

**NORTHERN FINANCIAL CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED DECEMBER 31, 2011**

(Unaudited)

Northern Financial Corporation

Notice of Non-review of Interim Financial Statements

The attached interim financial statements, for the period ended December 31, 2011, have not been reviewed by the Company's auditors.

NORTHERN FINANCIAL CORPORATION
Unaudited Interim Consolidated Statement of Financial Position
As at

	<u>December 31, 2011</u>	<u>March 31, 2011</u>
ASSETS		
CURRENT		
Cash and cash equivalents (Note 2 and Note 18)	\$ 488,021	\$1,286,923
Deposit with carrying broker (Note 3)	1,038,815	1,034,776
Securities owned (Note 4)	841,427	2,199,129
Accounts receivable	344,227	116,411
Forgivable loans (Note 9)	39,511	36,886
Prepaid expenses and deposits	38,971	110,044
Commodity taxes recoverable	780	44,597
	<u>2,791,752</u>	<u>4,828,766</u>
NON CURRENT ASSETS		
Investment in associated company (Note 6)	627,671	901,048
Other assets	102,460	152,031
Property, plant and equipment	730,524	832,950
Intangible assets	-	-
	<u>1,460,655</u>	<u>1,886,029</u>
TOTAL ASSETS	<u>\$4,252,407</u>	<u>\$6,714,795</u>
LIABILITIES		
CURRENT		
Short-term loans payable (Note 10)	\$ 620,000	\$ 395,000
Accounts payable and accrued liabilities	1,511,850	2,619,657
Securities sold short (Note 4)	-	2,100
Commodity taxes payable	-	38,381
Settlement liability (Note 11)	37,728	34,496
	<u>2,169,578</u>	<u>3,089,634</u>
NON CURRENT		
Settlement liability (Note 11)	364,791	393,505
TOTAL LIABILITIES	<u>2,534,369</u>	<u>3,483,139</u>
COMMITMENTS AND CONTINGENCIES (Note 15)		
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	2,692,138	5,218,834
Warrants (Note 12)	158,829	136,566
Contributed surplus (Note 12)	1,995,523	2,166,604
Accumulated other comprehensive income	-	-
Deficit	(3,128,452)	(4,290,348)
	<u>1,718,038</u>	<u>3,231,656</u>
	<u>\$4,252,407</u>	<u>\$6,714,795</u>

APPROVED BY THE BOARD

"Ian Bradley"

Director

"Vic Alboini"

Director

NORTHERN FINANCIAL CORPORATION
Unaudited Interim Statement of Change in Equity
For the Nine Months ended December 31

	Common Shares #	Common Shares \$	Warrants \$	Contributed Surplus \$	Deficit \$	Shareholders' Equity \$
Balance, April 1, 2010	11,813,114	1,317,734	73,952	1,994,404	(2,968,329)	417,761
Private placement	364,710	100,369	22,556	-	-	122,925
Employee equity incentive / purchase plans	1,448,410	594,373	-	91,872	-	686,245
Net loss	-	-	-	-	(1,341,940)	(1,341,940)
Balance, December 31, 2010	13,626,243	2,012,476	96,508	2,086,276	(4,310,269)	(115,009)
Balance, March 31, 2011	25,472,620	5,218,834	136,566	2,166,604	(4,290,348)	3,231,656
Prospectus financing	4,416,166	1,190,839	22,263	-	-	1,213,102
Employee equity incentive / purchase plans	1,675,314	572,813	-	(171,081)	-	401,732
Reduction in stated capital	-	(4,290,348)	-	-	4,290,348	-
Net loss	-	-	-	-	(3,128,452)	(3,128,452)
Balance, December 31, 2011	31,564,100	2,692,138	158,829	1,995,523	(3,128,452)	1,718,038

NORTHERN FINANCIAL CORPORATION
**Unaudited Interim Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the**

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Nine Months Ended December 31, 2011	Nine Months Ended December 31, 2010
REVENUES				
Commissions	\$866,069	\$1,936,781	\$3,101,298	\$4,357,125
Underwriting and advisory	967,624	1,073,265	2,088,024	2,751,842
Broker warrants	(253,688)	988,439	(1,253,725)	956,206
Trading	418,289	35,342	496,317	33,879
Interest	130,604	59,642	306,476	217,544
Other	77,013	73,782	610,326	61,871
	<u>2,205,911</u>	<u>4,167,251</u>	<u>5,348,716</u>	<u>8,378,467</u>
OPERATING EXPENSES				
Brokerage operations	2,459,579	3,222,318	7,084,205	8,052,954
General and administrative	156,598	552,712	751,362	1,153,930
Interest expense	91,278	129,154	226,108	451,499
Depreciation and amortization	44,162	55,044	132,356	165,263
Total operating expenses	<u>2,751,617</u>	<u>3,959,228</u>	<u>8,194,031</u>	<u>9,823,646</u>
Net (loss) income from operations	(545,706)	208,023	(2,845,315)	(1,445,179)
SHARE OF EARNINGS (LOSS) OF JAGUAR FINANCIAL CORPORATION (Note 6)	47,157	(44,159)	(283,137)	138,205
LOSS ON SALE OF JAGUAR FINANCIAL CORPORATION (Note 6)	-	-	-	(34,966)
(LOSS) INCOME BEFORE INCOME TAXES	(498,549)	163,864	(3,128,452)	(1,341,940)
INCOME TAXES (Note 14)	-	-	-	-
NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	<u>(498,549)</u>	<u>163,864</u>	<u>(3,128,452)</u>	<u>(1,341,940)</u>
(LOSS) EARNINGS PER SHARE – Basic and diluted (Note 12(f))	\$(0.02)	\$0.01	\$(0.10)	\$(0.10)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	31,250,732	13,406,358	30,125,856	12,796,011

NORTHERN FINANCIAL CORPORATION
Unaudited Interim Consolidated Statements of Cash Flows
For the

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Nine Months Ended December 31, 2011	Nine Months Ended December 31, 2010
CASH FLOWS USED IN OPERATING ACTIVITIES				
Net (loss) income for the period	\$(498,549)	\$163,864	\$(3,128,452)	\$(1,341,940)
Items not affecting cash				
Depreciation and amortization	44,162	55,044	132,356	165,263
Share of (earnings) loss of associated company	(47,157)	44,159	283,137	(138,205)
Receipt of shares in associated company	-	-	(140,000)	-
Loss on sale of investment in associated company	-	-	-	34,966
Equity incentive / employee share purchase plans	102,089	235,096	394,283	654,718
Compensation warrants issued	-	-	22,263	2,571
	<u>(399,455)</u>	<u>498,163</u>	<u>(2,436,413)</u>	<u>(622,627)</u>
Changes in non-cash working capital balances				
Securities owned and sold short	280,261	(607,120)	1,355,602	(223,116)
Accounts receivable	(203,312)	37,820	(227,816)	164,565
Prepaid expenses, deposits, and forgivable loans	46,255	(17,582)	118,019	30,863
Commodity taxes recoverable	(3,317)	(34,528)	5,436	18,529
Accounts payable and accrued liabilities	(58,202)	787,718	(1,107,807)	479,405
Dividend from associated company	65,820	-	130,240	-
Settlement liability	(8,749)	(13,209)	(25,482)	(59,619)
	<u>118,756</u>	<u>153,099</u>	<u>248,192</u>	<u>410,627</u>
Cash flows (used in) from operating activities	<u>(280,699)</u>	<u>651,262</u>	<u>(2,188,221)</u>	<u>(212,000)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES				
Acquisition of capital assets	(1,065)	-	(29,930)	(4,035)
Disposition of investment in associated company	-	-	-	99,600
Deposit with carrying broker	(923)	(888)	(4,039)	(2,229)
Cash flows used in investing activities	<u>(1,988)</u>	<u>(888)</u>	<u>(33,969)</u>	<u>93,336</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from financings	-	-	1,190,839	120,354
Proceeds from employee share purchase plan	-	-	31,049	103,769
Repurchase of shares for reissue	-	-	(23,600)	(72,242)
Increase (decrease) in short term loans	300,000	(50,000)	225,000	163,000
Cash flows from financing activities	<u>300,000</u>	<u>(50,000)</u>	<u>1,423,288</u>	<u>314,881</u>
INCREASE (DECREASE) IN CASH	17,313	600,374	(798,902)	196,217
CASH, BEGINNING OF PERIOD	470,708	990,683	1,286,923	1,394,840
CASH, END OF PERIOD	\$ 488,021	\$ 1,591,057	\$ 488,021	\$ 1,591,057

SUPPLEMENTARY INFORMATION (Note 18)

1. NATURE OF OPERATIONS

Northern Financial Corporation (the "Company") wholly owns Northern Securities Inc. ("Northern Securities"), 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

Statement of compliance

These unaudited financial statements have been prepared by management in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ending March 31, 2012.

These unaudited financial statements are the Company's third interim financial statements prepared using International Financial Reporting Standards ("IFRS"). Certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") have been included in these financial statements for the comparative annual period.

These financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended March 31, 2011 and in consideration of the IFRS transition disclosures included in note 20 to these financial statements and the additional annual disclosures included herein. All defined terms used herein are consistent with those terms as defined in the financial statements for the year ended March 31, 2011.

These unaudited financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

These unaudited interim consolidated financial statements were authorized for issuance by the Company's Board of Directors on February 14, 2012.

Going concern

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

While the Company has prepared its consolidated financial statements on the basis of accounting principles applicable to a going concern, certain adverse conditions create some uncertainty relating to this assumption. The Company incurred a loss of \$498,549 in the current quarter, \$3,128,452 year to date, and \$1,332,019 in the previous year. The Company's continued operation is dependent upon its ability to restore and maintain profitable operations.

Management has considered expectations for future profitability and believes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business, and accordingly, it is appropriate to prepare these financial statements on a going concern basis. If the going concern assumption was 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.

Investments in associated companies

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 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 deficit.

Financial instruments – 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.

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

Securities transactions

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

Property, plant and equipment

Equipment is carried at acquisition cost less accumulated depreciation. Depreciation 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 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 deficit. Employees that leave the company prior to the end of the contractual term are required to repay any loan amount not yet forgiven.

Impairment

a) Financial assets

Loans and receivables

Loans and receivables are considered impaired when there is objective evidence that the full carrying amount of the loan or receivable is not collectible.

When an impaired loan or receivable is identified, the carrying amount of the loan or receivable is reduced to its estimated realizable amount, which is measured by discounting the expected future cash flows at the original effective interest rate of the loan or receivable. The excess of the carrying amount over the estimated realizable value of the loan or receivable represents an impairment loss which is recognized in the Statements of Operations, Comprehensive Income and Deficit. If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognized, the excess is recognized in the current period Statements of Operations, Comprehensive Income and Deficit by adjusting the carrying amount of the loan or receivable accordingly.

b) Non-financial assets

The carrying values of non-financial assets with finite lives, such as equipment, are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In addition, long-lived assets that are not amortized, such as investments in associates, are subject to an annual impairment assessment. The Company evaluates impairment losses for potential reversals when events or changes in circumstances warrant such consideration.

c) Goodwill and intangible assets

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is assessed for impairment annually or more frequently if events or circumstances suggest that there may be impairment. A write-down is recognized if the recoverable amount, determined as the greater of the estimated fair value less costs to sell or value-in-use, is less than the carrying value. Any impairment of goodwill is expensed in the period in which the impairment is identified. Impairment losses relating to goodwill are not reversed if there is a subsequent recovery in value.

Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Identifiable finite-life intangible assets are amortized over their estimated useful lives on a straight-line basis. The amortization period and the method of amortization for an intangible asset with a finite useful life are reviewed at least annually, at each financial year-end.

At each balance sheet date, intangible assets are assessed for indicators of impairment. If indicators are present, these assets are subject to an impairment review. Any loss resulting from impairment of intangible assets is expensed in the period the impairment is identified.

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.

Merchant banking

In its merchant banking business the Company makes investments in undervalued companies and then seeks to realize gains on these investments if a valuation correction is made by the market, or by management or the board of the subject company, or by proactive involvement by the Company. Revenue is comprised of revenue earned through securities trading or advisory fees and is recognized on the same basis as those activities.

Use of estimates and assumptions

The preparation of these consolidated 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 on the grant date. Any consideration paid upon exercise of stock options is credited to capital stock.

Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when (a), the Company has a present obligation (legal or constructive) as a result of a past event, and (b), it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

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.

Future Accounting Policies

- a) **Deferred income taxation:** On December 20, 2010, the IASB published *Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12*. The amendments provide an exception to the general principle in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. This amendment applies to deferred tax assets or deferred tax liabilities that arise from investment property measured using the fair value model in IAS 40 and introduces a rebuttable presumption that the carrying value of the investment property will be recovered entirely through sale. The amendments must be applied on in annual periods beginning on or after January 1, 2012. The Company is currently evaluating the impact of IFRS 7 on its consolidated financial statements.
- b) **Presentation of Financial Statements:** IAS1 was amended to improve the consistency and clarity of the presentation of items of other comprehensive income. A requirement has been added to present items in other comprehensive income grouped on the basis of whether they may be reclassified subsequently to profit or loss. This amendment makes clearer the effects items of other comprehensive income may have on profit or loss in the future. Consistent with this requirement, income tax on items presented in other comprehensive income is required to be allocated between items that will not be reclassified subsequently to profit or loss and those that might be reclassified, if the items in other comprehensive income are presented before tax. IFRS 1 is effective for annual periods beginning on or after July 1, 2012. The Company is currently evaluating the impact of IFRS 1 on its consolidated financial statements.
- c) **Financial instruments disclosures:** The IASB amended IFRS 7 *Financial Instruments: Disclosures for Disclosures – Transfers of Financial Assets*. The amendments are designed to provide information that allows users to (i) understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and (ii) evaluate the nature of, and risk associated with, any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. IFRS 7 is effective for annual periods beginning on or after July 1, 2011. The Company is currently evaluating the impact of IFRS 7 on its consolidated financial statements.

- d) **Financial Instruments:** IFRS 9 is the first of a multi-phase project to replace IAS 39 Financial Instruments: Recognition and Measurement. It addresses the classification, measurement and derecognition of financial assets and financial liabilities.

IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications – those measured at amortized cost and those measured at fair value. Classification is made at the time the financial asset is initially recognized when the entity becomes a party to the contractual provisions of the instrument. The transition guidance is complex and mainly requires retrospective application.

Most of the requirements in IAS 39 for the classification and measurement of financial liabilities have been carried forward unchanged to IFRS 9. Where an entity chooses to measure its own debt at fair value, IFRS 9 now requires the amount of the change in fair value due to changes in the issuing entity's own credit risk to be presented in other comprehensive income. An exception to the new approach is made where the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on that liability are to be presented in profit or loss.

The requirements in IAS 39 related to derecognition of financial assets and financial liabilities have been incorporated unchanged into the new version of IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

- e) **Consolidated Financial Statements:** IFRS 10 defines the principle of control and establishes control as the basis for determining which entities are consolidated in consolidated financial statements. IFRS 10 supersedes SIC-12 Consolidation—Special Purpose Entities and the requirements relating to consolidated financial statements in IAS 27 Consolidated and Separate Financial Statements (as amended in 2008). IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 10 on its consolidated financial statements.
- f) **Joint Arrangements:** IFRS 11 establishes principles that are applicable to the accounting for all joint arrangements. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Ventures. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 11 on its consolidated financial statements.
- g) **Disclosure of Interests in Other Entities:** IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 12 on its consolidated financial statements.
- h) **Fair Value Measurement:** IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

3. SERVICE AGREEMENT

As at December 31, 2011, 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 December 31, 2011, the Company maintained a deposit with Penson in the amount of \$1,038,815 (March 31 - \$1,034,776), which cannot be used in the normal course of operations. As at December 31, 2011, Penson has offset \$nil (March 31 - \$nil) against this deposit for undermargined and delinquent accounts of clients of Northern Securities.

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:

	December 31, 2011	March 31, 2011	April 1, 2010
Publicly traded equities	\$ 26,542	\$ 63,691	\$ 28,694
Broker warrants	814,885	2,135,438	1,695,075
	<u>\$841,427</u>	<u>\$2,199,129</u>	<u>\$1,723,769</u>

Included in broker warrants are warrants issued by 84 (March 31 – 86) public companies and 1 (March 31 – nil) private company with expiry dates to September 2016. 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:

	December 31, 2011	March 31, 2011	April 1, 2010
Publicly traded equities	-	\$2,100	\$240

5. FINANCIAL INSTRUMENTS

Additional disclosures regarding fair value measurement of financial instruments as required by amendments to CICA Handbook Section 3862 are presented below. The fair value hierarchy presented distinguishes between the inputs used in determining the fair value measurement of the Company's various financial instruments. The hierarchy levels are defined as:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Observable inputs other than Level 1 quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or corroborated by observable market data; and

Level 3 – Unobservable inputs that are supported by little or no market activity. Valuation techniques are primarily model-based.

	Carrying Value		Estimated Fair Value					
	December 31 2011	March 31 2011	December 31, 2011			March 31, 2011		
			Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Held for trading								
Cash and treasury bills	\$1,526,836	\$2,321,699	\$488,021	\$1,038,815	\$ -	\$1,286,923	\$1,034,776	\$ -
Securities owned	841,427	2,199,129	26,542	776,281	38,604	63,691	1,510,596	624,842
Securities sold short	-	2,100	-	-	-	2,100	-	-

	Carrying Value		Estimated Fair Value		
	April 1 2010	April 1, 2010	Level 1	Level 2	Level 3
Held for trading					
Cash and treasury bills	\$2,425,324	\$1,394,840	\$1,030,484	\$ -	
Securities owned	1,723,769	28,694	1,650,919	44,156	
Securities sold short	240	240	-	-	

Level 1 financial instruments include cash and publicly traded equities. Fair values for cash are based on principal amounts deposited. Fair values for publicly traded equities are based on the closing bid price for securities purchased long and closing ask price for securities sold short, on the stock exchange where the investment is listed as at December 31, 2011.

Level 2 financial instruments include treasury bills and broker warrants. Fair values for broker warrants are based on a Black-Scholes model using the quoted closing bid price of the underlying security as at December 31, 2011, a 52 week volatility, and the Government of Canada Treasury bill rate for equivalent maturity dates.

Level 3 financial instruments include broker warrants where any of the model inputs noted for Level 2 are not available and publicly traded securities where closing bid prices are not available. For broker warrants when the closing bid price of the underlying security is not available, the latest available closing bid price is used, and when a 52 week volatility is not available a 50% proxy is used.

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The following is a summary of Level 3 financial instruments activity for the period ended December 31, 2011:

Balance, March 31, 2011	\$ 624,842
New broker warrants received	18,001
Expiry of broker warrants	(320)
Transfer out of level 3	(186,067)
Valuation adjustment	(417,852)
Balance, December 31, 2011	<u>\$ 38,604</u>

6. INVESTMENT IN ASSOCIATED COMPANY

The Company's carrying value of its investment in Jaguar Financial Corporation ("Jaguar") is as follows:

	2012	2011	2010
Balance, beginning of year	\$901,048	\$979,119	\$948,102
Equity earnings	(283,137)	56,495	31,017
Partial disposition	-	(134,566)	-
Dividends received	(130,240)	-	-
Receipt of shares	140,000	-	-
Balance, end of period	<u>\$627,671</u>	<u>\$901,048</u>	<u>\$979,119</u>

The investment in associated company represents 13.0% (March 31 – 11.3%) of the outstanding common shares of Jaguar as at December 31, 2011. The quoted market value of the investment as at December 31, 2011, was \$700,216 (March 31 - \$1,020,367).

In the quarter ended June 30, 2011, the Company received 2,000,000 common shares of Jaguar under Jaguar's Equity Incentive Plan. In the quarter ended September 30, 2010, the Company sold 1,540,000 shares of Jaguar for proceeds of \$99,600, generating a loss on sale of \$34,966.

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 13.0% equity interest in Jaguar; (ii) the Chairman and Chief Executive Officer of the Company holds or has control or direction over an 12.1% 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 22.2% 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.

7. CAPITAL ASSETS

	December 31, 2011		
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 931,038	\$ 776,436	\$ 154,602
Leasehold improvements	1,631,028	1,157,299	473,729
Computer equipment	1,760,161	1,670,882	89,279
Works of art	12,914	-	12,914
	<u>\$4,335,141</u>	<u>\$3,604,617</u>	<u>\$730,524</u>
	March 31, 2011		
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 929,767	\$ 749,438	\$ 180,329
Leasehold improvements	1,631,028	1,073,700	557,328
Computer equipment	1,731,502	1,649,123	82,379
Works of art	12,914	-	12,914
	<u>\$4,305,211</u>	<u>\$3,472,261</u>	<u>\$832,950</u>
	April 1, 2010		
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 929,767	\$ 704,765	\$ 225,002
Leasehold improvements	1,626,993	931,826	695,167
Computer equipment	1,729,133	1,614,325	114,808
Works of art	12,914	-	12,914
	<u>\$4,298,807</u>	<u>\$3,250,916</u>	<u>\$1,047,891</u>

Depreciation on capital assets for the quarter was \$44,162 (December 31, 2010 – \$54,616).

8. INTANGIBLE ASSETS

	December 31, 2011		
	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 540,922	\$ 540,922	\$ -
	March 31, 2011		
	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 540,922	\$ 540,922	\$ -
	April 1, 2010		
	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 540,922	\$ 537,557	\$ 3,365

Amortization on intangible assets for the quarter was \$nil (December 31, 2010 – \$428).

9. FORGIVABLE LOANS

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

	December 31, 2011			March 31, 2011
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Forgivable loans	\$1,196,344	\$1,143,071	\$53,273	\$81,039

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

	December 31, 2011	March 31, 2011	April 1, 2011
Forgivable within 1 year	\$ 39,511	\$ 36,886	\$ 32,164
Forgivable in greater than 1 year	13,762	44,153	408
	\$ 53,273	\$ 81,039	\$ 32,572

The forgiven amount for the quarter of \$9,109 (December 31, 2010 – \$14,995) is recorded as brokerage operations expense on the consolidated statement of operations, comprehensive (loss) income and retained deficit.

10. SHORT-TERM LOANS PAYABLE

The Company has available a credit facility in the amount of \$350,000 at prime plus 1.75%, 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 December 31, 2011, the balance owing under the credit facility was \$350,000 (March 31 – \$300,000).

The Company has a promissory note outstanding in the amount of \$20,000 (March 31 – \$20,000). The loan bears interest at 10% and is payable within 5 days of notice. The loan is unsecured and is provided by an officer of Northern Securities.

The Company has a promissory note outstanding in the amount of \$250,000 (March 31 – \$75,000). The loan bears interest at 15% and is payable within 5 days of notice. The loan is unsecured and is provided by an associated company.

11. SETTLEMENT LIABILITY

In the year ending, March 31, 2010, the Company settled a legal dispute requiring it to pay a total of \$800,000 over a period of 108 months beginning in March 2010. The expense related to the settlement was included in general and administrative expenses on the Consolidated Statements of Operations, Comprehensive Loss and Deficit in fiscal 2010.

The remaining liability of \$402,519 (March 31 – \$428,001) is recorded at the discounted cash flow value using the effective interest method with \$37,728 due within one year. A rate of 12% was used to discount future cash payments. Total interest expense calculated under the effective interest method was \$296,911 of which \$5,030 was recorded in interest expense in fiscal 2010, \$54,882 recorded in 2011, and \$37,518 in the three quarter

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period ended December 31, 2011. The remaining \$199,481 interest will be recorded in future years as cash payments are made. See Note 16 for a schedule of future cash payments.

12. CAPITAL STOCK

a) *Share capital*

Authorized	
Unlimited number of common shares	
2,000,000 voting, convertible, redeemable, preference shares	
Issued and outstanding	
31,564,100 common shares	\$2,692,138

Share capital activity for the period March 31, 2010 to December 31, 2011, is summarized as follows:

	Shares Number	Amount \$
Balance, March 31, 2010	11,813,114	1,317,734
Shares issued under equity incentive plan (c)	1,116,773	488,638
Shares issued under employee share purchase plan (d)	793,025	234,304
Private placement (e)	364,710	100,369
Prospectus financing (e)	6,666,667	1,693,924
Debt repayment (e)	4,718,331	1,415,500
Balance, March 31, 2011	25,472,620	5,250,469
Shares issued under equity incentive plan (c)	1,364,206	459,626
Shares issued under employee share purchase plan (d)	311,108	81,552
Prospectus financing (e)	4,416,166	1,190,839
Reduction in stated capital		(4,290,348)
Balance, December 31, 2011	31,564,100	2,692,138

Note: The total cost of share based compensation for the quarter ended December 31, 2011 was \$102,089 (December 31, 2010 – \$235,096). As at December 31, 2011, the Company had an accrual of \$339,714 (March 31 – \$510,394) related to share based compensation.

b) *Stock options*

Effective August 28, 2003, the Company discontinued the stock option plan (the "Plan"), whereby no further options will be granted pursuant to the Plan and all options outstanding will remain in effect until either exercised or cancelled.

As at December 31, 2011, there are 69,937 common share purchase options outstanding, expiring at various dates to January 21, 2013. The options have an exercise price equal to the Company's market closing share price on the day prior to the date of grant and vest over the first twenty-four or thirty months, in equal monthly installments, beginning in the month of grant, and are exercisable over ten years.

Stock option activity for the period March 31, 2010 to December 31, 2011 is summarized as follows:

	Stock Options Number	Weighted Average Exercise Price
Balance, March 31, 2010	119,817	\$ 7.19
Expired	(48,130)	\$12.11
Balance, March 31, 2011	71,687	\$ 3.89
Expired	(1,750)	\$ 8.00
Balance, December 31, 2011	69,937	\$ 3.79

The following is a summary of common share purchase options outstanding as at December 31, 2011:

Range of Exercise Prices	Stock Options Number	Weighted Average Remaining Life (Years)	Weighted Average Price
\$ 3.50-5.00	69,937	0.57	\$ 3.79
	69,937	0.57	\$ 3.79

All options are currently exercisable.

c) *Employee equity incentive plan*

On September 30, 2004, the shareholders of the Company approved the establishment of an equity incentive plan whereby up to 10% 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.

d) *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, unless the Board of Directors waives the individual maximum. The Company matches the number of shares purchased at no additional cost to the employee over a three-year vesting period. At December 31, 2011, 920,374 matching shares were issuable under the ESPP, from February 1, 2012 to August 1, 2014.

e) *Financings*

During the quarter ended June 30, 2011, the Company raised gross proceeds of \$1,325,850 by issuing 4,416,166 shares pursuant to a short form prospectus offering dated February 25, 2011.

During fiscal 2011, the Company raised gross proceeds of \$120,354 upon the completion of a private placement consisting of 364,710 units. Each unit was comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.45 until April 27, 2012. Of the total proceeds, \$100,369 was ascribed to capital stock and \$19,985 was ascribed to warrants (Note 13(h)).

Also during 2011, the Company raised gross proceeds of \$2,000,000 by issuing 6,666,667 shares pursuant to a short form prospectus offering dated February 25, 2011. In connection with the offering, the Company also issued 4,718,331 shares to settle \$1,415,500 of outstanding debt.

f) *Earnings per share data*

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

	<u>Three months ended</u>	<u>Nine months ended</u>
December 31, 2010	13,406,358	12,796,011
December 31, 2011	31,250,732	30,125,856

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

g) *Warrants:*

Warrant activity for the period March 31, 2010 to December 31, 2011, is summarized as follows:

	<u>Number</u>	<u>\$</u>
Balance, March 31, 2010	663,912	73,952
Private placement	182,355	19,985
Private placement compensation	19,364	2,571
Prospectus financing compensation	326,400	40,058
Balance, March 31, 2011	<u>1,192,031</u>	<u>136,566</u>
Prospectus financing compensation	191,348	22,263
Balance, December 31, 2011	<u>1,383,379</u>	<u>158,829</u>

The following is a summary of outstanding warrants as at December 31, 2011:

	<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
Private placement	618,816	\$0.45	March 29,2012
Private placement compensation	30,064	\$0.44	March 29,2012
Private placement compensation	15,032	\$0.45	March 29,2012
Private placement	182,355	\$0.45	April 27, 2012
Private placement compensation	12,910	\$0.44	April 27, 2012
Private placement compensation	6,454	\$0.45	April 27, 2012
Prospectus financing compensation	326,400	\$0.30	March 30,2013
Prospectus financing compensation	126,000	\$0.30	April 21,2013
Prospectus financing compensation	65,348	\$0.30	May 26,2013
	<u>1,383,379</u>		

h) *Contributed surplus:*

Contributed surplus activity for the period March 31, 2010 to December 31, 2011, is summarized as follows:

Balance, March 31, 2010	\$ 1,994,404
Employee equity incentive plan	151,382
Employee share purchase plan	20,818
	<hr/>
Balance, March 31, 2011	2,166,604
Employee equity incentive plan	(217,299)
Employee share purchase plan	46,218
	<hr/>
Balance, December 31, 2011	\$ 1,995,523
	<hr/>

13. 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:

	December 31, 2011	March 31, 2011	April 1, 2010
Short-term loans payable	\$ 620,000	\$ 395,000	\$ 3,150,000
Shareholder's equity comprised of:			
Share capital	2,692,138	5,218,834	1,317,734
Warrants	158,829	136,566	73,952
Contributed surplus	1,995,523	2,166,604	1,994,404
Deficit	(3,128,452)	(4,290,348)	(2,968,329)
	<hr/>	<hr/>	<hr/>
	\$ 2,338,038	\$ 3,626,656	\$ 3,567,761
	<hr/>	<hr/>	<hr/>

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 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) meet 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 who seek to participate in investment opportunities; and (iv) raising capital through the issuance of securities.

The Company's investment dealer subsidiary, Northern Securities, is subject to rules of IIROC, which require Northern Securities 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 December 31, 2011, the amount of this loan is \$13,840,000 (March 31 - \$12,690,000). Repayment of the loan requires IIROC approval. As at December 31, 2011, the capital of Northern Securities exceeded the requirements of IIROC.

IIROC has advised Northern Securities of an alleged deficiency on Northern Securities part to maintain required regulatory capital in September 2009 in connection with an escrow agreement relating to a new issue loan letter. Northern Securities does not believe there was a capital deficiency. This matter forms part of a notice of hearing issued by IIROC. On February 9, 2011, in attempting to cover a short position, a trader entered a buy position in error that triggered an intra-day capital deficiency. By the end of the day, Northern Securities had returned to a positive capital position.

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.

14. INCOME TAXES

The Company's income taxes are calculated and filed on a yearly basis. No income taxes have been recorded in the interim periods for 2012 and 2011 because there are adequate tax losses available to offset any taxable income.

15. COMMITMENTS AND CONTINGENCIES

- a) Northern Securities 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, Northern Securities has agreed to pay Penson an amount up to its "excess risk adjusted capital".
- b) The Company is party to legal proceedings in the ordinary course of its operations. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. Where management can estimate that there is a loss probable, a provision has been recorded in its financial statements, where proceedings are at a premature stage or the ultimate outcome is not determinable, then no provision is recorded. 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) IIROC has advised Northern Securities of an alleged deficiency on Northern Securities part to maintain required regulatory capital in September 2009 in connection with an escrow agreement relating to a new issue loan letter. Northern Securities does not believe there was a capital deficiency. IIROC has commenced enforcement proceedings relating to alleged failures to correct deficiencies and maintain adequate policies from 2006 to 2010 and in relation to execution of orders at best price from November 2008 to January 2011. These matters form part of a notice of hearing issued by IIROC. It is not possible at this time to determine the amount of any potential liability to Northern Securities which could have a material adverse effect on the Company's financial position, future expectations, or cash flows.
- d) The future minimum annual payments for each fiscal year on equipment and office premises under existing operating leases approximate the following:

Less than 1 year	\$1,213,800
1 to 2 years	384,800
2 to 3 years	56,900
3 to 4 years	54,600
4 to 5 years	12,300
	<hr/>
	\$1,722,400

- e) The Company has available a credit facility in the amount of \$350,000 at prime plus 1.75%, 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 Chairman and Chief Executive Officer of the Company. As at December 31, 2011, \$350,000 was owing under the credit facility.

16. RISK MANAGEMENT

Fair value of financial assets and financial liabilities

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

Market risk

Market risk is the risk that a change in market prices, interest rate levels, indices, liquidity and other market factors will result in losses. The Company is exposed to market risk as a result of its principal trading in equity

securities and fixed income securities. Securities held for trading are valued at market and as such, changes in market value affect earnings (losses) as they occur. The Company mitigates its market risk exposure through controls to limit concentration levels and capital usage within its inventory trading accounts. As at December 31, 2011, 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 (\$8,000) (March 31 – (\$22,000)), based on a decrease and \$8,000 (March 31 – \$22,000), 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 the 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 period ended December 31, 2011, the Company did not incur any material loss from counterparty default.

As at December 31, 2011, Northern Securities maintained a deposit with Penson in the amount of \$1,038,815 (March 31 – \$1,034,776) (see Note 3) and a cash balance at Penson in the amount of \$156,295 (March 31 – \$1,051,063) included in cash on the Consolidated Balance Sheets.

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. As at December 31, 2011, based on a 1% change in interest rates, the estimated sensitivity of the Company's net income (loss) was (\$6,000), based on an increase and \$6,000, based on a decrease.

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.

The contractual maturities of the Company's significant financial liabilities and contractual commitments as at December 31, 2011, on an undiscounted basis are shown in the following table:

Payments Due by Period

Contractual Obligations	Total	Less than 3 months	3 months to less than 6 months	6 months to 1 year	1 to 3 years	4 to 5 years	After 5 years
Debt	\$ 620,000	\$620,000	-	-	-	-	-
Settlement Liability	\$ 602,000	\$ 21,000	\$ 21,000	\$ 42,000	\$ 168,000	\$168,000	\$182,000
Operating Leases	\$1,722,400	\$327,600	\$322,000	\$564,300	\$ 441,600	\$ 66,900	-
Total	\$2,944,400	\$968,600	\$343,000	\$606,300	\$ 609,600	\$234,900	\$182,000

17. RELATED PARTY TRANSACTIONS

The Company had related party transactions with directors 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 period ended December 31, 2011,

- a) Northern Securities acted as investment advisor and financial advisor with respect to Lakeside Steel Inc. receiving advisory fees and commissions in the amount of \$nil (December 31, 2010 - \$270,915) for the three month period ended December 31, 2011, and \$350,827 (December 31, 2010 - \$358,415) for the nine month period ended December 31, 2011.
- b) Northern Securities acted as investment advisor and financial advisor with respect to Jaguar receiving commissions and fees in the amount of \$835,925 (December 31, 2010 - \$21,205) for the three month period ended December 31, 2011, and \$1,016,287 (December 31, 2010 - \$146,602) for the nine month period ended December 31, 2011. Northern Securities also received 2,000,000 common shares under Jaguar's equity compensation plan in the three month period ended June 30, 2011. Northern Securities also recovered certain operating expenses from Jaguar in the amount of \$55,823 (December 31, 2010 - \$115,867) for the three month period ended December 31, 2011, and \$167,557 (December 31, 2010 - \$216,744) for the nine month period ended December 31, 2011.
- c) Northern Securities paid a corporation controlled by an officer and director of the Company \$49,340 (December 31, 2010 - \$nil) for the three month period ended December 31, 2011, and \$402,072 (December 31, 2010 - \$nil) for the nine month period ended December 31, 2011, for services rendered in the completion of certain transactions entered into by Northern Securities.

As at December 31, 2011, the Company had a \$20,000 (March 31 - \$20,000) promissory note outstanding from an officer of Northern Securities.

As at December 31, 2011, the Company had a \$250,000 (March 31 - \$75,000) promissory note outstanding from Jaguar. As at December 31, 2011 an amount of \$26,952 (March 31 - \$35,292) was payable to Jaguar.

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

18. SUPPLEMENTAL INFORMATION – STATEMENT OF CASH FLOWS

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Interest paid	\$ 91,278	\$ 64,561
Cash consists of the following		
Cash	\$ 331,726	\$ 348,226
Cash at carrying broker	156,295	1,242,831
Total	<u>\$ 488,021</u>	<u>\$1,591,057</u>

19. OPERATING SEGMENT INFORMATION

The management of the Company is responsible for the entire operations of the Company and considers the business to have a single operating segment.

The internal reporting provided to the management of the Company's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of IFRS. There were no changes in the reportable segments during the three months ended December 31, 2011.

20. TRANSITION TO IFRS

The Company has adopted IFRS effective April 1, 2011. For all periods up to and including the year ended March 31, 2011, the Company prepared its financial statements in accordance with Canadian GAAP. The financial statements for the three months ended June 30, 2011 were the first the Company has prepared in accordance with IFRS. The Company's financial statements for the year ending March 31, 2012 will be the first annual financial statements that comply with IFRS. Consequently, the Company will make an unreserved statement of compliance with IFRS beginning with its 2012 annual financial statements. In preparing the Company's first annual consolidated financial statements under IFRS, the Company is required to use the standards in effect as at March 31, 2012, which may differ from the policies the Company currently expects to adopt and used in financial statements.

In preparing these interim financial statements, the opening consolidated statement of financial position was prepared as at April 1 2010, the Company's date of transition to IFRS. These financial statements have been prepared in accordance with the accounting policies described in note 2. This note explains the principal adjustments made in restating the previously published Canadian GAAP financial statements for the three and nine months ended December 31, 2010.

a) Exemptions applied:

IFRS requires full retrospective application of applicable accounting standards. IFRS 1, First time Adoption of International Financial Reporting Standards ("IFRS 1") does, however, provide entities adopting IFRS for the first-time with a number of optional exemptions and mandatory exceptions to this general requirement. The Company has elected to apply the following exemptions:

- i) The Company has elected not to apply IFRS 2 "Share-Based Payments", to equity instruments granted on or before November 7, 2002 or which vested before the Company's transition date. The Company has also elected not to apply IFRS 2 to liabilities arising from share-based transactions that settled before the transition date.
- ii) The Company has not elected to measure certain items of capital assets at fair value as at April 1, 2010 and use those amounts as deemed cost.
- iii) In accordance with the mandatory exceptions to retrospective restatement under IFRS 1, hindsight was not used to create or revise estimates at the transition date and accordingly the estimates previously made by the Corporation under Canadian GAAP are consistent with their application under IFRS, except where necessary to reflect any difference in accounting policies.

b) Reconciliations:

The reconciliations between the previously reported financial results under Canadian GAAP and the current reported financial results under IFRS are provided as follows:

- i) reconciliation of the statement of financial position and equity as at December 31, 2010;
- ii) reconciliation of the statement of operations, comprehensive income and deficit for the three months ended December 31, 2010.
- iii) reconciliation of the statement of operations, comprehensive income and deficit for the nine months ended December 31, 2010; and
- iv) reconciliation of the statement of cash flows for the three months ended December 31, 2010; and
- v) reconciliation of the statement of cash flows for the nine months ended December 31, 2010.

All reconciliations relating to the periods highlighted above are due to reclassifications only. The Company had no IFRS adjustments that changed income, comprehensive income, or equity.

The following are the notes to the reconciliations presented below:

1. Adjustment required to reclassify payable and receivable from the same counter party which were previously netted.
2. Adjustment required to reclassify from current assets to non-current asset under the same asset class. Under Canadian GAAP investment in associated company was classified as a current asset the same as any other investment in common shares of any other company over which the Company is deemed not to have significant influence. Under IFRS, IAS 28 require investments in associates to be presented as non-current assets.
3. Adjustment required to reclassify payable and receivable which were previously netted.
4. Adjustment required to reclassify from capital assets to new name property, plant and equipment.
5. Adjustment required to reflect commissions and fees paid to third parties which were previously netted.

NORTHERN FINANCIAL CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2011

(i) The following is a reconciliation of the consolidated statement of financial position as at December 31, 2010:

	<u>Notes</u>	<u>CGAAP</u>	<u>IFRS adjustment</u>	<u>IFRS</u>
Assets				
<i>Current assets</i>				
Cash and cash equivalents	1.	\$1,510,284	\$ 80,773	\$1,591,057
Deposit with carrying broker		1,032,713	-	1,032,713
Securities owned		1,946,645	-	1,946,645
Investment in associated company	2.	982,758	(982,758)	-
Accounts receivable		31,514	-	31,514
Forgivable loans		38,849	-	38,849
Prepaid expenses and deposits		31,193	-	31,193
Commodity taxes recoverable	3.	44,597	-	44,597
Total current assets		<u>5,618,553</u>	<u>(901,985)</u>	<u>4,716,568</u>
<i>Non-current assets</i>				
Investment in associated company	2.	-	982,758	982,758
Other assets		161,151	-	161,151
Capital assets	4.	887,947	(887,947)	-
Property, plant and equipment	4.	-	887,947	887,947
Intangible assets		2,081	-	2,081
Total non-current assets		<u>1,051,179</u>	<u>982,758</u>	<u>2,033,937</u>
Total assets		<u>\$6,669,732</u>	<u>\$ 80,773</u>	<u>\$6,750,505</u>
Liabilities				
<i>Current liabilities</i>				
Short-term loans payable		\$3,313,000	\$ -	\$3,313,000
Accounts payables and accrued liabilities	1.	2,999,243	80,773	3,080,016
Securities sold short		-	-	-
Commodity taxes payable	3.	36,497	-	36,497
Settlement liability		33,482	-	33,482
Total current liabilities		<u>6,382,222</u>	<u>80,773</u>	<u>6,462,995</u>
<i>Non-current liabilities</i>				
Settlement liability		402,519	-	402,519
Total liabilities		<u>6,784,741</u>	<u>80,773</u>	<u>6,865,514</u>
Shareholders' Equity				
Share capital		2,012,476	-	2,012,476
Warrants		96,508	-	96,508
Contributed surplus		2,086,276	-	2,086,276
Accumulated other comprehensive income		-	-	-
Deficit		(4,310,269)	-	(4,310,269)
		<u>(115,009)</u>	<u>-</u>	<u>(115,009)</u>
		<u>\$6,669,732</u>	<u>\$ 80,773</u>	<u>\$6,750,505</u>

NORTHERN FINANCIAL CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2011

(ii) The following is a reconciliation of the statement of operations, comprehensive income and deficit for the three months ended December 31, 2010:

	<u>Notes</u>	<u>CGAAP</u>	<u>IFRS adjustment</u>	<u>IFRS</u>
Revenues				
Commissions		\$1,936,781	\$ -	\$1,936,781
Underwriting and advisory	5.	934,258	139,007	1,073,265
Broker warrants		988,439	-	988,439
Trading		35,342	-	35,342
Interest		59,642	-	59,642
Other		73,782	-	73,782
		<u>4,028,244</u>	<u>139,007</u>	<u>4,167,251</u>
Operating Expenses				
Brokerage operations	5.	3,083,311	139,007	3,222,318
General and administrative		552,712	-	552,712
Interest expense		129,154	-	129,154
Depreciation and amortization		55,044	-	55,044
		<u>3,820,221</u>	<u>139,007</u>	<u>3,959,228</u>
Net income from operations		208,023	-	208,023
Share of loss of Jaguar Financial Corporation		(44,159)	-	(44,159)
Loss on sale of investment in Jaguar Financial Corporation		-	-	-
Income before income taxes		<u>163,864</u>	<u>-</u>	<u>163,864</u>
Income taxes		-	-	-
Net income and comprehensive loss		<u>\$163,864</u>	<u>\$ -</u>	<u>\$163,864</u>

NORTHERN FINANCIAL CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2011

(iii) The following is a reconciliation of the statement of operations, comprehensive income and deficit for the six months ended December 31, 2010:

	<u>Notes</u>	<u>CGAAP</u>	<u>IFRS adjustment</u>	<u>IFRS</u>
Revenues				
Commissions		\$4,357,125	\$ -	\$4,357,125
Underwriting and advisory	5.	2,368,854	382,988	2,751,842
Broker warrants		956,206	-	956,206
Trading		33,879	-	33,879
Interest		217,544	-	217,544
Other		61,871	-	61,871
		<u>7,995,479</u>	<u>382,988</u>	<u>8,378,467</u>
Operating Expenses				
Brokerage operations	5.	7,669,966	382,988	8,052,954
General and administrative		1,513,930	-	1,513,930
Interest expense		451,499	-	451,499
Depreciation and amortization		165,263	-	165,263
		<u>9,440,658</u>	<u>382,988</u>	<u>9,823,646</u>
Net loss from operations		(1,445,179)	-	(1,445,179)
Share of earnings of Jaguar Financial Corporation		138,205	-	138,205
Loss on sale of investment in Jaguar Financial Corporation		(34,966)	-	(34,966)
Loss before income taxes		<u>(1,341,940)</u>	<u>-</u>	<u>(1,341,940)</u>
Income taxes		-	-	-
Net loss and comprehensive loss		<u>\$(1,341,940)</u>	<u>\$ -</u>	<u>\$(1,341,940)</u>

NORTHERN FINANCIAL CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2011

(iv) The following is a reconciliation of the statement of cash flows for the three months ended December 31, 2010:

	<u>Notes</u>	<u>CGAAP</u>	<u>IFRS adjustment</u>	<u>IFRS</u>
CASH FLOWS USED IN OPERATING ACTIVITIES				
Net loss for the period		\$163,864	\$ -	\$163,864
Items not affecting cash			-	
Depreciation and amortization		55,044	-	55,044
Share of (earnings) of associated company		44,159	-	44,159
Loss on sale of investment in associated company		-	-	-
Equity incentive / employee share purchase plans		235,096	-	235,096
Compensation warrants issued		-	-	-
		<u>498,163</u>	<u>-</u>	<u>498,163</u>
Changes in non-cash working capital balances				
Securities owned and sold short		(607,120)	-	(607,120)
Accounts receivable		37,820	-	37,820
Prepaid expenses, deposits, and forgivable loans		(17,582)	-	(17,582)
Commodity taxes recoverable		(34,528)	-	(34,528)
Accounts payable and accrued liabilities	1.	762,777	24,941	787,718
Settlement liability		(13,209)	-	(13,209)
		<u>128,158</u>	<u>24,941</u>	<u>153,099</u>
Cash flows from operating activities		626,321	24,941	651,262
CASH FLOWS USED IN INVESTING ACTIVITIES				
Acquisition of capital assets		-	-	-
Disposition of investment in associated company		-	-	-
Deposit with carrying broker		(888)	-	(888)
Cash flows used in investing activities		<u>(888)</u>	<u>-</u>	<u>(888)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from financings		-	-	-
Proceeds from employee share purchase plan		-	-	-
Repurchase of shares for reissue		-	-	-
(Decrease) Increase in short term loans		(50,000)	-	(50,000)
Cash flows from financing activities		<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>
Increase in cash		575,433	24,941	600,374
Cash beginning of period	1.	934,851	55,832	990,683
Cash end of period	1.	\$ 1,510,284	\$80,773	\$ 1,591,057

NORTHERN FINANCIAL CORPORATION
Notes to the Consolidated Financial Statements
December 31, 2011

(v) The following is a reconciliation of the statement of cash flows for the nine months ended December 31, 2010:

	<u>Notes</u>	<u>CGAAP</u>	<u>IFRS adjustment</u>	<u>IFRS</u>
CASH FLOWS USED IN OPERATING ACTIVITIES				
Net loss for the period		\$(1,341,940)	\$ -	\$(1,341,940)
Items not affecting cash			-	
Depreciation and amortization		165,263	-	165,263
Share of (earnings) of associated company		(138,205)	-	(138,205)
Loss on sale of investment in associated company		34,966	-	34,966
Equity incentive / employee share purchase plans		654,718	-	654,718
Compensation warrants issued		2,571	-	2,571
		<u>(622,627)</u>	<u>-</u>	<u>(622,627)</u>
Changes in non-cash working capital balances				
Securities owned and sold short		(223,116)	-	(223,116)
Accounts receivable		164,565	-	164,565
Prepaid expenses, deposits, and forgivable loans		30,863	-	30,863
Commodity taxes recoverable		18,529	-	18,529
Accounts payable and accrued liabilities	1.	477,963	1,442	479,405
Settlement liability		(59,619)	-	(59,619)
		<u>409,185</u>	<u>1,442</u>	<u>410,627</u>
Cash flows used in operating activities		<u>(213,442)</u>	<u>1,442</u>	<u>(212,000)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES				
Acquisition of capital assets		(4,035)	-	(4,035)
Disposition of investment in associated company		99,600	-	99,600
Deposit with carrying broker		(2,229)	-	(2,229)
		<u>93,336</u>	<u>-</u>	<u>93,336</u>
Cash flows used in investing activities		<u>93,336</u>	<u>-</u>	<u>93,336</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from financings		120,354	-	120,354
Proceeds from employee share purchase plan		103,769	-	103,769
Repurchase of shares for reissue		(72,242)	-	(72,242)
Increase in short term loans		163,000	-	163,000
		<u>314,881</u>	<u>-</u>	<u>314,881</u>
Cash flows from financing activities		<u>314,881</u>	<u>-</u>	<u>314,881</u>
Increase in cash		194,775	1,442	196,217
Cash beginning of period	1.	1,315,509	79,331	1,394,840
Cash end of period	1.	\$ 1,510,284	\$80,773	\$ 1,591,057

21. SUBSEQUENT EVENTS

On February 1, 2012, the Company issued 413,183 shares under the Employee Share Purchase Plan.

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R. Ian Bradley, *Consultant*
William Grant, *Consultant*
John Reid

SHARE INFORMATION

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