

NORTHERN FINANCIAL CORPORATION

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2011**

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 28, 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 year ended March 31, 2011, compared to the period ended March 31, 2010.

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

Economic and capital markets showed considerable signs of improvement during the year. While many economists believe that the worst is behind us, the timing and strength of a sustained recovery remains uncertain. Concerns remain regarding the strength and stability of the global financial sector and economic growth is limited. Capital markets continue to be volatile. Investor activity has improved but does not yet indicate significant confidence in equity markets. While operating conditions have improved somewhat, the pace of recovery has not been as fast for small capitalization companies. Conditions therefore remained difficult for the Company with variable levels of investment banking activity and client trading volumes.

Results of Operations

The Company improved its results from the prior year, reporting a net loss of \$1,322,019 for the year ended March 31, 2011, compared to a net loss of \$2,968,329 in 2010. Included in net income was income of \$56,495 representing the Company's share of the earnings of Jaguar Financial Corporation ("Jaguar"), compared to \$31,017 in the prior year. Northern Securities results improved significantly, reporting net income of \$830,656 compared to a loss of \$290,839 in 2010.

Revenue

Total revenue for the year ended March 31, 2011, was \$12,156,007 compared with \$10,338,844 in the prior year.

Commission revenue of \$6,268,739 for the year ended March 31, 2011, was up from the prior year amount of \$5,952,798 as investors reentered the capital markets and the Company increased its retail sales force. Underwriting and advisory revenue increased to \$3,814,730 from \$2,169,664 in the prior year as the Company participated in a greater number of financings and advisory assignments. Broker warrants revenue was \$1,991,257 compared to \$1,203,803 in the prior year. The increase is a result of the greater number of financings undertaken. Trading revenue was a loss of \$282,745 compared to positive \$233,633 in the prior year as losses were incurred due to a trade error. As a result the Company no longer undertakes proprietary trading activities. Interest revenue of \$303,606 was up from \$106,638 due to increased spreads.

The Company had no merchant banking activities during the year compared to revenue of \$334,663 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 year ended March 31, 2011, were \$13,499,555 compared with expenses of \$13,338,190 in the prior year. Brokerage operations costs increased to \$11,121,016 from \$10,927,913 in 2010. The increase is attributable to variable based compensation due to higher revenue.

Merchant banking expenses were nil compared to \$49,217 in the prior year as the Company did not engage in any merchant banking activity during the year.

Interest expense increased to \$630,514 from \$349,571 in the prior year as the balance of loans outstanding was higher during the year.

General and administrative expenses decreased to \$1,523,315 from \$1,722,679 in the prior year. The prior year included an expense related to a legal settlement.

Depreciation and amortization expenses were \$224,710, compared to \$288,810 in 2010.

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 \$4,454,603 as at March 31, 2011, compared with \$4,069,762 as at March 31, 2010. The Company used \$698,526 of cash in its operations for the year ended March 31, 2011, compared with \$1,441,733 in the prior year.

While the Company has prepared its consolidated financial statements on the basis of accounting principles applicable to a going concern, certain adverse conditions create uncertainty upon this assumption. The Company incurred a loss of \$1,322,019 in the past year and \$2,968,329 in the previous year. The Company's continued operation is dependent upon its ability to restore and maintain profitable operations.

On March 30, 2011, the Company closed the first tranche of an equity financing raising gross proceeds of \$2,000,000 by issuing 6,666,667 shares pursuant to a short form prospectus offering dated February 25, 2011. In connection with the offering, the Company also issued 4,718,331 shares to settle \$1,415,500 of outstanding debt. In addition, \$1,773,208 of the proceeds of the offering was used to retire the majority of the Company's outstanding debt. As a result, as at March 31, 2011, the Company had promissory notes outstanding in the amount of \$95,000. The loans are payable with 5 days notice and are unsecured. Subsequent to year-end \$75,000 of the loans was repaid.

In April and May 2011, the Company closed two additional tranches of the offering raising a further \$1,350,000 in gross proceeds.

As at March 31, 2011, the Company had a working capital excess of \$2,640,180 compared to a deficiency of \$320,600 as at March 31, 2010.

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	\$ 395,000	\$395,000	-	-	-	-	-
Settlement Liability	\$ 665,000	\$ 21,000	\$ 21,000	\$ 42,000	\$ 168,000	\$168,000	\$245,000
Operating Leases	\$2,335,400	\$320,800	\$314,400	\$581,900	\$1,102,700	\$ 15,600	-
Total	\$3,395,400	\$736,800	\$335,400	\$623,900	\$1,270,700	\$183,600	\$245,000

Annual Financial Information

	Year ended March 31, 2011	Year ended March 31, 2010	Year ended March 31, 2009
Total revenues	\$12,156,007	\$10,338,844	\$12,044,857
Net loss from operations	(\$1,343,548)	(\$2,999,346)	(\$4,545,807)
Net loss	(\$1,322,019)	(\$2,968,329)	(\$7,778,357)
Loss per share	(\$0.10)	(\$0.29)	(\$0.78)
Total assets	\$6,610,189	\$6,584,901	\$7,692,372
Long term liabilities	\$ 393,505	\$ 428,001	-

Quarterly Financial Information

	Fiscal year ended March 31, 2011				Fiscal year ended March 31, 2010			
	\$				\$			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Total revenues	4,160,528	4,028,244	2,554,481	1,412,754	2,466,582	2,352,303	2,499,424	3,020,535
Net income (loss)	19,921	163,864	(441,773)	(1,064,031)	(1,222,210)	(1,004,567)	(126,972)	(614,580)
Earnings (loss) per share	0.00	0.01	(0.03)	(0.09)	(0.12)	(0.10)	(0.01)	(0.06)

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 March 31, 2011	As at March 31, 2010
Short-term loans payable	\$ 395,000	\$ 3,150,000
Shareholders' equity comprised of		
Share capital	5,218,834	1,317,734
Warrants	136,566	73,952
Contributed surplus	2,166,604	1,994,404
Deficit	(4,290,348)	(2,968,329)
	\$ 3,626,656	\$ 3,567,761

Note: Subsequent to March 31, 2011, the Company closed a second and third tranche of its prospectus financing issuing an aggregate of 4,500,000 common shares for gross proceeds of \$1,350,000. The Company also issued 192,518 common shares under its Equity Incentive Plan.

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 March 31, 2011, the amount of this loan was \$12,690,000 (2010 - \$12,490,000). Repayment of the loan requires IIROC approval. As at March 31, 2011, 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. On February 9, 2011, in attempting to cover a short position, a trader entered a buy position in error that triggered an intra-day capital deficiency. By the end of the day, Northern Securities had returned to a positive capital position.

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

Critical Accounting Estimates

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Certain estimates, including the valuation of 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-Scholes model require the use of assumptions concerning the volatility of underlying securities and risk-free interest rates. In determining those assumptions, the Company looks primarily to external readily observable market inputs including factors such as price volatilities and interest rates, as applicable. 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 \$2,135,438 at March 31, 2011, and included warrants issued by 86 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 \$624,842 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 operations, comprehensive loss 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 operations, comprehensive loss and deficit. Management considers the valuation reasonable.

Settlement Liability:

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 \$428,001 is recorded at the discounted cash flow value using the effective interest method with \$34,496 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 \$54,882 was recorded in fiscal 2011. The remaining \$236,999 will be recorded in future years 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.

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.

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 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, the Company looks primarily to external readily observable market inputs including factors such as price volatilities and interest rates, as applicable. Realized and unrealized changes in fair value are recognized in income in the period in which the changes occur and reported as broker warrants revenue on the consolidated statement of operations, 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 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 March 31, 2011, based on a 1% change in the fair value of the Company's securities, the estimated sensitivity of the Company's net income (loss) was (\$22,000), based on a decrease and \$22,000, based on an increase.

Credit Risk:

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of 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 year ended March 31, 2011, the Company did not suffer any material loss from counterparty default.

As at March 31, 2011, Northern Securities maintained a deposit with Penson Financial Services ("Penson") in the amount of \$1,034,776 (2010 - \$1,030,484) and a receivable balance from Penson in the amount of \$1,051,063 (2010 - \$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 March 31, 2011, based on a 1% change in interest rates, the estimated sensitivity of the Company's net income (loss) was (\$5,000), based on an increase and \$5,000, 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 March 31, 2011, the Company had promissory notes outstanding in the amount of \$95,000. The loans are unsecured and payable with 5 days of notice. Subsequent to year-end \$75,000 of the loans were repaid.

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 March 31, 2011, the balance owing under the credit facility was \$300,000 (2010 - \$250,000).

Share Capital Information

Outlined below is selected current share capital information related to the Company as at June 28, 2011:

Description	Number
Common shares issued and outstanding	30,165,138
Common share purchase warrants issued and outstanding	1,383,378
Common share purchase options issued and outstanding	71,687

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 March 31, 2011, 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.

There were no changes to ICFR during the period ended March 31, 2011 that have materially affected, or are expected to have a material effect on the Company's financial reporting.

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:

During the year ended March 31, 2011,

- a) Northern Securities acted as financial advisor with respect to Lakeside Steel Corporation and Lakeside Steel Inc. receiving advisory fees and commissions in the amount of \$357,861 (2010 - \$181,301).
- b) Northern Securities acted as investment advisor and financial advisor with respect to Jaguar") receiving commissions and fees in the amount of \$141,464 (2010 - \$1,058,035). Northern Securities also incurred \$10,292 (2010 - \$25,000) in commission and interest expense relating to certain transactions with Jaguar and received 2,000,000 common shares under Jaguar's equity compensation plan, which were recorded at fair value of \$170,000. Northern Securities also recovered certain operating expenses from Jaguar in the amount of \$343,763 (2010 - \$228,876). As at March 31, 2011, an amount of \$nil (2010 - \$175) was receivable from Jaguar and an amount of \$35,292 (2010 - \$25,000) was payable to Jaguar.
- c) Northern Securities paid a corporation controlled by an officer and director of the Company, \$65,247 (2010 - \$nil) for services rendered in the completion of certain transactions entered into by Northern Securities.

- d) In connection with the Company's private placement, Mr. Vic Alboini, Chairman and Chief Executive Officer of the Company 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 March 31, 2011, the Company had a \$75,000 promissory note outstanding from Jaguar, and a \$20,000 promissory note outstanding from an officer 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 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. IIROC has commenced enforcement proceedings relating to alleged failures to correct deficiencies and maintain adequate policies from 2006 to 2010 and in relation to execution of orders at best price from November 2008 to January 2011. These matters 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 that could have a material adverse effect on the Company's financial position, future expectations, or cash flows.

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.

Recent Accounting Pronouncements

In August 2009, the Accounting Standards Board ("AcSB") amended CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", to achieve consistency with international standards on impairment of debt securities. The amendments changed the definition of a loan such that debt securities not quoted in an active market could be classified as a loan and measured at amortized cost. Impairment for debt securities classified as loans will be assessed and recorded using the incurred credit loss model of CICA Handbook Section 3025, "Impaired Loans". Debt securities that are classified as available-for-sale securities continue to be written down to their fair value through earnings when the impairment is considered other-than-temporary. However, the impairment loss can be reversed if the fair value subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized. The Company adopted the amendments, effective April 1, 2010. The impact of the adoption of these amendments is not significant.

CICA Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862") was amended to require disclosure about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and;
- Level 3 - Inputs that are not based on observable market data

This amended standard was adopted for the 2010 fiscal year.

Future Accounting Policies

International Financial Reporting Standards ("IFRS")

The AcSB requires Canadian publically accountable enterprises to adopt IFRS for fiscal years beginning on or after January 1, 2011. IFRS will replace Canadian GAAP which is currently being 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's first IFRS compliant financial statements will be for the first quarter ending June 30, 2011.

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 Company has completed its assessment and evaluation of the effects of changes required under IFRS upon its operations, internal controls, and financial reporting and determined that the impact will be minimal. The Company has defined each of the IFRS sections that are applicable and has made changes to how particular items are tracked in anticipation of the new disclosure requirements. The IFRS sections that have the largest impact on the Company have been evaluated by management.

First-time adoption to IFRS

Adoption of IFRS requires that the Company apply IFRS 1 – First Time Adoption of International Financial Reporting Standards. IFRS 1 requires certain mandatory exceptions and permits certain optional exemptions from this general requirement. The Company has determined that the adoption of IFRS will have no impact on the opening balance sheet using the following optional and mandatory elections under IFRS 1:

Fair value or revaluations as deemed cost

The Company has not elected to measure certain items of capital assets at fair value as at April 1, 2010 and use those amounts as deemed cost.

Share-based payments

The Company has elected not to apply IFRS 2 "Share-Based Payments", to equity instruments granted on or before November 7, 2002 or which vested before the Company's transition date. The Company will also elect not to apply IFRS 2 to liabilities arising from share-based transactions that settled before the transition date. No impact is expected to the opening balance sheet.

Estimates

IFRS does not permit the retroactive application of IFRS in the determination of prior period estimates. As such, estimates calculated under Canadian GAAP will be used for the purpose of preparing the IFRS transitional balance sheet. No impact is expected to the opening balance sheet.

Significant Differences Between IFRS and Canadian GAAP

The Company has identified and analyzed significant differences between IFRS and its current accounting policies. Included below are highlights of the areas where changes to significant accounting policies are expected. This is not intended to be a complete list of areas where the adoption of IFRS will require a change in accounting policies, but to provide highlights of areas that were considered in assessing changes to significant accounting policies resulting from the adoption of IFRS.

Accounting policies have been selected to be consistent with IFRS as it is expected to be effective for its 2012 annual consolidated financial statements. Changes in IFRS in effect at March 31, 2012 may require the Company to revise its determination of expected changes in accounting policies resulting from the adoption of IFRS.

Share-based payments

Under Canadian GAAP, the Company recognizes stock based compensation expenses on a straight-line basis. Under IFRS, the Company is required to apply graded vesting, which requires each installment of a graded vesting award to be treated as a separate grant. It is expected that there will be no difference in stock based compensation expense charged each quarter to net income under IFRS, compared to Canadian GAAP.

Provisions

Under IFRS, a provision should be recognized when: there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation. "Probable" in this context means more likely than not. Under Canadian GAAP, the criterion for recognition in the financial statements is "likely", which is a higher threshold than probable. Therefore, it is possible that some contingent liabilities would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP. The Company does not expect the difference in methodologies to result in recording of additional provisions upon transition to IFRS.

Internal Controls and Disclosure Controls

The Company is monitoring the impact of IFRS on internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") during the conversion process. As the Company finalizes its conversion, the ICFR documentation will be reviewed and the areas identified as requiring amendments or requiring controls added will be updated. The Company is assessing the impact of the transition of IFRS on its DC&P. No material changes in ICFR and DC&P are expected as a result of the transition to IFRS. The changes to IFRS are in disclosures to the financial statements.