matter with the Chief Compliance Officer and by the Chief Compliance Officer with Alboini.

Lack of Training Initiatives at NSI

77. Policy 7.1 imposes an obligation upon a Participant and its supervisors to ensure that employees are properly trained and knowledgeable about UMIR Requirements.
78. In the Relevant Period, NSI had no formal training program on UMIR. Employees were provided with the firm's manual regarding compliance and credit issues and essentially were expected to learn by "doing the job".
79. As noted earlier, Shaule, Mulder and Magill (until May 2005) were not properly trained in relation to UMIR compliance matters.
80. Shaule did not read Market Integrity Notice 2003-025 prior to drafting the supervision manual in February 2004.

Deficiencies in Compliance Testing for Wash Trading

81. The 2004 TDR found that NSI's policies and procedures manual had not outlined compliance testing for wash trading other than on an inter-dealer basis. In its review, RS identified 78 crosses as potential wash trades that were previously undetected by the firm.
82. Thirty-three of the trades were conducted by one trader. The balance of the trades was conducted by eight other traders, two of whom conducted fifteen and seventeen trades, respectively. A review of these trades did not uncover a planned pattern of wash trading but in fact the wash trades appear to have occurred as a result of reckless and sloppy trading.
83. In February 2005, as a result of this investigation, NSI implemented a new monitoring tool in the form of a proprietary software program which watches in real time for potential wash trades at the firm.

Compliance Initiatives

84. When Alboini became aware of the 2004 TDR in October 2004, he met with representatives of RS promptly and took steps to improve the compliance and supervisory system at NSI including the hiring of a full-time Chief Compliance Officer in May 2005 and the engagement of Fasken to prepare a report on the NSI compliance and supervisory system.
85. NSI hired a Chief Compliance Officer and ADP in October 2006 and two new Compliance Managers, one who is exclusively devoted to compliance in its institutional business and the second who is exclusively devoted to compliance in its Private Client business.
86. NSI has developed proprietary, automated monitoring systems including its short sale monitoring software program, its proprietary software program to generate a report of any trades of internal restricted list stocks and grey list stocks, and its proprietary software program to detect wash trades on a real time basis.
87. NSI has represented to RS that due to the acquisition of different securities firms with different compliance systems in the Relevant Period, it took NSI some time to unify the compliance system across NSI.
88. NSI hired a General Counsel in January 2008 who worked previously with the Corporate Finance Branch at the Ontario Securities Commission.
89. NSI has engaged a consulting firm to conduct an independent review to test its procedures for supervision and compliance. NSI has also engaged a consultant to review and update its Policies and Procedures Manual.

III. CONCLUSION

90. During the Relevant Period, NSI lacked certain appropriate trading supervision and compliance oversight and testing. The 2004 and 2005 TDR findings

outline the issues relating to inadequate policies and procedures, testing methodologies and documentation of such testing.

91. All of the foregoing establishes that NSI increased the risk to its clients and the integrity of the marketplaces on which NSI trades by failing to adopt an effective trading supervision and compliance system as required by UMIR to protect clients and the integrity of markets. During the Relevant Period, there were no investor losses and there was no financial benefit to NSI as a result of any failure to comply with these trading supervision and compliance matters. NSI had only 3 client complaints in 2007.
92. RS acknowledges that NSI has since implemented changes to address these issues. In 2005, NSI undertook an outside review by Fasken to improve its compliance system and more recently agreed to engage a consulting firm to implement an additional review of its UMIR compliance.

May 14, 2008

Market Regulation Services Inc.
Suite 900, Box 939
145 King Street West
Toronto, Ontario M5H 1J8
Investigations and Enforcement
Telephone: (416) 646-7253
Facsimile: (416) 646-7285

TO: Northern Securities Inc.
c/o Victor Alboini
Chairman and Chief Executive
Officer
145 King Street West, Suite 2020
Toronto, Ontario M5H 1J8

SCHEDULE "A"

EXCERPTS FROM THE UNIVERSAL MARKET INTEGRITY RULES

7.1 Trading Supervision Obligations

- (1) Each Participant shall adopt written policies and procedures to be followed by directors, officers, partners and employees of the Participant that are adequate, taking into account the business and affairs of the Participant, to ensure compliance with these Rules and each Policy.
- (2) Prior to the entry of an order on a marketplace by a Participant, the Participant shall comply with:
 - (a) applicable regulatory standards with respect to the review, acceptance and approval of orders;
 - (b) the policies and procedures adopted in accordance with subsection (1); and
 - (c) all requirements of these Rules and each Policy.
- (3) Each Participant shall appoint a head of trading who shall be responsible to supervise the trading activities of the Participant in a marketplace.
- (4) The head of trading together with each person who has authority or supervision over or responsibility to the Participant for an employee of the Participant shall fully and properly supervise such employee as necessary to ensure the compliance of the employee with these Rules and each Policy.

POLICY 7.1 – POLICY ON TRADING SUPERVISION OBLIGATIONS

Part 1 – Responsibility for Supervision and Compliance

For the purposes of Rule 7.1, a Participant shall supervise its employees, directors and officers and, if applicable, partners to ensure that trading in securities on a marketplace (an Exchange, QTRS or ATS) is carried out in compliance with the applicable Requirements (which includes provisions of securities legislation, UMIR, the Trading Rules and the Marketplace Rules of any applicable Exchange or QTRS). An effective supervision system requires a strong overall commitment on the part of the Participant, through its board of directors, to develop and implement a clearly defined set of policies and

The board of directors of a Participant is responsible for the overall stewardship of the firm with a specific responsibility to supervise the management of the firm. On an ongoing basis, the board of directors must ensure that the principal risks for non-compliance with Requirements have been identified and that appropriate supervision and compliance procedures to manage those risks have been implemented.

Management of the Participant is responsible for ensuring that the supervision system adopted by the Participant is effectively carried out. The head of trading and any other person to whom supervisory responsibility has been delegated must fully and properly supervise all employees under their supervision to ensure their compliance with Requirements. If a supervisor has not followed the supervision procedures adopted by the Participant, the supervisor will have failed to comply with their supervisory obligations under Rule 7.1(4).

When the Market Regulator reviews the supervision system of a Participant (for example, when a violation occurs of Requirements), the Market Regulator will consider whether the supervisory system is reasonably well designed to prevent and detect violations of Requirements and whether the system was followed.

The compliance department is responsible for monitoring and reporting adherence to rules, regulations, requirements, policies and procedures. In doing so, the compliance department must have a compliance monitoring system in place that is reasonably designed to prevent and detect violations. The compliance department must report the results from its monitoring to the Participant's management and, where appropriate, the board of directors, or its equivalent. Management and the board of directors must ensure that the compliance department is adequately funded, staffed and empowered to fulfil these responsibilities.

Part 2 – Minimum Element of a Supervision System

For the purposes of Rule 7.1, a supervision system consists of both policies and procedures aimed at preventing violations from occurring and compliance procedures aimed at detecting whether violations have occurred.

The Market Regulator recognizes that there is no one supervision system that will be appropriate for all Participants. Given the differences among firms in terms of their size, the nature of their business, whether they are engaged in business in more than one location or jurisdiction, the experience and training of its employees and the fact that effective jurisdiction can be achieved in a variety of ways, this Policy does not mandate any particular type or method of supervision of trading activity. Furthermore, compliance with this Policy does not relieve Participants from complying with specific Requirements that may apply in certain circumstances. In particular, Participants are reminded that, in accordance with subsection (2) of Rule 10.1, the entry of orders must comply with the Marketplace Rules on which the order is entered and the Marketplace Rules on which the order is executed. (For example, for Participants that are Participating Organizations of the TSE, reference should be made to the Policy on "Connection of Eligible Clients of Participating Organizations").

Participants must develop and implement supervision and compliance procedures that exceed the elements identified in this Policy where the circumstances warrant. For example, previous disciplinary proceedings, warning and caution letters from the Market Regulator or the identification of problems with the supervision system or procedures by the Participant or the Market Regulator may warrant the implementation of more detailed or more frequent supervision and compliance procedures.

Regardless of the circumstances of the Participant, however, every Participant must:

1. Identify the relevant Requirements, securities laws and other regulatory requirements that apply to the lines of business in which the Participant is engaged (the "Trading Requirements").
2. Document the supervision system by preparing a written policies and procedures manual. The manual must be accessible to all relevant employees. The manual must be kept current and Participants are advised to maintain a historical copy.
3. Ensure that employees responsible for trading in securities are appropriately registered and trained and that they are knowledgeable about the Trading Requirements that apply to their responsibilities. Persons with supervisory responsibility must ensure that employees under their supervision are appropriately registered and trained. The Participant should provide a continuing training and education program to ensure that its employees remain informed of and knowledgeable about changes to the rules and regulations that apply to their responsibilities.
4. Designate individuals responsible for supervision and compliance. The compliance function must be conducted by persons other than those who supervised the trading activity.
5. Develop and implement supervision and compliance procedures that are appropriate for the Participant's size, lines of business in which it is engaged and whether the Participant carries on business in more than one location or jurisdiction.
6. Identify the steps a firm will take when violations of Requirements, securities laws or other regulatory requirements have been identified. This may include cancellation of the trade, increased supervision of the employee or the business activity, internal disciplinary measures and/or reporting the violation to the Market Regulator or other regulatory organization.
7. Review the supervision system at least once per year to ensure it continues to be reasonably designed to prevent and detect violations of Requirements. More frequent reviews may be required if past reviews have detected problems with supervision and compliance. Results of these reviews must be maintained for at least five years.
8. Maintain the results of all compliance reviews for at least five years.
9. Report to the board of directors of the Participant or, if applicable, the partners, a summary of the compliance reviews and the results of the supervision system review. These reports must be made at least annually. If the Market Regulator or the Participant has identified significant issues concerning the supervision system or compliance procedures, the board of directors or, if applicable, the partners must be advised immediately.

Part 3 - Minimum Compliance Procedures for Trading on a Marketplace

A Participant must develop and implement compliance procedures for trading in securities on a marketplace that are appropriate for its size, the nature of its business and whether it carries on business in more than one location or jurisdiction. Such procedures should be developed having regard to the training and experience of its employees and whether the firm or its employees have been previously disciplined or warned by the Market Regulator concerning the violations of the Requirements.

In developing compliance procedures, Participants must identify any exception reports, trading data and/or other documents to be reviewed. In appropriate cases, relevant information that cannot be obtained or generated by the Participant should be sought from sources outside the firm including from the Market Regulator.

The following table identifies minimum compliance procedures for monitoring trading in securities on a marketplace that must be implemented by a Participant. The compliance procedures and the Rules identified below are not intended to be an exhaustive list of the Rules and procedures that must be complied with in every case. Participants are encouraged to develop compliance procedures in relation to all the Rules that apply to their business activities.

The Market Regulator recognizes that the requirements identified in the following table may be capable of being performed in different ways. For example, one Participant may develop an automated exception report and another may rely on a physical review of the relevant documents. The Market Regulator recognizes that either approach may comply with this Policy provided the procedure used is reasonably designed to detect violations of the relevant Rule. The information sources identified in the following table are therefore merely indicative of the types of information sources that may be used.

Minimum Compliance Procedures for Trading Supervision

Rules and Policies	Compliance Review Procedures	Potential Information Sources	Frequency and Sample Size
Synchronization of Clocks Rule 10.14	<ul style="list-style-type: none"> confirm accuracy of clocks and computer network times remove unused or non-functional machines 	<ul style="list-style-type: none"> time clocks Trading Terminal system time OMS system time 	<ul style="list-style-type: none"> Daily

Rules and Policies	Compliance Review Procedures	Potential Information Sources	Frequency and Sample Size
Audit Trail Requirements Rule 10.11	<ul style="list-style-type: none"> ensure the presence of: <ul style="list-style-type: none"> -time stamp -quantity -price (if limit order) -security name or symbol -identity of trader (initial or sales code) -client name or account number-special instructions from any client -information required by audit trail requirements for CFOd orders, ensure the presence of second time stamp and clear quantity or price changes 	<ul style="list-style-type: none"> order tickets the Diary List 	<ul style="list-style-type: none"> quarterly check 25 original client tickets selected randomly over the quarter
Electronic Records Rule 10.11	<ul style="list-style-type: none"> verify that electronic order information is: <ul style="list-style-type: none"> -being stored -retrievable -accurate 	<ul style="list-style-type: none"> firm and service bureau systems 	<ul style="list-style-type: none"> annually
Manipulative and Deceptive Trading Rule 2.2(1), (2) Policy 2.2	<ul style="list-style-type: none"> review trading activity for: <ul style="list-style-type: none"> -wash trading -unrelated accounts that may display a pattern of crossing securities -off-market transactions which require execution on a Marketplace 	<ul style="list-style-type: none"> order tickets the diary list new client application forms monthly statements 	<ul style="list-style-type: none"> quarterly review sampling period should extend over several days
Establishing Artificial Prices Rule 2.2(1), (3) Policy 2.2	<ul style="list-style-type: none"> review tick setting trades entered at or near close look for specific account trading patterns in tick setting trades review accounts for motivation to influence the price review separately, tick setting trades by Market on Close (MOC) or index related orders 	<ul style="list-style-type: none"> order tickets the diary list Equity History Report (available on TSE market data website for TSE-listed securities) closing report from Market Regulator (delivered to Participants) new client application forms 	<ul style="list-style-type: none"> monthly emphasis on trades at the end of month, quarter or year (for trades not on MOC or index related) for MOC or index related orders, check for reasonable price movement
Grey or Watch List Rule 2.2	<ul style="list-style-type: none"> review for any trading of Grey or Watch List issues done by proprietary or employee accounts 	<ul style="list-style-type: none"> order tickets the diary list trading blotters firm Grey List or Watch List monthly statements 	<ul style="list-style-type: none"> daily
Restricted List Rule 2.2 Rule 7.8	<ul style="list-style-type: none"> review for any trading of restricted list issues done by proprietary or employee accounts 	<ul style="list-style-type: none"> order tickets the diary list trading blotters firm Restricted List 	<ul style="list-style-type: none"> daily

Rules and Policies	Compliance Review Procedures	Potential Information Sources	Frequency and Sample Size
Rule 7.9		<ul style="list-style-type: none"> monthly statements 	
Frontrunning Rule 4.1	<ul style="list-style-type: none"> review trading activity of proprietary and employee accounts prior to: <ul style="list-style-type: none"> -large client orders -transactions that would impact the market 	<ul style="list-style-type: none"> order tickets the diary list equity history report 	<ul style="list-style-type: none"> quarterly sample period should extend over several days
Sales from Control Blocks Securities legislation incorporated by Rule 10.1	<ul style="list-style-type: none"> review all known sales from control blocks to ensure regulatory requirements have been met review large trades to determine if they are undisclosed sales from control block 	<ul style="list-style-type: none"> order tickets trading blotter new client application form OSC bulletin Exchange company bulletins 	<ul style="list-style-type: none"> as required sample trades over 250,000 shares
Order Handling Rules Rule 5.1 Rule 5.3 Rule 6.3 Rule 8.1	<ul style="list-style-type: none"> review client-principal trades of 50 standard trading units or less for compliance with order exposure and client principal transactions rules verify that orders of 50 standard trading units or less are not arbitrarily withheld from the market 	<ul style="list-style-type: none"> order tickets equity history report trading blotters the diary list 	<ul style="list-style-type: none"> quarterly sample, specifically: <ul style="list-style-type: none"> -trader managed orders of 50 standard trading units
Order Markers Rule 6.2 Marketplace Rules incorporated by Rule 10.1 (for marketplaces on which the order is entered or executed)	<ul style="list-style-type: none"> verify that appropriate client, employee, and proprietary trade markers are being employed ensure that client orders are not being improperly entered with pro markers verify that appropriate order designations are included on orders 	<ul style="list-style-type: none"> order tickets trading blotters the diary list 	<ul style="list-style-type: none"> quarterly samples should include one full day of trading for orders not entered through the OMS system
Trade Disclosures Securities legislation incorporated by Rule 10.1	<ul style="list-style-type: none"> verify appropriate trade disclosures are made on client confirmations <ul style="list-style-type: none"> -principal -average price -related Issuer 	<ul style="list-style-type: none"> trading blotters client confirmations the diary list order tickets 	<ul style="list-style-type: none"> quarterly sample should include non-OMS trades

Rules and Policies	Compliance Review Procedures	Potential Information Sources	Frequency and Sample Size
Normal Course Issuer Bids Marketplace Rules (e.g. Rule 6-501 and Policy 6-501 of TSE and Policy 5.6 of CDNX)	<ul style="list-style-type: none"> • review NCIBs for: <ul style="list-style-type: none"> -maximum stock purchase limits of 5% in 1 year or 2% in 30 days are observed -purchases for NCIBs are not occurring while a sale from control is being made -purchases are not made on upticks -trade reporting to Exchange (if the firm reports on behalf of issuer) 	<ul style="list-style-type: none"> • order tickets • the diary list • trading blotters • new client application form 	<ul style="list-style-type: none"> • quarterly

Part 4 – Specific Procedures Respecting Client Priority and Best Execution

Participants must have written compliance procedures reasonably designed to ensure that their trading does not violate Rule 5.3 or 5.1. At a minimum, the written compliance procedures must address employee education and post-trade monitoring.

The purpose of the Participant's compliance procedures is to ensure that pro traders do not knowingly trade ahead of client orders. This would occur if a client order is withheld from entry into the market and a person with knowledge of that client order enters another order that will trade ahead of it. Doing so could take a trading opportunity away from the first client. Withholding an order for normal review and order handling is allowed under Rules 5.3 and 5.1, as this is done to ensure that the client gets a good execution. To ensure that the Participants' written compliance procedures are effective they must address the potential problem situations where trading opportunities may be taken away from clients.

Potential Problem Situations

Listed below are some of the potential problem situations where trading opportunities may be taken away from clients.

1. Retail brokers or their assistants withholding a client order to take a trading opportunity away from that client.
2. Others in a brokerage office, such as wire operators, inadvertently withholding a client order, taking a trading opportunity away from that client.
3. Agency traders withholding a client order to allow others to take a trading opportunity away from that client.
4. Proprietary traders using knowledge of a client order to take a trading opportunity away from that client.
5. Traders using their personal accounts to take a trading opportunity away from a client.

Written Compliance Procedures

It is necessary to address in the written compliance procedures the potential problem situations that are applicable to the Participant. Should there be a change in the Participant's operations where new

potential problem situations arise then these would have to be addressed in the procedures. At a minimum, the written compliance procedures for employee education and post-trade monitoring must include the following points.

Education

- Employees must know the Rules and understand their obligation for client priority and best execution, particularly in a multiple market environment.
- Participants must ensure that all employees involved with the order handling process know that client orders must be entered into the market before non-client and proprietary orders, when they are received at the same time.
- Participants must train employees to handle particular trading situations that arise, such as, client orders spread over the day, and trading along with client orders.

Post-Trade Monitoring Procedures

- All brokers' trading must be monitored as required by Rule 7.1.
- Complaints from clients and Registered Representatives concerning potential violations of the rule must be documented and followed-up.
- All traders' personal accounts and those related to them, must be monitored daily to ensure no apparent violations of client priority occurred.
- At least once a month, a sample of proprietary inventory trades must be compared with contemporaneous client orders.
- In reviewing proprietary inventory trades, Participants must address both client orders entered into order management systems and manually handled orders, such as those from institutional clients.
- The review of proprietary inventory trades must be of a sample size that sufficiently reflects the trading activity of the Participant.
- Potential problems found during these reviews must be examined to determine if an actual violation of Rule 5.3 or 5.1 occurred. The Participant must retain documentation of these potential problems and examinations.
- When a violation is found, the Participant must take the necessary steps to correct the problem.

Documentation

- The procedures must specify who will conduct the monitoring.
- The procedures must specify what information sources will be used.
- The procedures must specify who will receive reports of the results.
- Records of these reviews must be maintained for five years.
- The Participant must annually review its procedures.