NORTHERN FINANCIAL CORPORATION

MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE QUARTER ENDED DECEMBER 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2013

Introduction

Northern Financial Corporation ("Northern" or the "Company") wholly owns Northern Securities Inc. ("Northern Securities"), a member firm of the Investment Industry Regulatory Organization of Canada ("IIROC"). Prior to December 31, 2012 the Company carried on a traditional brokerage and investment banking business. The Company carries on a merchant banking business as well as a mergers and acquisitions advisory business, corporate finance and research.

On March 28, 2012, the common shares of the Company commenced trading on the TSX Venture Exchange under its existing trading symbol "NFC". The Company is listed on the TSX Venture Exchange as a Tier 2 Industrial Issuer. Prior to this date the Company's shares were traded on the Toronto Stock Exchange.

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of the Company are the views of management and should be read in conjunction with the unaudited financial statements and related notes for the quarter ended December 31, 2012, compared to the quarter ended December 31, 2011.

Effective April 1, 2011, the Company adopted International Financial Reporting Standards ("IFRS") in accordance with the Accounting Standards Board ("AcSB") requirement for publicly accountable enterprises to converge with IFRS. The unaudited financial statements for the quarter ended December 31, 2012, which are discussed in this MD&A, have been prepared by management in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

This report, dated February 28, 2013, and the Company's other public filings, including its most recent Annual Information Form, can be found on the SEDAR website at www.sedar.com.

Forward-Looking Statements

This MD&A contains "forward-looking statements" that reflect Northern's current expectations and projections about its future results. When used in this MD&A, forward looking statements can be identified by the use of words such as "estimate", "consider", "expect", "anticipate", "objective" and similar expressions or variations of such words. Forward looking statements are, by their very nature, not guarantees of Northern's future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause Northern's actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward looking statements. No representation or warranty is intended with respect to anticipated future results, that estimates and projections will be sustained or that any project will otherwise prove to be economic.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of the date otherwise specifically indicated herein. Due to risks and uncertainties, including the risks and uncertainties elsewhere in this MD&A, actual events may differ materially from current expectations. Northern disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

Prior to December 31, 2012 Northern carried on a traditional full service investment dealer business through Northern Securities providing financial advisory services to retail and institutional clients and investment banking services to small capitalization companies. This business generated revenue from commissions and advisory fees earned on investment banking activities, and commissions from institutional sales and trading and retail investment advisors, and from principal trading. Northern carries on a merchant banking business as well as a mergers and acquisitions advisory business, corporate finance and research.

Northern Securities entered into agreements to assign its client accounts to other brokerage firms. All of the client account transfers were done pursuant to a consent order, agreed upon by IIROC and Northern Securities, issued by an IIROC Hearing Panel ("Order") on December 14, 2012. The Order was issued as a result of Northern Securities being unable to obtain an alternative carrying broker or other alternative arrangement to replace Penson Financial Services Canada Inc. ("Penson"), which discontinued its carrying broker business as of December 31, 2012. Subsequent to December 31, 2012, NSI limited its business to mergers and acquisitions, corporate finance and research, and no longer carried on a retail and institutional brokerage business.

Business Environment

The global stock markets continue to experience significant volatility, on continued fears and uncertainty pertaining to the economic recovery in Europe, the political and fiscal crisis in the United States, stubbornly high unemployment in

Europe and the United States, and the slowing economy in China. As a result, considerable cash remains on the sidelines while investors seek yield in large cap stocks with regular dividends and debt instruments paying returns that exceed mattress yields. The S&P/TSX Venture Composite Index has declined approximately 22.0% from March 31, 2012. For the twelve months ended December 31, 2012, the index is down 17.7%. Overall this environment has been very difficult for junior companies seeking to raise capital.

Results of Operations

Three Months Ended December 31, 2012

The Company reported a consolidated net loss of $841,406 for the three months ended December 31, 2012, compared to a net loss of $498,549 in the prior year. Included in net income was a non-cash gain of $132,822 representing the Company's share of the net income of Jaguar Financial Corporation ("Jaguar"), compared to a gain of $47,157 in the prior year. The net loss also included a negative, non-cash, net valuation adjustment of $59,405 on the Company's broker warrant portfolio.

Revenue

Total revenue for the three months ended December 31, 2012, was $802,290 compared with $2,205,911 in the same period in the prior year.

Commission revenue of $528,440 for the quarter ended December 31, 2012, was well below the prior year amount of $866,069 as retail investor trading volumes remained low. Underwriting and advisory revenue fell to $244,764 from $967,624 in the prior year as the Company participated in fewer financings. Broker warrant revenue was negative $44,405 compared to negative $253,688 in the prior year as the decline in Canadian capital markets produced a non-cash, downward valuation of the portfolio. Trading revenue was negative $6,258 compared to $418,289 in the prior year. Interest revenue of $75,662 was down from the prior year's amount of $130,604. Other revenue was $4,087, compared to $77,013 in the prior year.

Revenue of the Company is dependent upon the strength of the commodities markets and the general condition of the financial markets. Fluctuations in the financial markets has had a significant effect on the financial results of the Company.

Expenses

Total expenses for the quarter ended December 31, 2012, were $1,776,518, down from expenses of $2,751,617 in the prior year. Brokerage operations costs decreased to $1,414,829 from $2,459,579 in the prior year.

Interest expense increased to $141,096 from $91,278 in the prior year.

General and administrative expenses of $186,102 were up from the prior year's amount of $156,598.

Results of Operations

Nine Months Ended December 31, 2012

The Company reported a consolidated net loss of $3,371,624 for the nine months ended December 31, 2012, compared to a net loss of $3,128,452 in the prior year. Included in net income was a non-cash loss of $59,988 representing the Company's share of the loss of Jaguar, compared to a loss of $283,137 in the prior year. The net loss also included a negative, non-cash, net valuation adjustment of $369,839 on the Company's broker warrant portfolio, as well as a $375,000 provision for regulatory matters relating to Northern Securities.

Revenue

Total revenue for the nine months ended December 31, 2012, was $2,907,678 compared with $5,348,716 in the same period in the prior year.

Commission revenue was $1,777,175 for the nine months ended December 31, 2012, compared to $3,101,298 in the prior year. Underwriting and advisory revenue decreased to $1,176,730 from $2,088,024 in the prior year. Broker warrant revenue was negative $303,741 compared to negative $1,253,725 in the prior year as the decline in Canadian capital markets produced a non-cash, downward valuation of the portfolio. Trading revenue was $2,500 compared to $496,317 in the prior year. Interest revenue of $254,518 was down from the prior year's amount of $306,476. Other revenue was $496, compared to $610,326 in the prior year, which included receipt of $524,592 payable to Northern Securities under a judgment in its favour against Zaruma Resources Inc. issued by the Ontario Superior Court of Justice.

Revenue of the Company is dependent upon the strength of the commodities markets and the general condition of the financial markets. Fluctuations in the financial markets will have a significant effect on the financial results of the Company.

Expenses

Total expenses for the nine months ended December 31, 2012, were $6,239,643, down from expenses of $8,194,031 in the prior year. Brokerage operations costs decreased to $4,521,643 from $7,084,205 in the prior year.

Interest expense increased to $341,548 from $226,108 in the prior year.

General and administrative expenses of $1,275,319 were up from the prior year's amount of $751,362, and included an increase of $375,000 to the Company's provision relating to an IIROC enforcement proceeding against Northern Securities.

Regulatory Matters

As a result of an IIROC enforcement proceeding brought against Northern Securities and its executive officers regarding alleged improper trading, failures to correct deficiencies and an incorrect recording of leasehold improvements, the Hearing Panel issued its decision without reasons on July 23, 2012 ruling against the Company and its senior executives on these matters. Two of the matters in the enforcement proceeding were dropped by IIROC staff on the first day of the hearing. Subsequently the Hearing Panel issued its reasons for the decision and imposed a fine of $300,000 and costs of $150,000 against Northern Securities. The Hearing Panel also imposed sanctions on the Chief Executive Officer of Northern Securities, the former Chief Compliance Officer and the former Chief Financial Officer. On application by Northern Securities and the individual respondents, the Ontario Securities Commission ("OSC") held a hearing and review of the Hearing Panel's decision in February 2013. The OSC has stayed the Hearing Panel's sanctions and penalties until 30 days after the issuance of the OSC's decision and reasons for the Hearing and Review or until further order of the OSC. The Hearing and Review was held before the OSC on February 14, 15 and 20, 2013.

Liquidity, Capital Resources and Cash Flows

The Company requires capital for operating and for regulatory purposes. Most of the assets reflected on the balance sheet are highly liquid. The Company's assets consist primarily of cash or assets that are readily convertible into cash. The value of securities that are held fluctuate with market values and may be affected by a variety of factors such as economic and market conditions.

The Company had cash, deposits, and securities of $910,673 as at December 31, 2012, compared with $2,106,410 as at March 31, 2012. The Company used $859,807 of cash in its operations for the quarter ended September 30, 2012, compared with using $280,699 in the prior year.

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 losses of $841,406 in the current quarter, $3,171,624 in the nine months ended December 31, 2012, and $4,209,985 and $1,332,019 in fiscal years 2012 and 2011 respectively. The Company's continued operation is dependent upon its ability to raise or renew debt financing and to restore and maintain profitable operations.

During the quarter ended December 31, 2012, the Company completed a private placement of 2,000,000 common shares at a price of $0.05 per share for gross proceeds of $100,000. Subsequent to quarter end, the Company completed a private placement for a further 2,000,000 common shares for gross proceeds of $100,000.

As at December 31, 2012, the Company had negative working capital of $2,838,578 compared to a negative $336,032 as at March 31, 2012.

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

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

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

Payments Due by Period

Contractual Obligations	Total	Less than 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	$1,835,140	$1,185,140	$650,000	-	-	-	-
Settlement Liability	$ 518,000	$ 21,000	$ 21,000	$ 42,000	$168,000	$168,000	$98,000
Operating Leases	$1,680,300	$ 296,900	$200,200	$193,600	$569,900	$419,700	-
Total	$4,033,440	$1,503,040	$871,200	$235,600	$737,900	$587,700	$98,000

Annual Financial Information

	Year ended March 31, 2012	Year ended March 31, 2011	Year ended March 31, 2010
Total revenues	$6,853,889	$12,156,007	$10,338,844
Net loss from operations	($4,034,359)	($1,343,548)	($2,999,346)
Net loss	($4,209,895)	($1,322,019)	($2,968,329)
Loss per share	($0.14)	($0.10)	($0.29)
Total assets	$3,688,648	$6,714,795	$6,584,901
Long term liabilities	$ 354,634	$ 393,505	$ 428,001

The years ended March 31, 2012, and March 31, 2011, are reported under IFRS, while the year ended March 31, 2010, is reported under Canadian generally accepted accounting principles.

Quarterly Financial Information

	Fiscal Year Ended							
	March 31, 2013 $			March 31, 2012 $				March 31, 2011 $
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter
Total revenues	802,290	1,197,277	908,111	1,505,173	2,205,911	1,475,937	1,666,868	3,777,540
Net (loss) income	(841,406)	(1,103,454)	(1,426,764)	(1,081,443)	(498,549)	(2,045,030)	(584,873)	19,921
(Loss) earnings per share	(0.02)	(0.03)	(0.04)	(0.03)	(0.02)	(0.07)	(0.02)	0.00

A large portion of the Company's revenue was derived from underwriting and advisory revenue, merchant banking revenue, broker warrants revenue and commission revenue. By nature, underwriting and advisory revenue, and merchant banking revenue are not readily predictable. Underwriting and advisory revenue is reported when transactions are substantially completed, whereas merchant banking revenue and broker warrants revenue are based on mark-to-market adjustments. In addition, commission revenue is generally dependent on many market factors, which may lead to the fluctuations in quarterly revenue.

Management of Capital

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

The Company's capital structure includes the following:

	December 31, 2012	March 31, 2011
Short-term loans payable	$ 1,835,140	$ 760,927
Shareholders' equity comprised of:		
Share capital	3,614,480	2,807,960
Warrants	158,829	158,829
Contributed surplus	1,823,047	1,973,623
Deficit	(7,581,519)	(4,209,895)
	($ 150,023)	$ 1,491,444

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 commensurate 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 the 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 September 30, 2012, the amount of this loan is $8,600,000 (March 31 - $12,000,000). Repayment of the loan requires IIROC approval. As at December 31, 2012, the capital of Northern Securities did not meet the requirements of IIROC.

IIROC had advised Northern Securities of alleged deficiencies to maintain required regulatory capital in October 2008 in connection with a client accumulation account and in September 2009 in connection with an escrow agreement relating to a new issue loan letter. Northern Securities does not believe there were capital deficiencies. The new issue matter was the subject of a hearing involving Northern Securities and IIROC; however at the hearing IIROC withdrew the allegation concerning the September 2009 capital deficiency. As well, IIROC did not take the allegation concerning the October 2008 capital deficiency to the hearing stage. 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.

Critical Accounting Estimates

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

Valuation of financial instruments

The financial instruments of the Company are measured at fair value or amortized cost. Fair value is determined on the basis of market prices from independent sources, if available. If there is no available market price, fair value is determined using the Black-Scholes model. The inputs to the Black-Scholes model are derived from observable market data where possible, but where observable data is not available, judgment is required to establish fair value. There is inherent uncertainty and imprecision in estimating the factors that can affect fair value when observable data is not available.

Income Tax

Accruals for tax liabilities require management to make estimates and judgments with respect to the ultimate outcome of tax filings and assessments. Actual results could vary from these estimates. Deferred tax assets are recognized to the extent that the Company believes it is probable that the assets can be recovered. Deferred tax assets and liabilities are recorded using substantively enacted future tax rates. Accordingly, the actual income tax liabilities and deferred tax assets may differ significantly from that estimated and recorded.

Impairment

The carrying value of investment in associated company and property and equipment is reviewed each reporting period to determine whether there is an indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in net income. The assessment of recoverable amount requires the use of estimates and assumptions for discount rates, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair value of the assets could impact the impairment analysis.

Provisions

Provisions are recorded by the Company when it has determined that it has a present obligation, whether legal or constructive, and that it is probable that an outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are recorded based on management's best estimates of timing, and quantum of future outflows.

Financial Instruments

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

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

Broker warrants received by the Company in respect of underwriting are measured at fair value and are included in securities owned. Fair values determined using the Black-Sholes model require the use of assumptions concerning the volatility of underlying securities and risk-free interest rates. In determining those assumptions, the Company looks primarily to external readily observable market inputs including factors such as price volatilities and interest rates, as applicable. Realized and unrealized changes in fair value are recognized in income in the period in which the changes occur and reported as broker warrants revenue on the consolidated statement of operations, and comprehensive loss.

The following is a description and analysis of the risks associated with financial instruments that may affect the Company:

Fair Value of Financial Assets and Financial Liabilities:

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

Market Risk:

Market risk is the risk that a change in market prices, interest rate levels, indices, liquidity and other market factors will result in losses. The Company is exposed to market risk as a result of its principal trading in equity securities and fixed income securities. Securities held for trading are valued at market and as such, changes in market value affect earnings (losses) as they occur. The Company mitigates its market risk exposure through controls to limit concentration levels and capital usage within its inventory trading accounts. As at December 31, 2012, 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 ($1,000), based on a decrease and $1,000, 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 a counterparty on its obligation to the Company. The primary source of credit risk is related to the extension of credit to clients, through the use of margin loans, to purchase securities. Margin loans are due on demand and are collateralized by the financial instruments in the client's account. The Company faces potential financial loss if a client does not meet a margin call when the value of securities held as collateral declines and the Company is not able to recover sufficient value from the collateral.

Credit risk is managed by applying credit standards to the counterparties the Company transacts business with, applying limits to client transactions and requiring settlements of security transactions on a cash basis or delivery against payments. The Company also regularly monitors credit exposure. Margin transactions are collateralized by securities in the client's accounts in accordance with limits established by the Company and applicable regulatory requirements. During the quarter ended December 31, 2012, the Company did not suffer any material loss from counterparty default.

As at December 31, 2012, Northern Securities maintained a deposit with Penson in the amount of $260,869 and a cash balance at Penson in the amount of $324,334.

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 fixed rate interest bearing. As at December 31, 2012, based on a 1% change in interest rates, the estimated sensitivity of the Company's net income (loss) was ($18,000), based on an increase and $18,000, 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 foreign exchange risk. The Company holds minimal financial instruments in foreign currencies.

Liquidity Risk:

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

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

As at December 31, 2012, the Company had promissory notes outstanding in the amount of $410,927. The loans are unsecured and payable on 5 days of notice.

As at December 31, 2012, the Company had demand loans outstanding in the amount of $279,959. The loans are unsecured and payable on 5 days of notice.

As at December 31, 2012, the Company had term loans outstanding in the amount of $750,000 maturing within six months.

The Company has available a credit facility in the amount of $300,000 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 his personal investment company. As at December 31, 2012, the balance owing under the credit facility was $295,000.

Share Capital Information

Outlined below is selected current share capital information related to the Company as at February 28, 2013:

Description	Number
Common shares issued and outstanding	44,022,570
Common share purchase warrants issued and outstanding	517,748

On September 1, 2011, the shareholders of the Company approved a reduction in the stated capital of the Company in the amount of $4,290,348. The reduction of share capital resulted in a reduction of the Company's deficit by a corresponding amount.

In connection with listing the Company's common shares on the TSX Venture Exchange, the Company terminated its Equity Incentive Plan ("EIP"). Awards under the EIP which were outstanding and unvested as of March 15, 2012, continue to vest in accordance with the terms of the respective awards and the terms of the EIP, subject to a maximum aggregate of 1,546,063 common shares. However, with the transfer out of the Company's retail business and investment advisors, no further shares are issuable under the EIP. No new awards may be granted under the EIP.

Subsequent Events

Subsequent to December 31, 2012, the Company secured additional debt financing in the amount of $200,000.

On February 7, 2013, an IIROC Hearing Panel on application by IIROC staff set a date of March 19 to 21 for a hearing on allegations that Northern Securities had a risk adjusted capital deficiency and does not have a qualified Chief Financial Officer.

On February 19, 2013, the Company announced that together with Northern Securities, it had initiated an informal restructuring of its balance sheet, seeking to reduce the amount of liabilities outstanding. A successful restructuring will provide the Company with flexibility and time to transition to an advisory focused business and to seek to raise additional capital. The Company also announced that Grant Thornton LLP ("Grant Thornton") has resigned as auditors as part of an agreement reached to restructure amounts owning to Grant Thornton. Northern expects to announce the hiring of a new auditing firm in the near future.

On February 20, 2013, the OSC issued an Order which provided that the sanctions and penalties imposed by the IIROC Hearing Panel are stayed until 30 days after the issuance of the OSC's decision and reasons for the Hearing and Review or until further order of the OSC. The Hearing and Review was held before the OSC on February 14, 15 and 20, 2013. The IIROC Hearing Panel decision is dated November 10, 2012 and provided sanctions and penalties against Northern Securities and its Chief Executive Officer, former Chief Compliance Officer, and former Chief Financial Officer.

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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:

a) Northern Securities acted as investment advisor and financial advisor with respect to Jaguar receiving commissions and fees in the amount of $36,414 (December 31, 2011 - $835,925) for the three month period ended December 31, 2012, and $94,498 (December 31, 2011 - $1,016,287) for the nine month period ended December 31, 2012. Northern Securities also received 1,300,000 common shares (December 31, 2011 – 2,000,000 common shares) under Jaguar's equity compensation plan in the three month period ended June 30, 2012, which were recorded at fair value of $65,000 (December 31, 2011 - $140,000). Northern Securities also recovered certain operating expenses from Jaguar in the amount of $29,504 (December 31, 2011 - $55,823) for the three month period ended December 31, 2012, and $183,741 (December 31, 2011 - $167,557) for the nine month period ended December 31, 2012.

b) Northern Securities paid a corporation controlled by an officer and director of the Company, $nil (December 31, 2011 - $49,340) for the three month period ended December 31, 2012, and $73,490 (December 31, 2011 - $402,072) for the nine month period ended December 31, 2012, for services rendered in the completion of certain transactions entered into by Northern Securities.

As at December 31, 2012, the Company had a $390,181 (March 31 - $390,181) promissory note outstanding from Jaguar, a $20,000 (March 31 - $20,000) promissory note outstanding from a former officer of Northern Securities, $200,000 in term loans from a director of the Company, and $279,959 in demand loans from a corporation controlled by an officer and director of the Company. The notes are recorded in short-term loans payable in the statement of financial position.

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

Commitments and Contingencies

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	$ 690,800
1 to 2 years	296,600
2 to 3 years	273,300
3 to 4 years	253,000
4 to 5 years	166,600
	$1,680,300

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".

The Company has recorded a provision as at December 31, 2012, of $450,000 (March 31 - $75,000) relating to an IIROC Hearing Panel decision imposing a fine of $300,000 and costs of $150,000 against Northern Securities. The Company has recorded a provision as at December 31, 2012 of $176,000 (March 31 - $176,000) relating to a civil action to which the Company is defendant.

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 the 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. In February 2013 the Company settled a civil action for $75,000 brought against a former officer of Northern Securities.

Future Accounting Policies

a) Presentation of Financial Statements: IAS 1 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. IAS 1 is effective for annual periods beginning on or after July 1, 2012. The Company is currently evaluating the impact of IAS 1 on its financial statements.

b) 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 financial statements.

c) 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 financial statements.

d) 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 financial statements.

e) Disclosure of Interests in Other Entities: IFRS 12 provides enhanced disclosures about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard requires an entity to disclose information that enables users of financial statements to evaluate the judgments and assumptions made by a reporting entity when deciding how to classify its involvement with another entity; the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows. 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 financial statements.

f) Investments in Associates and Joint Ventures: IAS 28 was amended to incorporate the accounting for joint ventures because the equity method is now applicable to both joint ventures and associates. The disclosure requirements from IAS 28 (as revised in 2003) have been included in IFRS 12. The amended standard supersedes IAS 28 (as revised in 2003). IAS 28 (as amended in 2011) is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IAS 28 (as amended in 2011) on its financial statements.

g) 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 financial statements.

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 quarter ended December 31, 2012, are the seventh the Company has prepared in accordance with IFRS. The Company's financial statements for the year ended March 31, 2012, were the first annual financial statements that comply with IFRS. In preparing the Company's first annual consolidated financial statements under IFRS, the Company used the standards in effect as at March 31, 2012.

Disclosure Controls and Procedures

The Chief Executive Officer has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information related to the Company is made known in a timely manner. Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at the Company's financial year-end and believes them to be adequate and effective in providing reasonable assurance that material information is reliable and timely.

Internal Control Over Financial Reporting

The Chief Executive Officer is responsible for certifying that he has designed the Company's internal control over financial reporting ("ICFR") to a standard that provides assurance that material information relating to the Company is accumulated and communicated to the Company's Chief Executive Officer to allow for timely decisions regarding required disclosure and to ensure that information required to be disclosed in the Company's annual and interim filings and other reports filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein. Our disclosure controls and procedures have not required significant modification as a result of our adoption of IFRS. The certifying officer has evaluated the design of the Company's ICFR as at the date of this report and have concluded that the design was effective to provide such reasonable assurance. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

As at December 31, 2012, management evaluated the operating effectiveness of our internal control over financial reporting as defined under the Canadian Securities Administrators' National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*. This evaluation was performed under the supervision of, and with the participation of, the Company's Chief Executive Officer. Based on the evaluation conducted as at December 31, 2012, the Chief Executive Officer concluded that the Company's internal control over financial reporting was effective as of December 31, 2012.

Changes in Internal Control over Financial Reporting

The conversion to IFRS from Canadian GAAP impacts the way we present our financial results. We have evaluated the impact of the conversion on our accounting and financial reporting systems and have updated the requisite systems to enable our reporting under IFRS, including comparative information.

To the best of the knowledge of the Company's Chief Executive Officer, no changes were made in the Company's internal control over financial reporting in the third quarter of 2013 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.