NORTHERN FINANCIAL CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED DECEMBER 31, 2010

(Unaudited)

Northern Financial Corporation

Notice of Non-review of Interim Financial Statements

The attached interim financial statements, for the period ended December 31, 2010, have not been reviewed by the Company's auditors.

NORTHERN FINANCIAL CORPORATION
Unaudited Interim Balance Sheet
As at

	December 31, 2010	March 31, 2010
ASSETS		
CURRENT		
Cash (Note 2 and Note 17)	$1,510,284	$1,315,509
Deposit with carrying broker (Note 3)	1,032,713	1,030,484
Securities owned (Note 4)	1,946,645	1,723,769
Investment in associated company (Note 6)	982,758	979,119
Accounts receivable	31,514	196,079
Forgivable loans (Note 9)	38,849	32,164
Prepaid expenses and deposits	31,193	114,786
Commodity taxes recoverable	44,597	26,629
	5,618,553	5,418,539
OTHER ASSETS	161,151	115,106
CAPITAL ASSETS (Note 7)	887,947	1,047,891
INTANGIBLE ASSETS (Note 8)	2,081	3,365
TOTAL ASSETS	$6,669,732	$6,584,901
LIABILITIES		
CURRENT		
Short-term loans payable (Note 10)	$3,313,000	$3,150,000
Accounts payable and accrued liabilities	2,999,243	2,521,280
Securities sold short (Note 4)	-	240
Commodity taxes payable	36,497	-
Settlement liability (Note 11)	33,482	67,619
	6,382,222	5,739,139
Settlement liability (Note 11)	402,519	428,001
TOTAL LIABILITIES	6,784,741	6,167,140
COMMITMENTS AND CONTINGENCIES (Note 14)		
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	2,012,476	1,317,734
Warrants (Note 12)	96,508	73,952
Contributed surplus (Note 12)	2,086,276	1,994,404
Accumulated other comprehensive income	-	-
Deficit	(4,310,269)	(2,968,329)
	(115,009)	417,761
	$6,669,732	$6,584,901

APPROVED BY THE BOARD

"Ian Bradley"

Director

"Vic Alboini"

Director

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

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Nine Months Ended December 31, 2010	Nine Months Ended December 31, 2009
REVENUES				
Commissions	$1,936,781	$1,724,778	$4,357,125	$4,627,122
Underwriting and advisory	934,258	505,219	2,368,854	1,715,350
Broker warrants	988,439	(14,899)	956,206	827,654
Merchant banking	-	(28,969)	-	334,663
Trading	35,342	49,244	33,879	170,675
Interest	59,642	8,710	217,544	99,598
Other	73,782	108,220	61,871	97,200
	4,028,244	2,352,303	7,995,479	7,872,262
OPERATING EXPENSES				
Brokerage operations	3,083,311	2,832,734	7,669,966	8,301,086
Merchant banking	-	-	-	49,217
General and administrative	552,712	194,843	1,153,930	702,776
Interest expense	129,154	70,292	451,499	240,689
Depreciation and amortization	55,044	80,383	165,263	213,901
Total operating expenses	3,820,221	3,178,252	9,440,658	9,507,669
	208,023	(825,949)	(1,445,179)	(1,635,407)
SHARE OF EARNINGS (LOSS) OF JAGUAR FINANCIAL CORPORATION (Note 6)	(44,159)	(178,618)	138,205	(110,712)
LOSS ON SALE OF INVESTMENT IN JAGUAR FINANCIAL CORPORATION (Note 6)	-	-	(34,966)	-
INCOME (LOSS) BEFORE INCOME TAXES	163,864	(1,004,567)	(1,341,940)	(1,746,119)
INCOME TAXES (Note 13)	-	-	-	-
NET INCOME (LOSS) FOR THE PERIOD	163,864	(1,004,567)	(1,341,940)	(1,746,119)
DEFICIT, beginning of period	(4,474,133)	(741,552)	(2,968,329)	(42,331,789)
Reduction in stated capital	-	-	-	42,331,789
DEFICIT, end of period	$ (4,310,269)	$(1,746,119)	$ (4,310,269)	$(1,746,119)
EARNINGS (LOSS) PER SHARE – Basic and diluted	$0.01	$(0.10)	$(0.10)	$(0.17)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	13,406,358	10,083,073	12,796,011	10,083,073

NORTHERN FINANCIAL CORPORATION
Unaudited Interim Consolidated Statements Cash Flows
For the

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Nine Months Ended December 31, 2010	Nine Months Ended December 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss) for the period	$163,864	$(1,004,567)	$(1,341,940)	$(1,746,119)
Items not affecting cash				
Depreciation and amortization	55,044	80,383	165,263	213,901
Share of (earnings) loss of associated company	44,159	178,618	(138,205)	110,712
Loss on sale of investment in associated company	-	-	34,966	-
Equity incentive / employee share purchase plans	235,096	117,154	654,718	276,788
Compensation warrants issued	-	-	2,571	-
	498,163	(628,412)	(622,627)	(1,144,718)
Changes in non-cash working capital balances				
Securities owned and sold short	(607,120)	269,417	(223,116)	131,129
Accounts receivable	37,820	130,801	164,565	348,316
Prepaid expenses & deposits, and forgivable loans	(17,582)	36,865	30,863	188,026
Commodity taxes	(34,528)	6,063	18,529	2,660
Accounts payable and accrued liabilities	762,777	276,544	477,963	347,294
Deferred revenue	-	-	-	(17,500)
Settlement liability	(13,209)	-	(59,619)	-
	128,158	719,690	409,185	999,925
	626,321	91,278	(213,442)	(144,793)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of capital assets	-	-	(4,035)	-
Disposition of investment in associated company	-	-	99,600	-
Deposit with carrying broker	(888)	99,595	(2,229)	199,280
Cash flows from investing activities	(888)	99,595	93,336	199,280
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from employee share purchase plan	-	-	103,769	17,000
Proceeds from private placement	-	-	120,354	-
Repurchase of shares for reissue	-	-	(72,242)	(79,767)
Repayment of promissory note	-	(75,000)	-	(200,000)
Increase (decrease) in short term loans	(50,000)	210,000	163,000	178,124
Cash flows from financing activities	(50,000)	135,000	314,881	(84,643)
INCREASE (DECREASE) IN CASH	575,433	325,873	194,775	(30,156)
CASH, BEGINNING OF PERIOD	934,851	955,566	1,315,509	1,311,595
CASH, END OF PERIOD	$1,510,284	$1,281,439	$1,510,284	$1,281,439

SUPPLEMENTARY INFORMATION (Note 17)

1. NATURE OF OPERATIONS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with generally accepted accounting principles in Canada. Outlined below are those policies considered particularly significant:

Going concern

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

The Company incurred losses of $1,341,940 in the past three quarters and $2,968,329 in the previous year and has a significant amount of debt maturing within 12 months (Note 15).

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

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

Principles of consolidation

These consolidated financial statements include the accounts of the Company and all its subsidiaries with its principal operating subsidiary being a wholly owned investment dealer. Intercompany accounts and balances are eliminated upon consolidation. The equity method is used to account for investments in associated companies where the Company has significant influence. The share of earnings, gains and losses, realized dispositions and write downs to reflect other than temporary impairment are included in income. The loss in value of an investment in an associated company where that Company has significant influence is considered to be other than a temporary decline when there is significant or prolonged decline in the fair value of an investment below its carrying value.

Cash

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

Foreign currency translation

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

Securities owned and securities sold short

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

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-Scholes model require the use of assumptions concerning the volatility of underlying securities and risk-free interest rates. In determining those assumptions, we look primarily to external readily observable market inputs including factors such as price volatilities and interest rates, as applicable.

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

Securities transactions

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

Capital assets

Equipment is carried at acquisition cost less accumulated depreciation. Amortization is provided using the following annual rates and methods:

Furniture and fixtures	20% declining balance
Leasehold improvements	20% declining balance
Computer equipment	30% - 50% declining balance
Works of art	Not amortized

Intangible assets

Intangible assets with a finite life are amortized on a straight line basis over their expected useful lives, which are determined to be 3 years. The intangibles are tested for impairment when conditions exist which may indicate that the estimated future net cash flows from the asset will be insufficient to recover the carrying amount.

Forgivable loans

Forgivable loans are extended to investment advisors and capital market professionals as a hiring and retention incentive. These loans are non-interest bearing and are initially recorded at fair value using the discounted cash flow approach based on the prevailing prime interest rate on the recorded date. The difference between the fair value of these loans and the cash consideration is recorded as compensation expense and is included as brokerage operations expense on the consolidated statement of income, comprehensive income and deficit. These loans are forgiven on a straight-line basis over the period of the individual employment contract, which varies in length from six months to four years. The forgiven amount is recorded as brokerage operations expense on the consolidated statement of income, comprehensive income and deficit.

Underwriting and advisory fees

Underwriting and advisory revenues are recorded at the time the transaction or service is completed and the related income is reasonably determinable.

Merchant banking

Merchant banking revenue is comprised of revenue earned through securities trading or advisory fees and is reclassified to merchant banking depending on the nature of the specific transaction.

Use of estimates and assumptions

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Certain estimates, including the valuation of broker warrants, forgivable loans, contingent liabilities, and future tax assets and liabilities, require management to make subjective or complex judgments. Accordingly actual results may vary from the current estimates. These estimates are reviewed periodically by management and, as adjustments become necessary, they are reported in income in the period in which they become known.

Leases

Leases have been classified as operating. Rental payments are charged to earnings as incurred.

Stock-based compensation plan

The Company records as compensation all stock-based awards made to non-employees and employees at fair value. Any consideration paid upon exercise of stock options is credited to capital stock.

Income taxes

The Company accounts for and measures future tax assets and liabilities in accordance with the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to loss carry forwards and to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and the net asset is reduced accordingly.

Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net income available to common shareholders by the weighted average number of shares outstanding. Diluted earnings (loss) per share is calculated using the treasury stock method. In order to determine diluted earnings (loss) per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted earnings (loss) per share calculation. The diluted earnings (loss) per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

Future Accounting Policies

The IFRS will replace Canadian GAAP currently followed by the Company. The Company will be required to begin reporting under IFRS for its fiscal year ended March 31, 2012, and will be required to provide information that conforms with IFRS for the comparative periods presented. The Company is currently evaluating the impact of the transition to IFRS including its effect on accounting policies, disclosures, financial systems, and internal controls.

In January 2009, the CICA issued CICA Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidations”, and Section 1602, “Non-controlling Interests”. These sections replace the former CICA Handbook Section 1581, “Business Combinations” and Section 1600, “Consolidated Financial Statements” and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA Handbook Section 1582 establishes standards for the accounting of a business combination. It provides the Canadian equivalent to IFRS 3, “Business Combinations” (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS International Accounting Standard 27, “Consolidated and Separate Financial Statements” (January 2008). CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The impact of the adoption of these sections is not expected to be significant.

3. SERVICE AGREEMENT

As at December 31, 2010, the Company has contracted Penson Financial Services (“Penson”) to perform certain trading and clearing activities for the clients of the Company, according to the Introducing Broker Agreement (the “Agreement") between Penson and the Company. As a Type 2 Introducing Broker, the Company does not carry client accounts, nor receive, deliver or hold cash and securities in connection with such clients. At December 31, 2010, the Company maintained a deposit with Penson in the amount of $1,032,713 (March 31 - $1,030,484), which cannot be used in the normal course of operations. As at December 31, 2010, Penson has offset $nil (March 31 - $nil) against this deposit for undermargined and delinquent accounts of Northern Securities.

Penson performs its services for a flat fee per trade, subject to certain additional charges. Interest related to client accounts is also split according to the Agreement.

4. SECURITIES OWNED AND SECURITIES SOLD SHORT

Securities owned consist of the following:

	December 31, 2010	March 31, 2010
Publicly traded equities	$ 912	$ 28,694
Broker warrants	1,945,733	1,695,075
	$1,946,645	$1,723,769

Included in broker warrants are warrants issued by 80 (March 31 – 68) public companies and no (March 31 – 1) private companies with expiry dates to August 2015. Broker warrants are valued using a Black-Scholes model using the quoted closing bid price of the underlying security at valuation date in active markets where available, a 52 week volatility, and the Government of Canada treasury bill rate for equivalent maturity dates. When quoted prices in active markets are not available, determination of the fair value of the underlying security is based on reference to the issue price and consideration of other observable market data.

Securities sold short consist of the following:

	December 31, 2010	March 31, 2010
Publicly traded equities	-	$240

5. FINANCIAL INSTRUMENTS

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

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

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

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

	Carrying Value		Estimated Fair Value		
			December 31, 2010		
	September 30, 2010	March 31, 2010	Level 1	Level 2	Level 3
Held for trading					
Cash and treasury bills	$2,542,997	$2,345,993	$1,510,284	$1,032,713	$ -
Securities owned	1,946,645	1,723,769	91[illegible]	1,390,013	555,720
Securities sold short	-	240	-	-	-

Level 1 financial instruments include cash and publicly traded equities. Fair values for cash are based on principal amounts deposited. Fair values for publicly traded equities are based on the closing bid price for securities purchased long and closing ask price for securities sold short, on the stock exchange where the investment is listed as at December 31, 2010.

Level 2 financial instruments include treasury bills and broker warrants. Fair values for broker warrants are based on a Black-Scholes model using the quoted closing bid price of the underlying security as at December 31, 2010, a 52 week volatility, and the Government of Canada treasury bill rate for equivalent maturity dates.

Level 3 financial instruments include broker warrants where any of the model inputs noted for Level 2 are not available and publicly traded securities where closing bid prices are not available. Fair values for broker warrants issued by public companies are based on a Black-Scholes model using the quoted closing bid price of the underlying security as at December 31, 2010 (or the last available closing bid price when a closing bid price as December 31, 2010 is not available), a 52 week volatility (or a 50% proxy volatility where a 52 week volatility is not available), and the Government of Canada treasury bill rate for equivalent maturity dates. Fair values for broker warrants issued by private companies are based on a Black-Scholes model using an adjusted issue price of the underlying security as at December 31, 2010, a 50% volatility, and the Government of Canada treasury bill rate for equivalent maturity dates. Publicly traded equities are valued at $nil.

The following is a summary of Level 3 financial instruments activity for the period ended December 31, 2010:

Balance, March 31, 2010	$ 44,156
Expiry / exercise of broker warrants	(60,833)
Transfer out of level 3	(43,891)
New broker warrants received	146,272
Valuation adjustment	470,014
Balance, December 31, 2010	$555,720

6. INVESTMENT IN ASSOCIATED COMPANY

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

	2011	2010
Balance, beginning of year	$979,119	$948,102
Equity earnings / (loss)	138,205	31,017
Disposition	(134,566)	-
Balance, end of period	$982,758	$979,119

The investment in Jaguar represents 11.3% (March 31 - 13.0%) of the outstanding common shares of Jaguar as at December 31, 2010. The quoted market value of the investment as at December 31, 2010, was $840,302 (March 31 - $948,102).

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

In the quarter ended September 30, 2010, the Company sold 1,540,000 shares of Jaguar generating a loss on sale of $34,966.

The Company has determined that it exercises significant influence over the strategic operating, investing and financing policies of Jaguar due to the following factors: the Company holds a 11.3% equity interest in Jaguar; (ii) the Chairman and Chief Executive Officer of the Company holds or has control or direction over an 11.2% equity interest in Jaguar; (iii) the Chairman and Chief Executive Officer of the Company is also the Chairman and Chief Executive Officer of Jaguar; (iv) the Chairman and Chief Executive Officer of the Company owns or has control or direction over a 34.9% equity interest in the Company; and (v) the Chief Financial Officer of the Company is also the Chief Financial Officer of Jaguar.

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

7. CAPITAL ASSETS

	December 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	$ 929,767	$ 738,334	$191,433
Leasehold improvements	1,631,028	1,036,404	594,624
Computer equipment	1,729,133	1,640,157	88,976
Works of art	12,914	-	12,914
	$4,302,842	$3,414,895	$887,947

	March 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	$ 929,767	$ 704,765	$ 225,002
Leasehold improvements	1,626,993	931,826	695,167
Computer equipment	1,729,133	1,614,325	114,808
Works of art	12,914	-	12,914
	$4,298,807	$3,250,916	$1,047,891

Depreciation on capital assets for the period was $54,616 (December 31, 2009 – $79,526).

8. INTANGIBLE ASSETS

	December 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Computer software	$ 540,922	$ 538,841	$ 2,081

	March 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Computer software	$ 540,922	$ 537,557	$ 3,365

Amortization on intangible assets for the period was $428 (December 31, 2009 - $857).

9. FORGIVABLE LOANS

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

	December 31, 2010			March 31, 2010
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Forgivable loans	$1,200,719	$1,108,597	$92,122	$32,572

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

	December 31, 2010	March 31, 2010
Forgivable within 1 year	$38,849	$32,164
Forgivable in greater than 1 year	53,273	408
	$92,122	$32,572

The forgiven amount for the period of $14,995 (December 31, 2009 – $24,951) is recorded as brokerage operations expense on the consolidated statement of operations, comprehensive (loss) income and retained deficit.

10. SHORT-TERM LOANS PAYABLE

The Company has available a credit facility in the amount of $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 a corporation wholly owned by the Chairman and Chief Executive Officer of the Company. As at December 31, 2010, the balance owing under the credit facility was $300,000 (March 31 – $250,000).

As at December 31, 2010, the Company had loans outstanding in the amount of $1,555,000 (March 31 – $2,300,000). The loans have the following terms:

Principal Amount	Interest Rate	Maturity Date	Security
$355,000	10.0%	December 10,2010	Personal guarantee by the Chairman and Chief Executive Officer of the Company
$400,000	10.0%	December 30, 2010	Personal guarantee by the Chairman and Chief Executive Officer of the Company
$400,000	12.0%	February 24, 2011	Marketable securities held by the Company
$100,000	10.0%	March 29, 2011	Personal guarantee by the Chairman and Chief Executive Officer of the Company
$300,000	15.0%	March 29, 2011	Personal guarantee by the Chairman and Chief Executive Officer of the Company

As at December 31, 2010, the Company had demand loans outstanding in the amount of $1,100,000 (March 31 – $600,000). The loans bear interest at 12% with $600,000 payable with 90 days notice, $400,000 payable with 30 days notice, and $100,000 payable with 3 days notice. The loans are secured by marketable securities held by the Company and certain guarantees provided personally by the Chairman and Chief Executive Officer of the Company.

As at December 31, 2010, the Company had a promissory note outstanding in the amount of $75,000 (March 31 – $nil). The loan bears interest at 10% and are payable within 5 days of notice. The loan is unsecured and was provided by an associated company.

As at December 31, 2010, the Company had promissory notes outstanding in the amount of $283,000 (March 31 – $nil). The loans bear interest at 10% and are payable within 5 days of notice. The loans are unsecured and were provided by officers of Northern Securities.

On November 16, 2010, the Company announced an agreement in principle with the holders of its debentures to repay the total principal amount by a combination of cash and by conversion into common shares. The Company also announced its intention to complete a common share financing to fund all or part of the cash payment to the debenture holders. The loans with maturity dates of December 10, 2010, and December 30, 2010, are loans where such agreements have been reached and consequently have not yet been repaid pending the common share financing.

11. SETTLEMENT LIABILITY

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

The remaining liability related to the settlement, of $436,001 (March 31 – $495,620), is recorded at the discounted cash flow value using the effective interest method with $33,482 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 and $41,882 was recorded in the nine months ended December 31, 2010. The remaining $249,999 will be recorded in future periods as cash payments are made. See Note 15 for a schedule of future cash payments.

12. CAPITAL STOCK

a) Share capital

Authorized
Unlimited number of common shares
2,000,000 voting, convertible, redeemable, preference shares

Issued and outstanding	
13,626,243 common shares	$2,012,476

Share capital activity for the period March 31, 2009 to December 31, 2010, is summarized as follows:

	Shares #	Amount $
Balance, March 31, 2009	10,083,073	43,093,029
Reduction of stated capital (g)	-	(42,331,789)
Shares issued under equity incentive plan (d)	101,514	44,666
Shares issued under employee share purchase plan (e)	390,895	171,363
Private placement (f)	1,237,632	340,465
Balance, March 31, 2010	11,813,114	1,317,734
Private placement (f)	364,710	100,369
Shares issued under equity incentive plan (d)	115,942	40,000
Balance, June 30, 2010	12,293,766	1,458,103
Shares issued under equity incentive plan (d)	376,546	214,129
Shares issued under employee share purchase plan (e)	383,135	122,212
Balance, September 30, 2010	13,053,447	1,794,444
Shares issued under equity incentive plan (d)	572,796	218,032
Balance, December 31, 2010	13,626,243	2,012,476

Note: The total cost of share based compensation for the period ended December 31, 2010 was $235,096 (December 31, 2009 – $131,054). As at December 31, 2010, the Company had an accrual of $428,490 (March 31 – $338,195) related to share based compensation.

b) Capital management

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

The Company's capital structure includes the following:

	December 31, 2010	March 31, 2010
Short-term loans payable	$ 3,313,000	$ 3,150,000
Shareholder's equity comprised of		
Share capital	2,012,476	1,317,734
Warrants	96,508	73,952
Contributed surplus	2,086,276	1,994,404
Deficit	(4,310,269)	(2,968,329)
	$ 3,197,991	$ 3,567,761

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, 2010, the amount of this loan was $12,590,000 (March 31 - $12,490,000). Repayment of the loan requires IIROC approval. As at December 31, 2010, the capital of Northern Securities exceeded 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 are still under discussion with IIROC.

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

c) *Stock options*

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

As at December 31, 2010, there were 113,287 common share purchase options outstanding, expiring at various dates to January 21, 2013. The options have an exercise price equal to the Company's market closing share price on the day prior to the date of grant and vest over the first twenty-four or thirty months, in equal monthly installments, beginning in the month of grant, and are exercisable over ten years.

Stock option activity for the period March 31, 2009 to December 31, 2010 is summarized as follows:

	Stock Options #	Weighted Average Exercise Price
Balance, March 31, 2009	142,002	$14.71
Expired	(22,185)	$55.32
Balance, March 31, 2010	119,817	$ 7.19
Expired	(6,530)	$31.83
Balance, December 31, 2010	113,287	$ 5.77

The following is a summary of common share purchase options outstanding as at December 31, 2010:

Range of Exercise Prices	Stock Options #	Weighted Average Remaining Life (Years)	Weighted Average Price
$ 3.50-5.00	69,937	1.57	$ 3.79
$8.00-9.00	43,350	0.21	$ 8.96
	113,287	1.05	$ 5.77

All options are currently exercisable.

d) Employee equity incentive plan

On September 30, 2004, the shareholders of the Company approved the establishment of an equity incentive plan whereby up to 6% of the outstanding common shares of the Company may be issued annually to certain new or existing employees of the Company as a means of attracting and retaining exceptional employees. On September 16, 2010, the shareholders of the Company approved an amendment to the equity incentive plan to increase the number of common shares issuable to employees from 6% to 10% of the outstanding common shares of the Company.

e) Employee share purchase plan

On September 25, 2006, the shareholders of the Company approved the establishment of an employee share purchase plan ("ESPP"). The ESPP allows qualifying employees to purchase common shares of the Company equal to 8% of their annual compensation to a maximum amount of $8,000 per year, with the Company matching the number of shares purchased at no additional cost to the employee over a three year vesting period.

f) Private placement

During fiscal 2010, the Company raised gross proceeds of $408,418 upon the completion of a private placement consisting of 1,237,632 units. Each unit was comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of $0.45 until March 29, 2012. Of the total proceeds, $340,465 was ascribed to capital stock and $67,953 was ascribed to warrants (Note 12(j)).

In connection with the private placement, Mr. Vic Alboini, Chairman and Chief Executive Officer of the Company sold an aggregate of 601,272 common shares at $0.33 per share pursuant to a "gypsy swap" in pre-arranged trades over the facilities of the Toronto Stock Exchange, and subsequently bought the same number of shares under the private placement. Mr. Alboini transferred an aggregate of 255,636 warrants to the applicable counterparties to the pre-arranged trades at no additional consideration pursuant to applicable prospectus and registration exemptions. Mr. Alboini also subscribed for an additional 606,060 units under the private placement through his wholly-owned investment company.

During the period ended June 30, 2010, the Company raised gross proceeds of $120,354 upon the completion of a private placement consisting of 364,710 units. Each unit was comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of $0.45 until April 27, 2012. Of the total proceeds, $100,369 was ascribed to capital stock and $19,985 was ascribed to warrants (Note 12(j)).

In connection with the private placement, Mr. Alboini sold an aggregate of 364,710 common shares at $0.33 per share pursuant to a "gypsy swap" in pre-arranged trades over the facilities of the Toronto Stock Exchange, and subsequently bought the same number of shares under the private placement. Mr. Alboini transferred an aggregate of 182,355 warrants to the applicable counterparties to the pre-arranged trades at no additional consideration pursuant to applicable prospectus and registration exemptions.

g) Normal course issuer bid

On February 22, 2008, the Company announced a normal course issuer bid. According to the terms of the bid, and in accordance with the rules of the TSX, during the period commencing February 26, 2008, and ended February 25, 2009, the Company was eligible to purchase a maximum of 652,933 of its common shares, which represents approximately 10% of the public float. Purchases of common shares were made through the facilities of the TSX in open market transactions at market prices prevailing at the time of acquisition. Daily purchases could not exceed 1,600 common shares, unless otherwise permitted by the TSX. All common shares purchased under the bid were cancelled.

As at March 31, 2009, the Company had purchased, during the term of the bid, 19,700 common shares of the Company. The Company, during that period, cancelled 19,700 common shares.

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

h) Reduction of stated capital

On September 1, 2009, the shareholders of the Company approved the reduction in the stated capital of the Company in the amount of $42,331,789. The reduction of share capital resulted in a reduction of the Company's deficit by a corresponding amount.

i) 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	**Nine months ended**
December 31, 2009	10,083,073	10,083,073
December 31, 2010	13,406,358	12,796,011

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

j) Warrants:

Warrant activity for the period March 31, 2009 to December 31, 2010, is summarized as follows:

	#	$
Balance, March 31, 2009	-	-
Private placement	618,816	67,953
Private placement compensation	45,096	5,999
Balance, March 31, 2010	663,912	73,952
Private placement	182,355	19,985
Private placement compensation	19,364	2,571
Balance, December 31, 2010	865,631	96,508

The following is a summary of outstanding warrants as at December 31, 2010:

	Number	Exercise Price	Expiry Date
Private placement	618,816	$0.45	March 29,2012
Private placement compensation	30,064	$0.44	March 29,2012
Private placement compensation	15,032	$0.45	March 29,2012
Private placement	182,355	$0.45	April 27,2012
Private placement compensation	12,909	$0.44	April 27,2012
Private placement compensation	6,455	$0.45	April 27,2012
	865,631		

k) Contributed surplus:

Contributed surplus activity for the period March 31, 2009 to December 31, 2010, is summarized as follows:

Balance, March 31, 2009	$ 1,928,787
Employee equity incentive plan	54,896
Employee share purchase plan	10,721
Balance, March 31, 2010	1,994,404
Employee equity incentive plan	30,782
Employee share purchase plan	61,090
Balance, December 31, 2010	$ 2,086,276

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 2011 and 2010 because there are adequate tax losses available to offset any taxable income.

14. COMMITMENTS AND CONTINGENCIES

a) Northern Securities indemnifies Penson for all obligations to pay for securities purchased and to deliver securities sold by clients. In the event of default by any of its clients on payments due on delivery of securities to Penson, Northern Securities has agreed to pay Penson an amount up to its "excess risk adjusted capital".

b) The Company is party to legal proceedings in the ordinary course of its operations. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. Where management can estimate that there is a loss probable, a provision has been recorded in its financial statements, where proceedings are at a premature stage or the ultimate outcome is not determinable, then no provision is recorded. It is possible that the final resolution of these matters may require the Company to make expenditures over an extended period of time and in a range of amounts that cannot be reasonably estimated and may differ significantly from any amounts recorded in these consolidated financial statements. Should the Company be unsuccessful in its defense or settlement of one or more of these legal actions, there could be a materially adverse effect on the Company's financial position, future expectations, and cash flows.

c) The IIROC has advised Northern Securities of an alleged deficiency 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. Northern Securities is also party to ongoing IIROC enforcement proceedings. These matters are still under discussion with the IIROC. It is not possible at this time to determine the amount of any potential liability to Northern Securities which could have a material adverse effect on the Company's financial position, future expectations, or cash flows.

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

Less than 1 year	$1,265,500
1 to 2 years	1,047,300
2 to 3 years	331,500
3 to 4 years	16,600
4 to 5 years	3,400
	$2,664,300

e) 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 a corporation controlled by the Chairman and Chief Executive Officer of the Company. As at December 31, 2010, $300,000 was owing under the credit facility.

15. 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, 2010, 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 ($19,500) (March 31 – ($17,200)), based on a decrease and $19,500 (March 31 – $17,200), 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 period ended December 31, 2010, the Company did not incur any material loss from counterparty default.

As at December 31, 2010, Northern Securities maintained a deposit with Penson in the amount of $1,032,713 (March 31 – $1,030,484) (see Note 3) and a cash balance from Penson in the amount of $1,162,058 (March 31 – $1,016,866) included in cash on the Consolidated Balance Sheets.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments and fixed income securities held by the Company. The Company holds minimal fixed income securities and does not hedge its exposure to interest rates since the risk is very low. The Company also has issued borrowings that are interest bearing. As at December 31, 2010, based on a 1% change in interest rates, the estimated sensitivity of the Company's net income (loss) was ($33,000), based on an increase and $33,000, based on a decrease.

Foreign exchange risk

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

Liquidity risk

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

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

The contractual maturities of the Company's significant financial liabilities and contractual commitments as at December 31, 2010, 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	$3,313,000	$3,313,000	-	-	-	-	-
Settlement Liability	$ 686,000	$ 21,000	$ 21,000	$ 42,000	$ 168,000	$168,000	$266,000
Operating Leases	$2,664,300	$ 368,600	$ 308,000	$588,900	$1,378,800	$20,000	-
Total	$6,663,300	$3,702,600	$ 329,000	$630,900	$1,546,800	$188,000	$266,000

16. 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:

Northern Securities acted as investment advisor and financial advisor with respect to Jaguar, receiving commissions and fees in the amount of $21,205 (2009 – $146,198) for the three month period ending December 31, 2010 and $146,602 (2009 – $1,022,645) for the nine month period ending December 31, 2010. During the period ending June 30, 2010, Northern Securities also received 2,000,000 shares under Jaguar's equity incentive plan. As at December 31, 2010, an amount of $50,000 (March 31 – $25,000) was payable to Jaguar as well as a loan payable in the amount of $75,000 (March 31 – $nil).

Northern Securities acted as financial advisor and underwriter with respect to Lakeside Steel Inc. ("Lakeside"), receiving fees in the amount of $270,915 (2009 – $25,000) for the three month period ending December 31, 2010 and $358,415 (2009 – $87,500) for the nine month period ending December 31, 2010. The Company also received fees in the amount of $150,000 from Lakeside in the three and nine month periods ending December 31, 2009.

During the period ended June 30, 2010, in connection with the Company's private placement, Mr. Alboini sold an aggregate of 364,710 common shares at $0.33 per share pursuant to a "gypsy swap" in pre-arranged trades over the facilities of the Toronto Stock Exchange, and subsequently bought the same number of shares under the private placement.

As at December 31, 2010, the Company had $283,000 of promissory notes outstanding provided by officers of Northern Securities.

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.

17. SUPPLEMENTAL INFORMATION – STATEMENT OF CASH FLOWS

	December 31, 2010	December 31, 2009
Interest paid	$ 64,561	$ 82,205
Cash consists of the following		
Cash	$ 348,226	$ 183,960
Cash at carrying broker	1,162,058	1,097,479
Total	$ 1,510,284	$ 1,281,439

18. SUBSEQUENT EVENTS

a) On February 7, 2011, the Company issued 409,890 shares under the Employee Share Purchase Plan.