

**NORTHERN FINANCIAL CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED DECEMBER 31, 2012**

(Unaudited)

Northern Financial Corporation

Notice of Non-Review of Interim Financial Statements

The attached interim financial statements, for the period ended December 31, 2012, have not been reviewed by the Company's auditors.

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

	<u>December 31, 2012</u>	<u>March 31, 2012</u>
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 508,767	\$ 362,015
Deposit with carrying broker (Note 3)	260,869	1,040,787
Securities owned (Note 4)	141,037	703,608
Accounts receivable	9,512	24,862
Forgivable loans (Note 6)	16,990	12,136
Prepaid expenses and deposits	<u>74,079</u>	<u>124,057</u>
	1,011,254	2,267,465
NON CURRENT ASSETS		
Investment in associated company (Note 7)	561,649	735,272
Other assets	62,631	79,333
Property and equipment (Note 8)	<u>551,413</u>	<u>606,578</u>
	1,175,693	1,421,183
TOTAL ASSETS	<u>\$2,186,947</u>	<u>\$3,688,648</u>
LIABILITIES		
CURRENT		
Short-term loans payable (Note 9)	\$1,835,140	\$ 760,927
Accounts payable and accrued liabilities	1,341,681	1,502,101
Provisions (Note 15)	626,000	251,000
Commodity taxes payable	4,498	50,598
Settlement liability (Note 10)	<u>42,513</u>	<u>38,871</u>
	3,849,832	2,603,497
NON CURRENT		
Settlement liability (Note 10)	<u>322,278</u>	<u>354,634</u>
TOTAL LIABILITIES	<u>4,172,110</u>	<u>2,958,131</u>
COMMITMENTS AND CONTINGENCIES (Notes 14, 15)		
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	3,614,480	2,807,960
Warrants (Note 11)	158,829	158,829
Contributed surplus (Note 11)	1,823,047	1,973,623
Deficit	<u>(7,581,519)</u>	<u>(4,209,895)</u>
	(1,985,163)	730,517
	<u>\$2,186,947</u>	<u>\$3,688,648</u>

APPROVED BY THE BOARD

"John Reid"

Director

"Vic Alboini"

Director

NORTHERN FINANCIAL CORPORATION
Unaudited Interim Consolidated Statements of Operations and Comprehensive Loss
For the Three and Nine Months ended December 31, 2012 and 2011

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
REVENUES				
Commissions	\$528,440	\$866,069	\$1,777,175	\$3,101,298
Underwriting and advisory	244,764	967,624	1,176,730	2,088,024
Broker warrants	(44,405)	(253,688)	(303,741)	(1,253,725)
Trading	(6,258)	418,289	2,500	496,317
Interest	75,662	130,604	254,518	306,476
Other	4,087	77,013	496	610,326
	<u>802,290</u>	<u>2,205,911</u>	<u>2,907,678</u>	<u>5,348,716</u>
OPERATING EXPENSES				
Brokerage operations	1,414,829	2,459,579	4,521,643	7,084,205
General and administrative	186,102	156,598	1,275,319	751,362
Interest expense	141,096	91,278	341,548	226,108
Depreciation and amortization	34,491	44,162	101,133	132,356
Total operating expenses	<u>1,776,518</u>	<u>2,751,617</u>	<u>6,239,643</u>	<u>8,194,031</u>
Net loss from operations	(974,228)	(545,706)	(3,331,965)	(2,845,315)
SHARE OF EARNINGS (LOSS) OF JAGUAR FINANCIAL CORPORATION (Note 7)	132,822	47,157	(59,988)	(283,137)
GAIN ON SALE OF JAGUAR FINANCIAL CORPORATION (Note 7)	<u>-</u>	<u>-</u>	<u>20,329</u>	<u>-</u>
LOSS BEFORE INCOME TAXES	(841,406)	(498,549)	(3,371,624)	(3,128,452)
INCOME TAXES (Note 13)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(841,406)	(498,549)	(3,371,624)	(3,128,452)
LOSS PER SHARE – Basic and diluted (Note 11(g))	\$(0.02)	\$(0.02)	\$(0.09)	\$(0.10)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	41,810,912	31,250,732	37,947,293	30,125,856

NORTHERN FINANCIAL CORPORATION
Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity
For the Nine Months ended December 31, 2012 and 2011

	Common Shares #	Common Shares \$	Warrants \$	Contributed Surplus \$	Deficit \$	Shareholders' Equity \$
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 and comprehensive 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
Balance, March 31, 2012	32,184,127	2,807,960	158,829	1,973,623	(4,209,895)	730,517
Private Placements	10,000,000	492,023	-	-	-	492,023
Employee equity incentive / purchase plans	1,838,443	314,497	-	(150,576)	-	163,921
Net loss and comprehensive loss	-	-	-	-	(3,371,624)	(3,371,624)
Balance, December 31, 2012	44,022,570	3,614,480	158,829	1,823,047	(3,371,624)	(1,985,163)

NORTHERN FINANCIAL CORPORATION
Unaudited Interim Consolidated Statements of Cash Flows
For the Three and Nine Months ended December 31, 2012 and 2011

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
CASH FLOWS USED IN OPERATING ACTIVITIES				
Net loss for the period	\$(841,406)	\$(498,549)	\$(3,371,624)	\$(3,128,452)
Items not affecting cash				
Depreciation and amortization	34,491	44,162	101,133	132,356
Share of (earnings) loss of associated company	(132,822)	(47,157)	59,988	283,137
Receipt of shares in associated company	-	-	(65,000)	(140,000)
Gain on sale of investment in associated company	-	-	(20,329)	-
Equity incentive / employee share purchase plans	3,758	102,089	151,733	394,283
Compensation warrants issued	-	-	-	22,263
	<u>(935,979)</u>	<u>(399,455)</u>	<u>(3,144,099)</u>	<u>(2,436,413)</u>
Changes in non-cash working capital balances				
Securities owned and sold short	59,375	280,261	562,571	1,355,602
Accounts receivable	49,533	(203,312)	15,350	(227,816)
Prepaid expenses, deposits, and forgivable loans	21,996	46,255	61,826	118,019
Commodity taxes recoverable	4,868	(3,317)	(46,100)	5,436
Accounts payable and accrued liabilities	(49,742)	(58,202)	214,580	(1,107,807)
Dividend from associated company	-	65,820	7,702	130,240
Settlement liability	(9,858)	(8,749)	(28,714)	(25,482)
	<u>76,172</u>	<u>118,756</u>	<u>787,215</u>	<u>248,192</u>
Cash flows used in operating activities	<u>(859,807)</u>	<u>(280,699)</u>	<u>(2,356,884)</u>	<u>(2,188,221)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES				
Acquisition of capital assets	(16,061)	(1,065)	(45,968)	(29,930)
Disposition of investment in associated company	-	-	214,906	-
Acquisition of investment in associated company	-	-	(23,644)	-
Deposit with carrying broker	164,131	(923)	779,918	(4,039)
Cash flows used in investing activities	<u>148,070</u>	<u>(1,988)</u>	<u>925,212</u>	<u>(33,969)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from financings	100,000	-	492,023	1,190,839
Proceeds from employee share purchase plan	-	-	12,188	31,049
Repurchase of shares for reissue	-	-	-	(23,600)
Increase (decrease) in short term loans	488,671	300,000	1,074,213	225,000
Cash flows from financing activities	<u>588,671</u>	<u>300,000</u>	<u>1,578,424</u>	<u>1,423,288</u>
(DECREASE) INCREASE IN CASH	(123,066)	17,313	146,752	(798,902)
CASH, BEGINNING OF PERIOD	631,833	470,708	362,015	1,286,923
CASH, END OF PERIOD	\$ 508,767	\$ 488,021	\$ 508,767	\$ 488,021

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"). Prior to December 31, 2012 the Company carried on a traditional brokerage and investment banking business through Northern Securities. The Company also carries on a merchant banking business as well as a mergers and acquisitions advisory business, corporate finance and research. The Company is governed by the *Business Corporations Act (Ontario)* and its common shares are listed on the TSX Venture Exchange under the symbol "NFC". The address of its registered office is 145 King Street West, Suite 2020, Toronto, Ontario, Canada, M5H 1J8.

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.

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. While this may cast significant doubt upon the Company's ability to continue as a going concern, subsequent to December 31, 2012, the Company raised capital to partially improve its financial position (note 20).

In addition, 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 carries on a retail and institutional brokerage business.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standard 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"). Certain information and disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed.

These financial statements should be read in consideration of the Company's audited annual financial statements as at, and for, the year ended March 31, 2012 ("2012 Annual Financial Statements"). The 2012 Annual Financial Statements were the Company's first IFRS annual financial statements. All defined terms used herein are consistent with those terms as defined in the 2012 Annual Financial Statements.

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

These interim consolidated financial statements were authorized for issuance by the Company's Board of Directors on February 28, 2013.

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 recognized 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. The Company's proportion of dividends paid by the associated company reduces the carrying value of the investment.

Cash and cash equivalents

The Company considers all highly liquid debt instruments with an original maturity date of three months or less to be cash equivalents.

Financial instruments – recognition and measurement

All financial instruments are classified into one of five categories: fair value through profit and loss, held to maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. Financial instruments are measured on initial recognition at fair value, and, in the case of financial instruments other than those classified as "fair value through profit and loss", directly attributable transaction costs.

Subsequent measurement and changes in fair value will depend on their initial classification, as follows:

- Fair value through profit and loss financial instruments are measured at fair value with changes in fair value recognized through profit or loss;
- Available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income until the financial asset is derecognized or impaired at which time the amounts would be recorded in profit or loss; or
- Loans and receivables, held to maturity investments, and other financial liabilities are measured at amortized cost using the effective interest rate method.

The Company has classified its financial instruments as follows:

Cash and cash equivalents, accounts receivable, and forgivable loans are classified as loans and receivables. Securities owned and deposits with carrying brokers are classified as fair value through profit and loss. Short-term loans payable, and accounts payable and accrued liabilities are classified as other financial liabilities.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and any impairment losses recorded. 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

Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets, such as equipment, to determine whether there is an indication of an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of impairment loss (if any). The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognized immediately in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the assets is increased to the revised estimate of its recoverable amount to the extent that the carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been previously recognized.

Forgivable loans

Forgivable loans are extended to investment advisors and capital markets professionals as a hiring and retention incentive. These loans are non-interest bearing and are initially recorded at fair value using a discounted cash flow approach using the prevailing prime interest rate on the date recorded. The difference between the fair value of these loans and the cash consideration is recorded as compensation expense and is included as operating expenses on the Consolidated Statement of Operations and Comprehensive Loss. These loans are forgiven on a straight-line basis over the period of the individual employment contract, which vary in length from six months to

four years. Employees that leave the company prior to the end of the contractual term are required to repay any loan amount not yet forgiven.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

(a) Securities transactions

Securities transactions, commissions and related clearing expenses are recorded on a trade date basis when the services are performed.

(b) Corporate finance and advisory fees

Corporate finance and advisory fees include fees earned from new issue and private placements, and corporate finance activities. New issue and private placements revenue consists of finders fees and commissions earned on public offerings and private placements of securities. Revenue from finders fees and commissions earned on public offerings and private placements of securities are recorded when the underlying transaction is substantially completed under the engagement terms and the related revenue is reasonably determinable and collectible. Corporate finance revenue consists of underwriting fees, management and advisory fees, and commissions earned on corporate finance activities. Revenue from underwritings, mergers and acquisitions and other corporate finance activities are recorded when the underlying transaction is substantially completed and collection of funds is reasonable assured under the engagement terms and the related revenue is reasonably determinable. Management and advisory fees are recognized on an accrual basis.

Broker warrants

Warrants received by the Company in respect of underwriting are initially measured at fair value using a Black-Scholes model. Broker warrants are classified as fair value through profit and loss and subsequent changes in fair value are recorded as revenue.

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case it is recognized in the same statement in which the related item is recognized.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the reporting date, and any adjustments to tax payable in respect to previous years. Current tax assets and liabilities are offset when the Company intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realized or the liabilities settled, based on tax rates and enacted and substantively enacted law by the reporting date. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and related to income taxes levied by the same taxation authority, and when the Company has a legal right to offset.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and 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 expenditures expected 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.

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.

Significant judgments, estimates and assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the year.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

(a) 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.

(b) 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.

(c) 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.

(d) 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.

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 years 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 years beginning on or after January 1, 2015. 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 years 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 years 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 years 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 years 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 years beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its financial statements.

3. Deposit With Carrying Broker

As at December 31, 2012, Northern Securities has contracted Penson to perform certain trading and clearing activities for the clients of Northern Securities, according to the Introducing Broker Agreement (the "Agreement") between Penson and Northern Securities. As a Type 2 Introducing Broker, Northern Securities does not carry client accounts, nor receive, deliver or hold cash and securities in connection with such clients. At December 31, 2012, Northern Securities maintained a deposit with Penson in the amount of \$260,869 (March 31 - \$1,040,787), which cannot be used in the normal course of operations. Effective December 31, 2012, Penson is discontinuing

its carrying broker business in Canada. Northern Securities has been unable to obtain an alternative carrying broker or other alternate arrangement to replace Penson.

4. SECURITIES OWNED

Securities owned consist of the following:

	<u>December 31, 2012</u>	<u>March 31, 2012</u>
Publicly traded equities	\$ 6,780	\$199,512
Broker warrants	134,257	504,096
	<u>\$141,037</u>	<u>\$703,608</u>

Included in broker warrants are warrants issued by 71 (March 31 – 81) public companies and 2 (March 31 – 2) private companies with expiry dates to September 2016. Broker warrants are valued, at the valuation date, 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.

5. FINANCIAL INSTRUMENTS

The fair value hierarchy presented distinguishes between the inputs used in determining the fair value 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 2012	March 31 2012	December 31, 2012			March 31, 2012		
			Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash and treasury bills	\$769,636	\$1,402,802	\$508,767	\$260,869	\$ -	\$362,015	\$1,040,787	\$ -
Securities owned	141,037	703,608	6,780	119,285	14,972	199,512	486,793	17,303
Securities sold short	-	-	-	-	-	-	-	-

The following is a summary of Level 3 financial instruments activity for the period ended December 31, 2012:

Balance, March 31, 2011	\$ 624,842
Expiry / exercise of broker warrants	(25,002)
Transfer out of level 3	(592,271)
New broker warrants received	19,088
Valuation adjustment	(9,354)
Balance, March 31, 2012	<u>\$ 17,303</u>
Transfer out of level 3	(1,122)
New broker warrants received	8,233
Valuation adjustment	(9,442)
Balance, December 31, 2012	<u>\$ 14,972</u>

6. FORGIVABLE LOANS

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

	December 31, 2012		March 31, 2012
	Cost	Accumulated Amortization	Net Book Value
Forgivable loans	\$1,196,344	\$1,179,354	\$32,771

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

	December 31, 2012	March 31, 2012
Forgivable within 1 year	\$ 16,990	\$ 12,136
Forgivable in greater than 1 year	-	20,635
	\$ 16,990	\$ 32,771

The forgiven amount for the period of \$15,781 (December 31, 2011 – \$18,229) is recorded as brokerage operations expense on the consolidated statement of operations and comprehensive loss.

7. INVESTMENT IN ASSOCIATED COMPANY

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

	2013	2012
Balance, beginning of year	\$735,272	\$901,048
Equity (loss) earnings	(59,988)	(175,536)
Dividends received	(7,702)	(130,240)
Partial disposition	(194,577)	-
Purchase of shares	23,644	-
Receipt of shares	65,000	140,000
Balance, end of period	\$561,649	\$735,272

The investment in Jaguar represents 10.9% (March 31 – 13.0%) of the outstanding common shares of Jaguar. The quoted market value of the investment as at December 31, 2012, was \$357,609 (March 31 - \$840,259).

In the quarters ended June 30, 2012, and June 30, 2011, the Company received respectively 1,300,000 and 2,000,000 common shares of Jaguar under Jaguar's Equity Incentive Plan. The shares were recorded at their fair value in the statement of operation and comprehensive loss. In the quarter ended June 30, 2012, the Company sold 4,094,000 shares of Jaguar for proceeds of \$214,906, generating a gain on sale of \$20,329. In the quarter ended September 30, 2012, the Company acquired an additional 710,000 shares at a cost of \$23,644.

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 10.9% equity interest in Jaguar; (ii) the Chairman and Chief Executive Officer of the Company holds or has control or direction over an 14.4% equity interest in Jaguar; (iii) the Chairman and Chief Executive Officer of the Company is also the Chairman and Chief Executive Officer of Jaguar; and (iv) the Chairman and Chief Executive Officer of the Company owns or has control or direction over a 30.8% equity interest in the Company.

The equity method is used to account for the Company's investment in Jaguar. The Company's share of earnings or losses is reported in income.

The condensed balance sheet of Jaguar is as follows:

(in thousands of dollars)	December 31, 2012	March 31, 2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 340	\$ 26
Investments	6,183	9,027
Receivables	106	39
	6,629	9,092
Property, plant and equipment	4	-
	\$ 6,633	\$ 9,092
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 208	303
Loans payable	-	1,799
	208	2,102
SHAREHOLDERS' EQUITY	6,425	6,990
	\$ 6,633	\$ 9,092

8. PROPERTY AND EQUIPMENT

	Furniture and Fixtures	Leasehold Improvements	Computer Equipment	Art	Total
<u>Cost</u>					
Balance, March 31, 2011	\$ 929,767	\$ 1,631,028	\$ 1,731,502	\$ 12,914	\$ 4,305,211
Additions	1,271	-	28,658	-	29,929
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Balance, March 31, 2012	931,038	1,631,028	1,760,160	12,914	4,335,140
Additions	-	16,061	29,907	-	45,968
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Balance, December 31, 2012	\$ 931,038	\$ 1,647,089	\$ 1,790,067	\$ 12,914	\$ 4,381,108

Accumulated Depreciation

Balance, March 31, 2011	\$ 749,438	\$ 1,073,700	\$ 1,649,123	\$ -	\$ 3,472,261
Additions	61,112	166,177	29,012	-	256,301
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Balance, March 31, 2012	810,550	1,239,877	1,678,135	-	3,728,562
Additions	17,770	59,877	23,486	-	101,133
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Balance, December 31, 2012	\$ 828,320	\$ 1,299,754	\$ 1,701,621	\$ -	\$ 3,829,695

Net Book Value

March 31, 2012	120,488	391,151	82,025	12,914	606,578
December 31, 2012	102,718	347,335	88,446	12,914	551,413

Depreciation on property and equipment for the period was \$101,133 (December 31, 2011 – \$132,356).

9. SHORT-TERM LOANS PAYABLE

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 (March 31 – \$350,000).

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

The Company has promissory notes outstanding in the amount of \$390,181 (March 31 – \$390,181) owing to Jaguar. A note in the amount of \$250,000 bears interest at 15% and a note in the amount of \$140,181 bears interest at 10%. The notes are payable within 5 days of notice. The loans are unsecured.

The Company has a term loan outstanding in the amount of \$200,000 (March 31 – \$nil) owing to an arm's length lender. The loan bears interest at a rate of 12%, matures on March 31, 2013, and is unsecured.

The Company has a term loan outstanding in the amount of \$250,000 (March 31 – \$nil) owing to an arm's length lender. The loan bears interest at a rate of 12%, matures on April 9, 2013, and is secured by a guarantee provided by the Chairman and Chief Executive Officer of the Company.

The Company has term loans outstanding in the amount of \$200,000 (March 31 – \$nil). The loans bear interest at a rate of 10% and are unsecured. \$100,000 of the loans mature on May 6, 2013, and \$100,000 mature on May 29. The loans were provided by a director of the Company. An additional \$100,000 loan, under similar terms, was provided subsequent to December 31, 2012.

The Company has demand loans outstanding in the amount of \$279,959 (March 31 – \$nil). The loans bear interest at a rate of 10% and are payable within 5 days of notice. The loans are unsecured and were provided by an investment company owned by the Chairman and Chief Executive Officer of the Company. An additional \$100,000 loan by the Chairman and Chief Executive Officer, under similar terms, was provided subsequent to December 31, 2012.

10. 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 and Comprehensive Loss in fiscal 2010.

The remaining liability of \$364,791 (March 31 – \$393,505) is recorded at the discounted cash flow value using the effective interest method with \$42,513 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, \$49,504 in 2012, and \$34,286 in the period ended September 30, 2012. The remaining \$153,209 interest will be recorded in future years as cash payments are made. See Note 16 for a schedule of future cash payments.

11. CAPITAL STOCK

(a) *Share capital*

Authorized	
Unlimited number of common shares	
2,000,000 voting, convertible, redeemable, preference shares	
Issued and outstanding	
44,022,570 common shares	\$3,614,480

Share capital activity for the period ended December 31, 2012, is summarized as follows:

	Shares #	Amount \$
Balance, March 31, 2011	25,472,620	5,218,834
Shares issued under equity incentive plan (c)	1,571,050	485,104
Shares issued under employee share purchase plan (d)	724,291	171,896
Prospectus financing (e)	4,416,166	1,190,839
Reissue of repurchased shares		31,635
Reduction in stated capital		(4,290,348)
Balance, March 31, 2012	32,184,127	2,807,960
Shares issued under equity incentive plan (c)	1,316,864	255,915
Shares issued under employee share purchase plan (d)	521,579	58,582
Private placement (e)	10,000,000	492,023
Balance, December 31, 2012	44,022,570	3,614,480

Note: The total cost of share based compensation for the period ended December 31, 2012 was \$151,733 (December 31, 2011 – \$394,283). As at December 31, 2012, the Company had an accrual of \$166,838 (March 31 – \$317,413) 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 September 30, 2012, there are 29,337 common share purchase options outstanding and exercisable, 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.

NORTHERN FINANCIAL CORPORATION
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Stock option activity for the period ended December 31, 2012 is summarized as follows:

	Stock Options #	Weighted Average Exercise Price
Balance, March 31, 2011	71,687	\$ 3.89
Expired	(36,367)	\$ 4.20
Balance, March 31, 2012	35,320	\$ 3.58
Expired	(5,983)	\$ 4.00
Balance, December 31, 2012	29,337	\$ 3.50

The following is a summary of common share purchase options outstanding and exercisable as at December 31, 2012:

Range of Exercise Prices	Stock Options #	Weighted Average Remaining Life (Years)	Weighted Average Price
\$ 3.50-4.00	29,337	0.06	\$ 3.50

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 6% of the outstanding common shares of the Company may be issued annually to certain new or existing employees of the Company as a means of attracting and retaining exceptional employees.

In connection with listing the Company's common shares on the TSX Venture Exchange, the Company terminated its Equity Incentive Plan. Awards under the EIP which were outstanding and vested as of March 15, 2012, continued 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.

(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 or such other period determined by the Board of Directors.

(e) *Financings*

During the quarter ended December 31, 2012, the Company raised gross proceeds of \$100,000 by issuing 2,000,000 shares upon the completion of a private placement.

During the quarter ended September 30, 2012, the Company raised gross proceeds of \$200,000 by issuing 4,000,000 shares upon the completion of a private placement.

During the quarter ended June 30, 2012, the Company raised gross proceeds of \$200,000 by issuing 4,000,000 shares upon the completion of a private placement.

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.

(f) *Reduction in stated capital*

On September 1, 2011 the shareholders 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.

(g) *Earnings per share data*

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

	Three months ended	Six months ended
December 31, 2011	31,250,732	30,125,856
December 31, 2012	41,810,912	37,947,293

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

(h) *Warrants:*

Warrant activity for the period ended December 31, 2012, is summarized as follows:

	#	\$
Balance, March 31, 2011	1,192,031	136,566
Prospectus financing compensation	191,348	22,263
Expired	(663,912)	
Balance, March 31, 2012	719,467	158,829
Expired	(201,719)	
Balance, December 31, 2012	517,748	158,829

The following is a summary of outstanding warrants as at December 31, 2012:

	Number	Exercise Price	Expiry Date
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>517,748</u>		

(i) *Contributed surplus:*

Contributed surplus activity for the period ended December 31, 2012, is summarized as follows:

Balance, March 31, 2011	\$ 2,166,604
Employee equity incentive plan	(192,057)
Employee share purchase plan	(924)
Balance, March 31, 2012	1,973,623
Employee equity incentive plan	(186,507)
Employee share purchase plan	35,931
Balance, December 31, 2012	<u>\$ 1,823,047</u>

12. 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, 2012	March 31, 2011
Short-term loans payable	\$ 1,835,140	\$ 760,927
Shareholder's 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)
	<u>(\$ 150,023)</u>	<u>\$ 1,491,444</u>

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, 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 has advised Northern Securities of alleged deficiencies on Northern Securities part 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. These matters were 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. 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.

13. 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 2013 because there are adequate tax losses available to offset any taxable income.

14. COMMITMENTS

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
	<hr/>
	\$1,680,300
	<hr/>

15. PROVISIONS 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 has recorded a provision as at December 31, 2012 of \$450,000 (March 31 - \$75,000) as a result of a decision of an IIROC Hearing Panel on November 10, 2012 on an IIROC enforcement proceeding regarding failures to correct deficiencies and an incorrect recording of leasehold improvements. The Hearing Panel imposed a fine of \$300,000 on Northern Securities and costs of \$150,000. 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 ("individual respondents"). 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 pending the OSC decision and reasons on the appeal.

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.

Balance at March 31, 2011	\$ 251,000
Additions during the year	75,000
Balance at March 31, 2012	<u>251,000</u>
Additions during the period	375,000
Balance at December 31, 2012	<u>\$ 626,000</u>

- c) 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.

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, 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) (March 31 - (\$7,000)), based on a decrease and \$1,000 (March 31 - \$7,000), 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, 2012, the Company did not incur any material loss from counterparty default.

As at December 31, 2012, Northern Securities maintained a deposit with Penson in the amount of \$260,869 (March 31 - \$1,040,787) (see Note 3) and a cash balance from Penson in the amount of \$324,334 (March 31 - \$225,980) included in cash on the Consolidated Statement of Financial Position. It is management's opinion that there is no significant credit risk.

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, 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 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 September 30, 2012, 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	\$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

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:

- 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.

18. SUPPLEMENTAL INFORMATION – STATEMENT OF CASH FLOWS

	December 31, 2012	December 31, 2011
Interest paid	\$ 109,990	\$ 91,278
Cash consists of the following		
Cash	\$184,433	\$331,726
Cash at carrying broker	324,334	156,295
Total	\$508,767	\$488,021

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 period ended September 30, 2012.

20. SUBSEQUENT EVENTS

- a) Subsequent to December 31, 2012, the Company secured additional debt financing in the amount of \$200,000, \$100,000 of which was provided by a director of the Company and \$100,000 by the Chairman and Chief Executive Officer of the Company.
- b) 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 has a risk adjusted capital deficiency and does not have a qualified Chief Financial Officer.
- c) 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 a mergers and acquisitions 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 owing to Grant Thornton. Northern expects to announce the hiring of a new auditing firm in the near future.
- d) 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.
- e) In February 2013 the Company settled a civil action against a former officer for \$75,000 which has been paid to the Company.
- f) Subsequent to December 31, 2012 the Company surrendered its lease in its former Calgary office, and the lease in its former Vancouver office was terminated. The lease in the Company's former Brandon, Manitoba office was assumed by a brokerage firm that employed the investment advisors in that office and acquired the accompanying client accounts. The Company's lease in its Toronto office ends on April 30, 2013.

CORPORATE INFORMATION
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BOARD OF DIRECTORS

Vic Alboini, Chairman
William Grant, Consultant
John Reid
Principal
Woodard and Company Ltd.

SHARE INFORMATION

Listed on the Toronto Venture Exchange under the trading symbol **NFC**

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