NORTHERN FINANCIAL CORPORATION

MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE QUARTER ENDED JUNE 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 30, 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 quarter ended June 30, 2011, compared to the period ended June 30, 2010.

Effective April 1, 2011, the Company adopted International Financial Reporting Standards ("IFRS") in accordance with the Accounting Standards Board ("AcSB") requirement for publicly accountable enterprises to converge with IFRS. The unaudited financial statements for the three months ended June 30, 2011, which are discussed in this MD&A, have been prepared by management in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ending March 31, 2012. These interim financial statements for the period ending June 30, 2011, have not been reviewed by the Company's auditors.

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 recent United States debt-ceiling crisis, reports on concerns that a serious slowdown may be underway for the United States and other major economies and fears that the debt crisis in Greece may spread to other European countries have resulted in significant pull back and continued extreme volatility in the global stock markets. As a result, capital markets environment, credit markets and the economy continue to be extremely fragile and unpredictable. The S&P/TSX Composite Index declined 6% from March 31, 2011 to June 30, 2011, while the S&P/TSX Venture Composite Index declined 17% over the same period. Issuers held off coming to market and retail investors took to the sidelines. 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 $584,873 for the quarter ended June 30, 2011, compared to a net loss of $1,064,031 in the prior year. Included in net income was income of $333,387 representing the Company's share of the earnings of Jaguar Financial Corporation ("Jaguar"), compared to $215,828 in the prior year. The net loss included a negative, non-cash, net valuation adjustment of $259,247 on the Company's broker warrant portfolio.

Northern Securities results improved, reporting a net loss of $63,215 compared to a loss of $161,444 in the prior year.

Revenue

Total revenue for the quarter ended June 30, 2011, was $1,666,868 compared with $1,458,309 in the prior year.

Commission revenue of $1,087,784 for the quarter ended June 30, 2011, was down from the prior year amount of $1,254,042 as investors pulled back from the capital markets due to the unsettling conditions. Underwriting and advisory revenue increased to $699,842 from $596,951 in the prior year as the Company participated in a greater number of financings and advisory assignments. Broker warrant revenue was negative $256,735 compared to negative $452,122 in the prior year. The decline in Canadian capital markets produced a non-cash, downward valuation of the portfolio. Trading revenue was $59,486 compared to a loss of $17,226 in the prior year. Interest revenue of $78,280 was consistent with the prior year's amount of $87,766.

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 June 30, 2011, were $2,585,128, down from expenses of $2,738,168 in the prior year. Brokerage operations costs decreased to $2,230,940 from $2,286,587 in the prior year.

Interest expense decreased to $65,442 from $176,753 in the prior year as the Company reduced its debt significantly.

General and administrative expenses of $245,140 were consistent with the prior year's amount of $219,695.

Depreciation and amortization expenses were $43,606, compared to $55,133 in the prior year.

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 $3,577,789 as at June 30, 2011, compared with $4,520,828 as at March 31, 2011. The Company used $1,779,685 of cash in its operations for the quarter ended June 30, 2011, compared with $801,638 in the prior year. The Company paid down its accounts payables and liabilities considerably in the quarter.

While the Company has prepared its consolidated financial statements on the basis of accounting principles applicable to a going concern, certain adverse conditions create some uncertainty relating to this assumption. The Company incurred a loss of $584,873 in the current quarter and $1,332,019 in the previous year. The Company's continued operation is dependent upon its ability to restore and maintain profitable operations.

During the quarter ended June 30, 2011, the Company closed two tranches of an equity financing raising gross proceeds of $1,325,850 by issuing 4,416,166 shares pursuant to a short form prospectus offering dated February 25, 2011.

As at June 30, 2011, the Company had a working capital excess of $2,075,144 compared to $1,739,132 as at March 31, 2011.

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	$ 335,538	$335,538	-	-	-	-	-
Settlement Liability	$ 644,000	$ 21,000	$ 21,000	$ 42,000	$ 168,000	$168,000	$224,000
Operating Leases	$2,193,100	$334,300	$321,200	$585,000	$ 886,800	$ 65,800	-
Total	$3,172,638	$690,838	$342,200	$627,000	$1,054,800	$233,800	$224,000

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	$6,714,795	$6,584,901	$7,692,372
Long term liabilities	$ 393,505	$ 428,001	-

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

Quarterly Financial Information

	Fiscal Year Ended							
	March 31, 2012 $	March 31, 2011 $				March 31, 2010 $		
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter
Total revenues	1,666,868	3,777,540	4,167,251	2,752,907	1,458,309	2,466,582	2,352,303	2,499,424
Net income (loss)	(584,873)	19,921	163,864	(441,773)	(1,064,031)	(1,222,210)	(1,004,567)	(126,972)
Earnings (loss) per share	(0.02)	0.00	0.01	(0.03)	(0.09)	(0.12)	(0.10)	(0.01)

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

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 June 30, 2011	As at March 31, 2011
Short-term loans payable	$ 335,538	$ 395,000
Shareholders' equity comprised of		
Share capital	6,476,705	5,218,834
Warrants	158,829	136,566
Contributed surplus	2,245,993	2,166,604
Deficit	(4,875,221)	(4,290,348)
	$ 4,006,306	$ 3,626,656

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 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 June 30, 2011, the amount of this loan was $13,590,000 (March 31 - $12,690,000). Repayment of the loan requires IIROC approval. As at June 30, 2011, the capital of Northern Securities exceeded the requirements of IIROC.

IIROC has advised Northern Securities of an alleged deficiency on Northern Securities' part to maintain required regulatory capital in September 2009 in connection with an escrow agreement relating to a new issue loan letter. Northern Securities does not believe there was a capital deficiency. This matter forms part of a notice of hearing issued by 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 retuned 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-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. 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 $1,861,720 at June 30, 2011, and included warrants issued by 84 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 $328,837 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 $419,759 is recorded at the discounted cash flow value using the effective interest method with $35,542 due within one year. A rate of 12% was used to discount future cash payments. Total interest expense calculated under the effective interest method was $296,911 of which $5,030 was recorded in interest expense in fiscal 2010, $54,882 was recorded in fiscal 2011, and $12,759 in the quarter ended June 30, 1011. The remaining $224,240 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 September 2009 in connection with an escrow agreement relating to a new issue loan letter. Northern Securities does not believe there was a capital deficiency. This matter forms part of a notice of hearing issued by 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 June 30, 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 ($19,000), based on a decrease and $19,000, based on an increase.

Credit Risk:

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

Credit risk is managed by applying credit standards to the counterparties the Company transacts business with, applying limits to client transactions and requiring settlements of security transactions on a cash basis or delivery against payments. The Company also regularly monitors credit exposure. Margin transactions are collateralized by securities in the client's accounts in accordance with limits established by the Company and applicable regulatory requirements. During the quarter ended June 30, 2011, the Company did not suffer any material loss from counterparty default.

As at June 30, 2011, Northern Securities maintained a deposit with Penson in the amount of $1,036,638 (March 31 – $1,034,776) and a cash balance from Penson in the amount of $519,464 (March 31 – $1,051,063).

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 June 30, 2011, based on a 1% change in interest rates, the estimated sensitivity of the Company's net income (loss) was ($3,000), based on an increase and $3,000, 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 June 30, 2011, the Company had a promissory note outstanding in the amount of $20,000. The loan is unsecured and payable with 5 days of notice.

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 June 30, 2011, the balance owing under the credit facility was $300,000 (March 31 – $300,000).

Share Capital Information

Outlined below is selected current share capital information related to the Company as at August 30, 2011:

Description	Number
Common shares issued and outstanding	30,913,276
Common share purchase warrants issued and outstanding	1,383,379
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 June 30, 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 assurance that material information relating to Northern is accumulated and communicated to Northern's Chief Executive Officer and Chief Financial Officer to allow for timely decisions regarding required disclosure and to ensure that information required to be disclosed in Northern's annual and interim filings and other reports filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein. Our disclosure controls and procedures have not required significant modification as a result of our adoption of IFRS. The certifying officers have evaluated the design of the Company's ICFR as at the date of this report and have concluded that the design was effective to provide such reasonable assurance. The financial statements have been prepared by management in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ending March 31, 2012.

As at June 30, 2011, management evaluated the effectiveness of our disclosure controls and procedures as defined under the Canadian Securities Administrators' National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*. This evaluation was performed under the supervision of, and with the participation of, Northern's Chief Executive Officer and Chief Financial Officer. Based on the evaluation conducted as at June 30, 2011, the Chief Executive Officer and Chief Financial Officer concluded that Northern's disclosure controls and procedures were effective as of June 30, 2011.

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 June 30, 2011 that have materially affected, or are expected to have a material effect on the Company's financial reporting.

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

To the best of the knowledge of Northern's Chief Executive Officer and Chief Financial Officer, no changes were made in Northern's internal control over financial reporting in the first quarter of 2012 that have materially affected, or are reasonably likely to materially affect, Northern's internal control over 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 quarter ended June 30, 2011,

a) Northern Securities acted as investment advisor and financial advisor with respect to Lakeside Steel Inc. receiving advisory fees and commissions in the amount of $350,827 (June 30, 2010 - $50,000).

b) Northern Securities acted as investment advisor and financial advisor with respect to Jaguar receiving commissions and fees in the amount of $35,083 (June 30, 2010 - $104,429). Northern Securities also received 2,000,000 common shares under Jaguar's equity compensation plan. Northern Securities also recovered certain operating expenses from Jaguar in the amount of $56,230 (June 30, 2010 - $48,550).

c) Northern Securities paid a corporation controlled by Vic Alboini, Chairman and Chief Executive Officer of the Company, $197,770 (June 30, 2010 - $nil) for services rendered in the completion of certain transactions entered into by Northern Securities.

As at June 30, 2011, the Company had a $20,000 (March 31 - $20,000) promissory note outstanding from an officer of Northern Securities. As at March 31, 2011 the Company had a $75,000 promissory note outstanding from Jaguar, which was repaid during the quarter ended June 30, 2011. As at June 30, 2011 an amount of $25,000 (March 31 - $35,292) was payable to Jaguar.

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 September 2009 in connection with an escrow agreement relating to a new issue loan letter. Northern Securities does not believe there was a capital deficiency. 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 form part of a notice of hearing issued by 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.

Future Accounting Policies

a) Deferred income taxation: On December 20, 2010, the IASB published Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12. The amendments provide an exception to the general principle in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that

would follow from the manner in which the entity expects to recover the carrying amount of an asset. This amendment applies to deferred tax assets or deferred tax liabilities that arise from investment property measured using the fair value model in IAS 40 and introduces a rebuttable presumption that the carrying value of the investment property will be recovered entirely through sale. The amendments must be applied on in annual periods beginning on or after January 1, 2012.

b) Financial instruments disclosures: The IASB amended IFRS 7 Financial Instruments: Disclosures for Disclosures – Transfers of Financial Assets. The amendments are designed to provide information that allows users to (i) understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and (ii) evaluate the nature of, and risk associated with, any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. IFRS 7 is effective for annual periods beginning on or after July 1, 2011. The Company is currently evaluating the impact of IFRS 7 on its consolidated financial statements.

c) Financial Instruments: IFRS 9, Financial Instruments ("IFRS 9") was issued by the International Accounting Standards Board ("IASB") on October 28, 2010, and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

d) Consolidation: IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 10 on its consolidated financial statements.

e) Joint Arrangements: IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 11 on its consolidated financial statements.

f) Disclosure of Interests in Other Entities: IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 12 on its consolidated financial statements.

g) Fair Value Measurement: IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

Transition to IFRS

The Company has adopted IFRS effective April 1, 2011. For all periods up to and including the year ended March 31, 2011, the Company prepared its financial statements in accordance with Canadian GAAP. The financial statements for the three months ended June 30, 2011 are the first the Company has prepared in accordance with IFRS. The Company's financial statements for the year ending March 31, 2012 will be the first annual financial statements that comply with IFRS. Consequently, the Company will make an unreserved statement of compliance with IFRS beginning

with its 2012 annual financial statements. In preparing the Company's first annual consolidated financial statements under IFRS, the Company is required to use the standards in effect as at March 31, 2012, which may differ from the policies the Company currently expects to adopt and used in financial statements. Differences may arise as a result of new standards being issued, with an effective date of March 31, 2012 or prior, before the preparation of the Company's 2012 annual consolidated financial statements. Consequently, to the extent that new standards are issued with an effective date of March 31, 2012 or prior, the accounting policies used in the Company's current interim financial statements would differ from those used in the Company's 2012 annual financial statements.

In preparing the interim financial statements for the quarter ended June 30, 2011, the opening consolidated statement of financial position was prepared as at April 1 2010, the Company's date of transition to IFRS. The financial statements were prepared in accordance with the accounting policies in place at that time. There were no material changes in accounting policy on the adoption of IFRS.

A series of reconciliations are contained in the financial statements, reconciling the statement of financial position from Canadian GAAP to IFRS, as at April 1, 2010, June 30, 2010, and March 31, 2010, as well as the statements of operations, comprehensive income and deficit and cash flows for the three months ended June 30, 2010. All reconciliations relating to the periods highlighted above are due to reclassifications only. The Company had no IFRS adjustments that changed income, comprehensive income, or equity.