NORTHERN FINANCIAL CORPORATION

MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE QUARTER ENDED DECEMBER 31, 2010

(Unaudited)

MANAGEMENT’S DISCUSSION AND ANALYSIS

February 14, 2011

Introduction

Northern Financial Corporation (“Northern” or the “Company”) wholly owns Northern Securities Inc. (“Northern Securities”), a member firm of the Investment Industry Regulatory Organization of Canada (“IIROC”). The Company also carries on a merchant banking business.

The Company’s common shares are listed on the Toronto Stock Exchange under the symbol “NFC”.

The following Management’s Discussion and Analysis (“MD&A”) of the financial condition and results of operations of the Company are the views of management and should be read in conjunction with the audited financial statements and related notes for the period ended December 31, 2010, compared to the period ended December 31, 2009.

The audited financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars unless otherwise indicated.

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

Forward-Looking Statements

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

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

Overview

Northern carries on a traditional full service investment dealer business through Northern Securities providing financial advisory services to retail and institutional clients and investment banking services to small capitalization companies. This business generates revenue from commissions and advisory fees earned on investment banking activities, and commissions from institutional sales and trading and retail investment advisors, and from principal trading. Northern also carries on a merchant banking business that supplements the investment dealer business.

Business Environment

The economy, the capital markets environment, credit markets and global stock markets have all shown improvement throughout the year. The economy remains fragile and unpredictable, as the improvement in the credit markets has been much slower than anticipated. Global stock markets are at their highest levels since the economic downturn, but remain much lower than before the downturn and still somewhat volatile. Investors remain cautious. In these improved market conditions, the Company has performed well in investment banking activity and client trading volumes.

Results of Operations

Three Months Ended December 31, 2010 compared to Three Months Ended December 31, 2009

The Company reported net income of $163,864 for the quarter ended December 31, 2010, compared to a net loss of $1,004,567 in the prior year. Included in net income was a loss of $44,159 representing the Company’s share of the earnings of Jaguar Financial Corporation (“Jaguar”), compared to a loss of $178,618 in the prior year.

Northern Securities continued to show improved results reporting net income of $456,266 compared to net income of $45,749 in the prior year.

Revenue

Total revenue for the quarter ended December 31, 2010, was $4,028,244, up from $2,352,303 in the prior year.

Commission revenue of $1,936,781 for the quarter ended December 31, 2010 was up from the prior year amount of $1,724,778. Underwriting and advisory revenue increased to $934,258 from $505,219 in the prior year as Northern Securities participated in more financings. Broker warrants revenue was $988,439 compared to a loss 14,899 in the prior year. Trading revenue was $35,342 compared to $49,244 in the prior year. Interest revenue of $59,642 was up from $8,710 in the prior year.

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

Expenses

Total expenses for the quarter ended December 31, 2010, were $3,820,221 compared with expenses of $3,178,252 in the prior year. Brokerage operations costs increased to $3,083,311 from $2,832,734 in the prior year, driven by variable based compensation.

Interest expense increased to $129,154 from $70,292 in the prior year as the balance of the Company's outstanding loans increased.

General and administrative expenses increased to $552,712 from $194,843 in the prior year largely as a result of non cash stock compensation expenses.

Depreciation and amortization expenses were $55,044, compared to $80,383 in the prior year.

Nine Months Ended December 31, 2010 compared to Nine Months Ended December 31, 2009

Net loss for the nine months ended December 31, 2010, was $1,341,940, compared to a net loss of $1,746,119 in the prior year. Included in net income was $138,205 representing the Company's share of the earnings of Jaguar, compared to a loss of $110,712 in the prior year.

Northern Securities net income was $385,511 in the nine month period compared to a loss of $292,941 in the prior year.

Revenue

Total revenue for the nine months ended December 31, 2010, was $7,995,479, relatively consistent with $7,872,262 in the prior year.

Commission revenue was $4,357,125 for the nine months ended December 31, 2010, compared to $4,657,122 in the prior year. Underwriting and advisory revenue increased to $2,368,854 compared to $1,715,350 in the prior year. Broker warrants revenue declined to $956,206 compared to $827,654 in the prior year. Trading revenue was a $33,879 compared to $170,675 in the prior year. Interest revenue of $217,544 was up from $99,598 in the prior year.

There was no merchant banking activity compared to revenue of $363,632 in the prior year.

Expenses

Total expenses for the nine months ended December 31, 2010, were $9,440,658 compared with expenses of $9,507,669 in the prior year. Brokerage operation costs decreased to $7,669,966 from $8,301,086 in the prior year. The decrease is attributable to expense reduction measures enacted by the Company.

Interest expense increased to $451,499 from $240,689 in the prior year. General and administrative expenses increased to $1,153,930 from $702,776.

Liquidity, Capital Resources and Cash Flows

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

The Company had cash, deposits, and securities of $4,489,642 as at December 31, 2010, compared with $4,069,762 as at March 31, 2010. The Company generated cash of $626,321 of cash in its operations for the quarter ended December 31, 2010, compared with $91,278 in the prior year.

While the Company has prepared its consolidated financial statements on the basis of accounting principles applicable to a going concern, several adverse conditions create uncertainty in 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. The Company's continued operation is dependent upon its ability to renew its loans with the lenders or to obtain replacement debt or equity financing when the existing debt matures and to restore and maintain profitable operations. The lenders are very good clients of Northern Securities and they have renewed loans with the Company on a regular basis. Therefore the Company believes that it will have success in renewing or refinancing its debt as it matures. As well, the Company is currently undertaking an equity financing to be completed in the coming months to retire its maturing debt.

As at December 31, 2010, the Company had term loans outstanding in the amount of $1,555,000. The loans have maturity dates from December 10, 2010 to March 29, 2011 and 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 demand loans outstanding in the amount of $1,100,000 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 promissory notes outstanding in the amount of $358,000. The loans are payable with 5 days of notice, are unsecured, and are held by an associated company and 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. Any loans that are currently past due are loans where such agreements have been reached and consequently have not yet been repaid pending the common share financing.

As at December 31, 2010, the Company had a working capital deficiency of $763,659 compared to a deficiency of $320,600 as at March 31, 2010. The Company's debt will be retired in cash and in shares of the Company on closing of the pending common share financing. The Company has a good relationship with its bank, which has recently increased the Company's operating line of credit from $250,000 to $300,000. It is anticipated that the Company's working capital deficiency will be eliminated as a result of the proposed common share financing.

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

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

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

Payments Due by Period

Contractual Obligations	Total	Less than 3 months	3 months to less than 6 months	6 months to 1 year	1 to 3 years	4 to 5 years	After 5 years
Debt	$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

Annual Financial Information

	Year ended March 31, 2010	Year ended March 31, 2009	Year ended March 31, 2008
Total revenues	$10,338,844	$12,044,857	$23,446,763
Net income (loss) from operations	($2,999,346)	($4,545,807)	$101,861
Net income (loss)	($2,968,329)	($7,778,357)	$311,791
Earnings (loss) per share	($0.29)	($0.78)	$0.03
Total assets	$6,584,901	$7,692,372	$12,473,859
Long term liabilities	$ 428,001	-	-

Quarterly Financial Information

	Fiscal 2011 $				Fiscal 2010 $					Fiscal 2009 $	
	Third Quarter	Second Quarter	First Quarter[1]		Fourth Quarter	Third Quarter	Second Quarter	First Quarter		Fourth Quarter	Third Quarter
Total revenues	4,028,244	2,554,481	1,412,754		2,466,582	2,352,303	2,499,424	3,020,535		3,445,004	3,422,589
Net income (loss)	163,864	(441,773)	(1,064,031)		(1,222,210)	(1,004,567)	(126,972)	(614,580)		(1,463,268)	(2,153,499)
Earnings (loss) per share	0.01	(0.03)	(0.09)		(0.12)	(0.10)	(0.01)	(0.06)		(0.15)	(0.22)

1 As restated.

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

Management of Capital

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

The Company's capital structure includes the following:

	As at December 31, 2010	As at 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.

During the year ended March 31, 2010, 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.

The Company's investment dealer subsidiary, Northern Securities, is subject to the rules of IIROC, which require Northern Securities to maintain a certain level of regulatory capital. IIROC Dealer Member Rule 17.1 sets a minimum capital requirement for each firm based on its size and business model to ensure that the investment dealer not only has capital available to cover known risks but also excess capital to cover unforeseen risks. IIROC's minimum capital requirements are aimed at ensuring that investment dealers do not assume excessive leverage or engage in business practices which expose them to too much risk. This capital was provided by the Company and is eliminated upon consolidation as a loan between the parent and subsidiary. As at December 31, 2010, the amount of this loan was $12,590,000. 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.

Critical Accounting Estimates

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Certain estimates, including the valuation of broker warrants, forgivable loans, settlement liability, 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. Accounting policies that require management's judgment and estimates are described below:

Broker Warrants:

Broker warrants received by the Company in respect of underwriting are measured at fair value using complex pricing models. Fair values determined using the Black-Sholes model require the use of assumptions concerning the volatility of underlying securities and risk-free interest rates. In determining those assumptions, we look primarily to external readily observable market inputs including factors such as price volatilities and interest rates, as applicable. Imprecision in estimating valuations could affect the amount of revenue or loss recorded for a particular warrant. Management believes the estimates of fair value are reasonable given the process for obtaining external market inputs and the consistent application of its valuation approach from period to period.

The broker warrant portfolio was valued at $1,945,733 at December 31, 2010, and included warrants issued by 80 public companies with expiry dates to August 2015. The Black-Scholes valuation model uses as inputs 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. The broker warrant portfolio includes $555,720 of Level 3 financial instruments which are those financial instruments that have unobservable inputs that are supported by little or no market activity and are therefore valued primarily using a model-based approach.

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 retained 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 operations, comprehensive income and retained deficit. Management considers the valuation reasonable.

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. Management considers the valuation reasonable.

Contingent Liabilities:

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.

Future Tax Assets and Liabilities:

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

Financial Instruments

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

Securities are classified, based on management's intentions, as held-for-trading. Securities owned and securities sold short are stated at fair values at the 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 in the period in which the changes occur and reported as trading revenue on the consolidated statement of operations, comprehensive (loss) income and retained deficit.

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

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 recognized in income in the period in which the changes occur and reported as merchant banking expense on the consolidated statement of operations, comprehensive (loss) income and retained deficit.

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

Fair Value of Financial Assets and Financial Liabilities:

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

Market Risk:

Market risk is the risk that a change in market prices, interest rate levels, indices, liquidity and other market factors will result in losses. The Company is exposed to market risk as a result of its principal trading in equity securities and fixed income securities. Securities held for trading are valued at market and as such, changes in market value affect earnings (losses) as they occur. The Company mitigates its market risk exposure through controls to limit concentration levels and capital usage within its inventory trading accounts. As at December 31, 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), based on a decrease and $19,500, based on an increase.

Credit Risk:

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of a counterparty on its obligation to the Company. The primary source of credit risk is related to the extension of credit to clients, through the use of margin loans, to purchase securities. Margin loans are due on demand and are collateralized by the financial instruments in the client's account. The Company faces potential financial loss if a client does not meet a margin call when the value of securities held as collateral declines and the Company is not able to recover sufficient value from the collateral.

Credit risk is managed by applying credit standards to the counterparties the Company transacts business with, applying limits to client transactions and requiring settlements of security transactions on a cash basis or delivery against payments. The Company also regularly monitors credit exposure. Margin transactions are collateralized by securities in the client's accounts in accordance with limits established by the Company and applicable regulatory requirements. During the quarter ended December 31, 2010, the Company did not suffer any material loss from counterparty default.

As at December 31, 2010, Northern Securities maintained a deposit with Penson Financial Services ("Penson") in the amount of $1,032,713 (March 31 - $1,030,484) and a receivable balance from Penson in the amount of $1,162,058 (March 31 – $1,016,866).

Interest Rate Risk:

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments and fixed income securities held by the Company. The Company holds minimal fixed income securities and does not hedge its exposure to interest rates since the risk is very low. The Company also has issued borrowings that are fixed rate interest bearing. As at December 31, 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 foreign exchange risk. The Company holds minimal financial instruments in foreign currencies.

Liquidity Risk:

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

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

As at December 31, 2010, the Company had term loans outstanding in the amount of $1,555,000. The loans have maturity dates from December 10, 2010 to March 29, 2011, and 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 demand loans outstanding in the amount of $1,100,000 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 promissory notes outstanding in the amount of $358,000. The loans are payable with 5 days of notice, are unsecured, and are held by an associated company and 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. Term 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.

Share Capital Information

Outlined below is selected current share capital information related to the Company as at December 31, 2010:

Description	Number
Common shares issued and outstanding	13,626,243
Common share purchase warrants issued and outstanding	865,631
Common share purchase options issued and outstanding	113,287

Disclosure Controls

The Company's Chief Executive Officer and Chief Financial Officer have established and maintained controls and procedures in order to provide reasonable assurance that material information related to the Company is known in a timely manner. They are assisted in this responsibility by the Chairman of the Audit Committee who serves as an independent director of the Company.

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2010, and has concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its subsidiaries would have been known to them.

Internal Control Over Financial Reporting

The Chief Executive Officer and Chief Financial Officer are responsible for certifying that they have designed the Company's internal control over financial reporting ("ICFR") to a standard that provides reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The certifying officers have evaluated the design of the Company's ICFR as of the date of this report and have concluded the design to be sufficient to provide such reasonable assurance.

Although management has been able to reach this conclusion, certain weaknesses have been identified in the Company's ICFR. Given the small size of the Company's finance staff, the ability to achieve a significant level of segregation of duties does not exist. The Chief Financial Officer is responsible for much of the day-to-day finance activities of the Company, approving invoices, signing cheques, and preparing financial statements. A second signing officer, the integrity and reputation of the Chief Financial Officer and an open and candid discussion regarding this weakness with the Audit Committee mitigate this weakness. The small size of the finance staff also creates potential capacity issues wherein there may not be enough finance staff to perform all the necessary activities. The Company added another senior finance staff person in 2008 to alleviate this concern. This allows the Chief Financial Officer to perform more of a review function while still being actively involved in the day-to-day operations.

Management's Responsibility for Financial Statements

In the preparation of these financial statements, estimates are sometimes necessary to make a determination of future values for certain assets and liabilities. The most significant estimates are related to the valuation of broker warrants, forgivable loans, settlement liability, contingent liabilities, and future tax assets and liabilities. Accordingly, actual results could differ from those estimates. Management believes such estimates have been based on careful judgment and have been properly reflected in the financial statements.

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 – $1,033,843) 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.

Commitments and Contingencies

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

The Company is party to legal proceedings in the ordinary course of its operations. Management does not expect the outcome of any of these proceedings to have a materially adverse effect on the results of the Company's financial position or operations. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. 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.

Future Accounting Policies

International Financial Reporting Standards ("IFRS")

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.

Key senior management and finance personnel have attended IFRS training and the Company has set up an IFRS project team for conversion to IFRS. The conversion to IFRS will be implemented in four phases: diagnostic; design and planning; solution development; and implementation.

Phase One: Diagnostic involves the identification of key impacts to: financial reporting; disclosure requirements; internal controls; impacts on capital requirements and debt covenants; and financial systems. Upon phase one completion, key differences between Canadian GAAP and IFRS should be identified.

Phase Two: Design and Planning involves decisions on the selection of accounting policies and impact assessments. Business and financial system issues that are impacted by accounting policy selection must be identified. A plan is to be developed that includes milestones, resourcing requirements and an implementation timeline.

Phase Three: Solution Development involves the development of solutions relating to expected impacts of implementation including: financial reporting, transition issues, training requirements, financial systems and process changes and internal and external communications.

Phase Four: Implementation involves the approval of recommended accounting policy changes by the Audit Committee and the execution of changes to information systems and business processes. This phase will conclude with the collection of financial information necessary to compile IFRS-compliant financial statements; ensure that IFRS is incorporated in business processes; and Audit Committee approval of IFRS-compliant financial statements.

The IFRS project team is currently in the process of completing the design and planning phase. The solution development and implementation stages are expected to commence concurrently, upon the completion of the current phase, and are expected to continue through fiscal 2011. To date, the project is progressing according to plan.

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

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.