

NORTHERN FINANCIAL CORPORATION

**ANNUAL REPORT
MARCH 31, 2010**

June 22, 2010

To Our Shareholders

Year in Review

The year ended March 31, 2010, was a rebuilding one for Northern Financial Corporation (“Northern” or the “Company”) and its wholly owned subsidiary, Northern Securities Inc. (“Northern Securities”). After witnessing unprecedented economic and capital markets turmoil in the prior year, the financial sector saw a return to normalcy although the depth and breadth of the recovery remains uncertain.

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, the pace of recovery has not been as rapid or pervasive for the small capitalization market that the Company operates in.

The Company continued to take significant steps to reduce its fixed cost base to mitigate the impact of lower revenue. In early 2009, we reduced our staffing levels by over 20%, closed unprofitable branch locations, adjusted our variable compensation policies, and sold our online brokerage operations. The senior management team also took a major reduction in compensation. Building upon these measures, in fiscal 2010 we reduced salaries for a large majority of our employees, renegotiated several of our leases and other vendor contracts, and enacted other cost savings measures.

Northern Securities has substantially improved its financial results by reducing its loss from \$1,271,742 in fiscal 2009 to \$290,839 in fiscal 2010. Most importantly, Northern Securities was profitable for the third quarter ended December 31, 2009 and the fourth quarter ended March 31, 2010.

Northern Securities has substantially increased its Capital Markets business in raising capital for small cap and mid cap companies and providing merger and acquisition services. Northern Securities expects a good increase in profitability for its first quarter ending June 30, 2010. Accordingly, Northern Securities will experience profitability for the nine month period ending June 30, 2010. Our goal in 2011 is to report profits for each and every month for Northern Securities.

The Capital Markets Group at Northern Securities supports small cap and mid cap companies in raising capital, providing mergers and acquisition services, providing research coverage, marketing companies to institutional accounts, and the trading of shares of such companies on an agency and principal basis.

The Capital Markets Group at Northern Securities is well known for its ability to identify undervalued and underappreciated high quality companies that require the support of a securities firm specializing in the small cap arena. Northern Securities has a keen and committed understanding of the needs and objectives of small cap companies and their management teams. When Northern Securities supports a small cap company, the full resources of the Capital Markets Group will stand behind the company.

On a consolidated basis, taking into account our legal and accounting fees, our public company expenses, and interest expense, the Company reported a much improved loss of \$2,968,329 for fiscal 2010 compared to the loss of \$7,778,357 in the prior year. The Company expects a much lower loss for fiscal 2011 on a consolidated basis and, depending on the revenue growth, it is possible the Company could be profitable on a consolidated basis.

Total revenue for the Company for the year ended March 31, 2010, was \$10,338,844 compared with \$12,044,857 in the prior year. Commission revenue of \$5,952,798, was up from the prior year amount of \$5,527,107 as a result of the solid results in the Private Client Group. Underwriting and advisory revenue decreased to \$2,169,664 from \$4,286,015 in fiscal 2009, although broker warrant revenue increased substantially to \$1,203,803 in fiscal 2010 compared to a loss of \$768,030 in the prior year. Trading revenue dropped to \$233,633 compared to \$903,076 in the prior year, as the Company reduced the size of its proprietary trading business in the Private Client Group. Interest revenue of \$106,638 was down from \$1,031,159 with reduced interest rate margins in a substantially lower

interest rate environment. Merchant banking activities generated revenue of \$334,663 compared to revenue of \$965,103 in the prior year.

The Company's cost reduction measures were successful in reducing total expenses from \$16,590,664 in fiscal 2009 to \$13,338,190 in fiscal 2010.

Northern continues to hold a significant ownership interest in Jaguar Financial Corporation ("Jaguar"). After a very difficult fiscal 2008 where Jaguar reported a loss of \$24,102,323, Jaguar had a rebuilding year in 2009 reporting a loss of \$164,658 for its year ended December 31, 2009. Jaguar's operating income was \$2,552,007 in 2009 compared to a loss of \$25,825,775 in the prior year. Even more encouraging was Jaguar's results for the quarter ending March 31, 2010, where it reported operating income of \$2,139,551 and net income of \$1,437,396. We account for our investment in Jaguar using the equity accounting method, taking into income our pro rata share of Jaguar's earnings or losses. In Northern's fiscal 2010 Jaguar contributed \$31,017 to Northern's results.

Jaguar recently sold its ownership position in Royal Laser Corp generating approximately \$8.6 million in cash. Jaguar is a large and supportive shareholder in Lakeside Steel Inc., which has excellent employees, led by an excellent management team committed to profitable the growth of Lakeside organically or by acquisition.

We remain a unique company in the Canadian investment industry; a full service investment dealer with a complementary merchant banking business focusing on Canada's underserved small capitalization market.

We have weathered the worst of the recession and have come out of the difficult economic times a leaner, stronger and more focused business. It is now time to capitalize on the changing market sentiment and selectively grow our operations where we see opportunities to increase our revenue generating capabilities. We will continue to keep strict control of our expense base. We believe we can continue the momentum we have seen in the last six months of fiscal 2010 and reach new levels in the coming fiscal year.

On behalf of the Board of Directors, we thank our employees, clients and shareholders for their continuing support.

Vic Alboini
Chairman and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 22, 2010

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, 2010, compared to the period ended March 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

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 \$2,968,329 for the year ended March 31, 2010, compared to a net loss of \$7,778,357 in 2009. Included in net income was income of \$31,017 representing the Company's share of the earnings of Jaguar Financial Corporation ("Jaguar"), compared to a loss of \$2,813,875 in the prior year. Northern Securities results improved significantly, reducing its loss from \$1,271,742 in 2009 to \$290,839 in 2010.

Revenue

Total revenue for the year ended March 31, 2010, was \$10,338,844 compared with \$12,044,857 in the prior year.

Commission revenue of \$5,952,798 for the year ended March 31, 2010, was up from the prior year amount of \$5,527,107 as investors reentered the capital markets. Underwriting and advisory revenue decreased to \$2,169,664 from \$4,268,015 in the prior year as the Company participated in a reduced number of financings. Broker warrants revenue was \$1,203,803 compared to a loss of \$768,030 in the prior year. The large decline in capital markets in 2009 produced a downward valuation of the portfolio in 2009. Trading revenue was \$233,633 compared to \$903,076 in the prior year as Northern Securities has reduced the size of its proprietary trading group. Interest revenue of \$106,638 was down from \$1,031,159 due to lower client account balances and reduced spreads.

Merchant banking activities generated revenue of \$334,663 compared to revenue of \$965,103 in the prior year. The Company realized a very successful merchant banking investment 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, 2010, were \$13,338,190 compared with expenses of \$16,590,664 in the prior year. Brokerage operations costs decreased to \$10,927,913 from \$13,976,899 in 2009. The decrease is largely attributable to expense reduction measures enacted by the Company to help mitigate reductions and uncertainty in revenue.

Merchant banking expenses were \$49,217 compared to \$266,381 in the prior year as the Company was engaged in less merchant banking activity during the year.

Interest expense decreased to \$349,571 from \$663,120 in the prior year as it paid less interest on client balances due to the interest rate environment.

General and administrative expenses increased to \$1,722,679 from \$1,263,637 in the prior year. The increase was as a result of expenses in the amount of \$508,119 related to a legal settlement entered into by the Company during the year.

Depreciation and amortization expenses were \$288,810, compared to \$420,627 in 2009.

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 \$4,069,762 as at March 31, 2010, compared with \$4,612,968 as at March 31, 2009. The Company used \$1,441,733 of cash in its operations for the year ended March 31, 2010, compared with \$1,874,155 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 upon this assumption. The Company incurred a loss of \$2,968,329 in the past year and \$7,778,357 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 obtain replacement debt or equity financing when the existing debt matures and to restore and maintain profitable operations. The Company believes that it will have success in renewing or refinancing its debt as it matures. As well, the Company is considering an equity financing in the coming months to retire some of its maturing debt.

As at March 31, 2010, the Company had loans outstanding in the amount of \$2,300,000. The loans have maturity dates from May 25, 2010 to August 29, 2010 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. Subsequent to year-end \$750,000 of the loans was repaid and \$555,000 new loans were funded. An additional \$400,000 is planned to be refinanced before the end of June.

As at March 31, 2010, the Company had demand loans outstanding in the amount of \$600,000. The loans are payable with 90 days of notice 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. Subsequent to year-end \$200,000 new loans were funded.

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	\$3,150,000	\$1,750,000	\$1,400,000	-	-	-	-
Settlement Liability	\$ 787,500	\$ 37,500	\$ 37,500	\$ 47,500	\$ 168,000	\$168,000	\$329,000
Operating Leases	\$3,349,500	\$ 326,300	\$ 316,600	\$581,200	\$1,974,100	\$151,300	-
Total	\$7,287,000	\$2,113,800	\$1,754,100	\$628,700	\$2,142,100	\$319,300	\$329,000

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 year ended March 31, 2010				Fiscal year ended March 31, 2009			
	\$				\$			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Total revenues	2,466,582	2,352,303	2,499,424	3,020,535	3,445,004	3,422,589	2,152,389	3,024,875
Net income (loss)	(1,222,210)	(1,004,567)	(126,972)	(614,580)	(1,463,268)	(2,153,499)	(2,367,017)	(1,794,573)
Earnings (loss) per share	(0.12)	(0.10)	(0.01)	(0.06)	(0.15)	(0.22)	(0.24)	(0.18)

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, 2010	As at March 31, 2009
Short-term loans payable	\$ 3,150,000	\$ 2,339,876
Promissory note payable	-	475,000
Shareholder's equity comprised of		
Share capital	1,317,734	42,904,348
Warrants	73,952	-
Contributed surplus	1,994,404	1,928,787
Deficit	(2,968,329)	(42,331,789)
	\$ 3,567,761	\$ 5,316,222

Note: Subsequent to March 31, 2010, the Company closed a private placement financing issuing 364,710 units for gross proceeds of \$120,354. Each unit was comprised of one common share of the Company and one-half of one common share purchase warrant. The Company also issued 115,942 common shares under its Equity Incentive Plan. As at June 22, 2010, the balance of the Company's share capital and warrants were \$1,458,103 and \$96,507 respectively.

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, 2010, the amount of this loan was \$12,490,000 (2009 - \$12,240,000). Repayment of the loan requires IIROC approval. As at March 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-Scholes model require the use of assumptions concerning the volatility of underlying securities and risk-free interest rates. In determining those assumptions, we look primarily to external readily observable market inputs including factors such as price volatilities and interest rates, as applicable. 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 \$1,695,075 at March 31, 2010, and included warrants issued by 68 public companies and 1 private company with expiry dates to December 2014. 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 \$44,156 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:

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 remaining liability of \$495,620 is recorded at the discounted cash flow value using the effective interest method. 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 2010. The remaining \$291,881 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.

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 March 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 (\$17,200) (2009 – (\$15,700)), based on a decrease and \$17,200 (2009 – \$15,700), 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, 2010, the Company did not suffer any material loss from counterparty default.

As at March 31, 2010, Northern Securities maintained a deposit with Penson Financial Services ("Penson") in the amount of \$1,030,484 (2009 - \$1,729,559) and a receivable balance from Penson in the amount of \$1,016,866 (2009 – \$991,138).

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, 2010, based on a 1% change in interest rates, the estimated sensitivity of the Company's net income (loss) was (\$31,000), based on an increase and \$31,000, 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, 2010, the Company had loans outstanding in the amount of \$2,300,000. The loans have maturity dates from May 25, 2010 to August 29, 2010, 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. Subsequent to year-end \$750,000 of the loans was repaid and \$555,000 new loans were funded.

As at March 31, 2010, the Company had demand loans outstanding in the amount of \$600,000. The loans are payable with 90 days of notice 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. Subsequent to year-end \$200,000 new loans were funded.

Share Capital Information

Outlined below is selected current share capital information related to the Company as June 22, 2010:

Description	Number
Common shares issued and outstanding	12,293,766
Common share purchase warrants issued and outstanding	865,631
Common share purchase options issued and outstanding	119,445

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, 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:

During the year ended March 31, 2010, Northern Securities acted as investment advisor and financial advisor with respect to Jaguar, receiving commissions, fees, and cost recoveries in the amount of \$1,058,035 (2009 – \$2,719,830). During the year ended March 31, 2010, Northern Securities also incurred \$25,000 (2009 - \$nil) in commission expense relating to certain transactions with Jaguar. As at March 31, 2010, an amount of \$175 (2009 – \$nil) was receivable from Jaguar and an amount of \$25,000 (2009 – \$nil) was payable to Jaguar.

During the year ended March 31, 2010, Northern Securities acted as financial advisor with respect to Lakeside Steel Corporation and Lakeside Steel Inc. (collectively "Lakeside"), receiving fees and commissions in the amount of \$288,866 (2009 – \$300,000). The Company also received fees in the amount of \$150,000 (2009 – \$nil) from Lakeside.

During the year the Company paid interest in the amount of \$42,241 (2009 - \$76,567) to Romspen Investment Corporation ("Romspen"), a company of which a director of the Company is also a director and senior officer. As at March 31, 2010, the Company had loans payable to Romspen of \$nil (2009 – \$475,000).

During the year ended March 31, 2010, in connection with the Company's private placement, Mr. Vic Alboini, Chairman and Chief Executive Officer of the Company sold an aggregate of 601,272 common shares at \$0.33 per share pursuant to a "gypsy swap" in pre-arranged trades over the facilities of the Toronto Stock Exchange, and subsequently bought the same number of shares under the private placement. Mr. Alboini also subscribed for an additional 606,060 under the private placement through his wholly-owned investment company.

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.

Significant Changes in Accounting Policies

Effective April 1, 2009, the Company adopted Canadian Institute of Chartered Accountant's ("CICA") Handbook Section 3064 Goodwill and Intangible Assets. Section 3064 prescribes when expenditures qualify for recognition as intangible assets and provides guidance on the recognition and measurement of internally generated goodwill and intangible assets. The standard had no material impact on the statement of financial position or operations and deficit.

The AcSB amended CICA Handbook Section 3862 "Financial Instruments – Disclosures" to increase disclosure requirements regarding the fair value measurements and liquidity of financial instruments. The Company adopted these new amendments during fiscal 2010 and this information is included in Note [5].

In August 2009, the 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. This standard, which was effective for the Company for the year-ended March 31, 2010, had no material impact on the statement of financial position or operations and deficit.

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 carrying out the diagnostic and design and planning phases, which are expected to be completed by the middle of the first quarter of fiscal 2011. The solution development and implementation stages are expected to commence concurrently, once the first two phases have been completed, 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.

Auditors' Report

To the Shareholders of
Northern Financial Corporation

We have audited the consolidated balance sheets of Northern Financial Corporation (the "Company") as at March 31, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants
Licensed Public Accountants
June 11, 2010, except as to Note 19 which is as at June 15, 2010

NORTHERN FINANCIAL CORPORATION
Consolidated Balance Sheets
As at March 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT		
Cash (Note 2 and Note 18)	\$1,315,509	\$1,311,595
Deposit with carrying broker (Note 3)	1,030,484	1,729,559
Securities owned (Note 4)	1,723,769	1,571,814
Investment in associated company (Note 6)	979,119	948,102
Accounts receivable	196,079	418,318
Forgivable loans (Note 9)	32,164	90,176
Prepaid expenses and deposits	114,786	178,936
Commodity taxes recoverable	26,629	25,539
	<u>5,418,539</u>	<u>6,274,039</u>
OTHER ASSETS	115,106	158,436
CAPITAL ASSETS (Note 7)	1,047,891	1,253,107
INTANGIBLE ASSETS (Note 8)	<u>3,365</u>	<u>6,790</u>
TOTAL ASSETS	<u>\$6,584,901</u>	<u>\$7,692,372</u>
LIABILITIES		
CURRENT		
Short-term loans payable (Note 10)	\$3,150,000	\$2,339,876
Accounts payable and accrued liabilities	2,521,280	2,357,990
Deferred revenue	-	17,500
Securities sold short (Note 4)	240	660
Settlement liability (Note 11)	67,619	-
Promissory note payable (Note 12)	-	475,000
	<u>5,739,139</u>	<u>5,191,026</u>
Settlement liability (Note 11)	428,001	-
TOTAL LIABILITIES	<u>6,167,140</u>	<u>5,191,026</u>
COMMITMENTS AND CONTINGENCIES (Note 15)		
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	1,317,734	42,904,348
Warrants (Note 13)	73,952	
Contributed surplus (Note 13)	1,994,404	1,928,787
Accumulated other comprehensive income	-	-
Deficit	<u>(2,968,329)</u>	<u>(42,331,789)</u>
	<u>417,761</u>	<u>2,501,346</u>
	<u>\$6,584,901</u>	<u>\$7,692,372</u>

APPROVED BY THE BOARD

"Ian Bradley"

Director

"Vic Alboini"

Director

NORTHERN FINANCIAL CORPORATION
Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the Years ended March 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
REVENUES		
Commissions	\$5,952,798	\$5,527,107
Underwriting and advisory	2,169,664	4,286,015
Broker warrants	1,203,803	(768,030)
Merchant banking	334,663	965,103
Trading	233,633	903,076
Interest	106,638	1,031,159
Other	337,645	100,427
	<u>10,338,844</u>	<u>12,044,857</u>
OPERATING EXPENSES		
Brokerage operations	10,927,913	13,976,899
Merchant banking	49,217	266,381
General and administrative	1,722,679	1,263,637
Interest expense	349,571	663,120
Depreciation and amortization	288,810	420,627
Total operating expenses	<u>13,338,190</u>	<u>16,590,664</u>
Net loss from operations	(2,999,346)	(4,545,807)
SHARE OF EARNINGS (LOSS) OF JAGUAR FINANCIAL CORPORATION (Note 6)	31,017	(2,813,875)
IMPAIRMENT OF INVESTMENT IN JAGUAR FINANCIAL CORPORATION (Note 6)	-	(418,675)
LOSS BEFORE INCOME TAXES	<u>(2,968,329)</u>	<u>(7,778,357)</u>
INCOME TAXES (Note 14)	-	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	<u>(2,968,329)</u>	<u>(7,778,357)</u>
DEFICIT, beginning of period	(42,331,789)	(34,553,432)
Reduction in stated capital (Note 13(h))	42,331,789	-
DEFICIT, end of period	<u>\$(2,968,329)</u>	<u>\$(42,331,789)</u>
EARNINGS (LOSS) PER SHARE – Basic and diluted (Note 13(i))	\$(0.29)	\$(0.78)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	10,154,141	9,912,129

NORTHERN FINANCIAL CORPORATION
Consolidated Statements of Cash Flows
For the Years ended March 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss for the period	\$(2,968,329)	\$(7,778,357)
Items not affecting cash		
Depreciation and amortization	288,810	420,627
Share of (earnings) loss of associated company	(31,017)	2,813,875
Equity incentive / employee share purchase plans	387,128	383,101
Compensation warrants issued	5,999	-
Legal settlement	495,620	-
Investment impairment	-	418,675
	<u>(1,821,789)</u>	<u>(3,742,079)</u>
Changes in non-cash working capital balances		
Securities owned and sold short	(152,375)	868,405
Accounts receivable	222,239	(126,090)
Prepaid expenses, deposits, and forgivable loans	165,492	263,570
Commodity taxes recoverable	(1,090)	12,653
Accounts payable and accrued liabilities	163,290	854,386
Deferred revenue	(17,500)	(5,000)
	<u>380,056</u>	<u>1,867,924</u>
Cash flows used in operating activities	<u>(1,441,733)</u>	<u>(1,874,155)</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Acquisition of capital assets	(80,169)	(488,429)
Deposit with carrying broker	699,075	269,316
Cash flows from (used in) investing activities	<u>618,906</u>	<u>(219,113)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from private placement	408,419	-
Proceeds from employee share purchase plan	162,965	62,334
Repurchase of shares under normal course issuer bid	-	(12,732)
Repurchase of shares for reissue	(79,767)	(188,681)
Repayment of promissory note	(475,000)	(125,000)
Increase in short term loans	810,124	2,119,876
Cash flows from financing activities	<u>826,741</u>	<u>1,855,797</u>
INCREASE (DECREASE) IN CASH	3,914	(237,471)
CASH, BEGINNING OF YEAR	<u>1,311,595</u>	<u>1,549,066</u>
CASH, END OF YEAR	<u>\$1,315,509</u>	<u>\$1,311,595</u>

SUPPLEMENTARY INFORMATION (Note 18)

1. NATURE OF OPERATIONS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Going concern

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

The Company incurred losses of \$2,968,329 in the past year and \$7,778,357 in the previous year and has a significant amount of debt maturing within 12 months (Note 16).

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

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

Principles of consolidation

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

Cash

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

Foreign currency translation

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

Securities owned and securities sold short

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

Broker warrants received by the Company in respect of underwriting are measured at fair value and are included in securities owned. Fair values determined using the Black-Scholes model require the use of assumptions concerning the volatility of underlying securities and risk-free interest rates. In determining those assumptions, we look primarily to external readily observable market inputs including factors such as price volatilities and interest rates, as applicable.

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

Securities transactions

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

Capital assets

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

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

Intangible assets

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

Forgivable loans

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

Underwriting and advisory fees

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

Merchant banking

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

Use of estimates and assumptions

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

Leases

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

Stock-based compensation plan

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

Income taxes

The Company accounts for and measures future tax assets and liabilities in accordance with the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to loss carry forwards and to differences between the financial statement carrying amounts of existing assets and

liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and the net asset is reduced accordingly.

Earnings (loss) per share

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

Recent Accounting Pronouncements

Effective April 1, 2009, the Company adopted Canadian Institute of Chartered Accountant's ("CICA") Handbook Section 3064 Goodwill and Intangible Assets. Section 3064 prescribes when expenditures qualify for recognition as intangible assets and provides guidance on the recognition and measurement of internally generated goodwill and intangible assets. The standard had no material impact on the statement of financial position or operations and deficit.

The AcSB amended CICA Handbook Section 3862 "Financial Instruments – Disclosures" to increase disclosure requirements regarding the fair value measurements and liquidity of financial instruments. The Company adopted these new amendments during fiscal 2010 and this information is included in Note [5].

In August 2009, the 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. This standard, which was effective for the Company for the year-ended March 31, 2010, had no material impact on the statement of financial position or operations and deficit.

Future Accounting Policies

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

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

3. SERVICE AGREEMENT

As at March 31, 2010, the Company has contracted Penson Financial Services ("Penson") to perform certain trading and clearing activities for the clients of the Company, according to the Introducing Broker Agreement (the "Agreement") between Penson and the Company. As a Type 2 Introducing Broker, the Company does not carry client accounts, nor receive, deliver or hold cash and securities in connection with such clients. At March 31, 2010, the Company maintained a deposit with Penson in the amount of \$1,030,484 (2009 - \$1,729,559), which cannot be used in the normal course of operations. As at March 31, 2010, Penson has offset \$nil (2009 - \$nil) against this deposit for undermargined and delinquent accounts of Northern Securities.

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

4. SECURITIES OWNED AND SECURITIES SOLD SHORT

Securities owned consist of the following:

	March 31, 2010	March 31, 2009
Publicly traded equities	\$ 28,694	\$ 858,140
Broker warrants	1,695,075	713,674
	<u>\$1,723,769</u>	<u>\$1,571,814</u>

Included in broker warrants are warrants issued by 68 (2009 – 60) public companies and 1 (2009 – 5) private companies with expiry dates to December 2014. Broker warrants are valued using a Black-Scholes model using the quoted closing bid price of the underlying security at valuation date in active markets where available, a 52 week volatility, and the Government of Canada treasury bill rate for equivalent maturity dates. When quoted prices in active markets are not available, determination of the fair value of the underlying security is based on reference to the issue price and consideration of other observable market data.

Securities sold short consist of the following:

	March 31, 2010	March 31, 2009
Publicly traded equities	\$240	\$660

5. FINANCIAL INSTRUMENTS

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

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

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

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

	Carrying Value		Estimated Fair Value		
	March 31, 2010	March 31, 2009	March 31, 2010		
			Level 1	Level 2	Level 3
Held for trading					
Cash and treasury bills	\$2,345,993	\$3,041,154	\$1,315,509	\$1,030,484	\$ -
Securities owned	1,723,769	1,571,814	28,694	1,650,919	44,156
Securities sold short	240	660	240	-	-

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

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

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

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

Balance, March 31, 2009	\$82,573
Expiry / exercise of broker warrants	(75,509)
Transfer out of level 3	(3,388)
New broker warrants received	42,845
Acquisition of publicly traded equities	10,000
Valuation adjustment	(12,365)
Balance, March 31, 2010	\$ 44,156

6. INVESTMENT IN ASSOCIATED COMPANY

Investment in associated company consists of the following:

	March 31, 2010	March 31, 2009
Jaguar Financial Corporation	\$979,119	\$948,102

The investment in associated company is an investment in Jaguar Financial Corporation ("Jaguar") representing 13.0% (2009 – 12.6%) of the outstanding common shares of Jaguar as at March 31, 2010. The quoted market value of the investment as at March 31, 2010, was \$948,102 (2009 - \$948,102).

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

The Company has determined that it exercises significant influence over the strategic operating, investing and financing policies of Jaguar due to the following factors: the Company holds a 13.0% equity interest in Jaguar; (ii) the Chairman and Chief Executive Officer of the Company holds or has control or direction over an 8.0% equity interest in Jaguar; (iii) the Chairman and Chief Executive Officer of the Company is also the Chairman and Chief Executive Officer of Jaguar; (iv) the Chairman and Chief Executive Officer of the Company owns or has control or direction over a 33.3% equity interest in the Company; and (v) the Chief Financial Officer of the Company is also the Chief Financial Officer of Jaguar.

The equity method is used to account for the Company's investment in Jaguar. The Company's share of earnings or losses is reported in income. The Company's investment in Jaguar has been increased by \$31,017 in 2010 (reduced by \$2,813,875 in fiscal 2009).

7. CAPITAL ASSETS

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

NORTHERN FINANCIAL CORPORATION
Notes to the Consolidated Financial Statements
March 31, 2010 and 2009

	2009		
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 929,767	\$ 649,015	\$ 280,752
Leasehold improvements	1,552,109	750,264	801,845
Computer equipment	1,723,849	1,566,253	157,596
Works of art	12,914	-	12,914
	<u>\$4,218,639</u>	<u>\$2,965,532</u>	<u>\$1,253,107</u>

Depreciation on capital assets for the year was \$285,385 (2009 – \$416,732).

8. INTANGIBLE ASSETS

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

	2009		
	Cost	Accumulated Amortization	Net Book Value
Computer software	\$ 540,922	\$ 534,132	\$ 6,790

Amortization on intangible assets for the year was \$3,425 (2009 – \$3,896).

9. FORGIVABLE LOANS

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

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Forgivable loans	\$1,095,719	\$1,063,147	\$32,572	\$120,914

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

	2010	2009
Forgivable within 1 year	\$ 32,164	\$ 90,176
Forgivable in greater than 1 year	408	30,738
	<u>\$ 32,572</u>	<u>\$ 120,914</u>

The forgiven amount for the period of \$98,342 (2009 – \$272,651) is recorded as brokerage operations expense on the consolidated statement of operations, comprehensive (loss) income and retained deficit.

10. SHORT-TERM LOANS PAYABLE

The Company has available a credit facility in the amount of \$250,000 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, 2010, the balance owing under the credit facility was \$250,000 (2009 – \$225,000).

As at March 31, 2010, the Company had loans outstanding in the amount of \$2,300,000 (2009 – \$nil). Interest expense related to the loans was \$170,572 (2009 – \$nil). The loans have the following terms:

Principal Amount	Interest Rate	Maturity Date	Security
\$400,000	10.0%	May 25, 2010	Personal guarantee by the Chairman and Chief Executive Officer of the Company
\$500,000	25.9%	June 15, 2010	Personal guarantee by the Chairman and Chief Executive Officer of the Company
\$500,000	15.0%	July 29, 2010	Personal guarantee by the Chairman and Chief Executive Officer of the Company
\$800,000	12.0%	August 18, 2010	Marketable securities held by the Company
\$100,000	10.0%	August 29, 2010	Personal guarantee by the Chairman and Chief Executive Officer of the Company

As at March 31, 2010, the Company had demand loans outstanding in the amount of \$600,000 (2009 – \$nil). The loans bear interest at 12% and are payable within 90 days of 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 March 31, 2009, the Company had loans outstanding in the amount of \$1,794,325 used to fund specific investments of the Company. The loans were repaid in full during fiscal 2010. Interest expense related to the loans was \$45,229 (2009 – \$22,809).

11. SETTLEMENT LIABILITY

In the year ending, March 31, 2010, the Company entered into a legal settlement requiring it to pay a total of \$800,000 over a period of 108 months beginning in March 2010. The expense related to the settlement is included in general and administrative expenses on the Consolidated Statements of Operations, Comprehensive Loss and Deficit. The remaining liability of \$495,620 (2009 – \$nil) is recorded at the discounted cash flow value using the effective interest method with \$67,619 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. The remaining \$291,881 will be recorded in future years as cash payments are made. See Note 16 for a schedule of future cash payments.

12. PROMISSORY NOTE PAYABLE

As at March 31, 2009, the Company had a promissory note payable outstanding in the amount of \$475,000. The promissory note payable was repaid in full during fiscal 2010. Interest expense related to the promissory note payable was \$42,241 (2009 – \$76,567).

13. CAPITAL STOCK

a) *Share capital*

Authorized	
Unlimited number of common shares	
2,000,000 voting, convertible, redeemable, preference shares	
Issued and outstanding	
11,813,114 common shares	\$1,317,734

Share capital activity for the years ended March 31, 2010 and 2009, is summarized as follows:

	Shares #	Amount \$
Balance, March 31, 2008	9,843,385	42,965,150
Shares issued under equity incentive plan (d)	98,146	93,151
Shares issued under employee share purchase plan (e)	154,342	90,599
Shares cancelled under normal course issuer bid (f)	(12,800)	(55,871)
Balance, March 31, 2009	10,083,073	43,093,029
Reduction of stated capital (g)	-	(42,331,789)
Shares issued under equity incentive plan (d)	101,514	44,666
Shares issued under employee share purchase plan (e)	390,895	171,363
Private placement (f)	1,237,632	340,465
Balance, March 31, 2010	11,813,114	1,317,734

Note: The total cost of share based compensation for the year ended March 31, 2010 was \$387,128 (2009 – \$308,101). As at March 31, 2010, the Company had an accrual of \$338,195 (2009 – \$272,578) related to share based compensation.

b) *Capital management*

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

The Company's capital structure includes the following:

NORTHERN FINANCIAL CORPORATION
Notes to the Consolidated Financial Statements
March 31, 2010 and 2009

	2010	2009
Short-term loans payable	\$ 3,150,000	\$ 2,339,876
Promissory note payable	-	475,000
Shareholder's equity comprised of		
Share capital	1,317,734	42,904,348
Warrants	73,952	-
Contributed surplus	1,994,404	1,928,787
Deficit	(2,968,329)	(42,331,789)
	<u>\$ 3,567,761</u>	<u>\$ 5,316,222</u>

The Company's objectives when managing capital are to (i) provide financial capacity and flexibility in order to preserve its ability to meet its strategic objectives and financial obligations and continue as a going concern; (ii) maintain a capital structure which allows the Company to respond to changes in economic and marketplace conditions and affords the Company the ability to participate in new investments; (iii) optimize the use of its capital to provide an appropriate investment return to its shareholders equal with the level of risk; (iv) maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk; and (v) meet the regulatory requirements of IIROC.

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by: (i) realizing proceeds from the disposition of its investments; (ii) utilizing leverage in the form of margin loans on its investments; (iii) raising capital through loans from third party investors who seek to participate in investment opportunities; and (iv) raising capital through the issuance of securities.

The Company's investment dealer subsidiary, Northern Securities, is subject to rules of IIROC, which require Northern Securities to maintain a certain level of regulatory capital. IIROC Dealer Member Rule 17.1 sets a minimum capital requirement for each firm based on its size and business model to ensure that the investment dealer not only has capital available to cover known risks but also excess capital to cover unforeseen risks. IIROC's minimum capital requirements are aimed at ensuring that investment dealers do not assume excessive leverage or engage in business practices which expose them to too much risk. This capital was provided by the Company and is eliminated upon consolidation as a loan between the parent and subsidiary. As at March 31, 2010, the amount of this loan was \$12,490,000 (2009 - \$12,240,000). Repayment of the loan requires IIROC approval. As at March 31, 2010, the capital of Northern Securities exceeded the requirements of IIROC.

IIROC has advised Northern Securities of alleged deficiencies on Northern Securities' part to maintain required regulatory capital in October 2008 in connection with a client accumulation account and in September 2009 in connection with an escrow agreement relating to a new issue loan letter. Northern Securities does not believe there were capital deficiencies. These matters are still under discussion with IIROC.

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

c) *Stock options*

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

As at March 31, 2010, there were 119,817 common share purchase options outstanding, expiring at various dates to January 21, 2013. The options have an exercise price equal to the Company's market closing share price on the day prior to the date of grant and vest over the first twenty-four or thirty months, in equal monthly installments, beginning in the month of grant, and are exercisable over ten years.

Stock option activity for the years ended March 31, 2010 and 2009 is summarized as follows:

	Stock Options #	Weighted Average Exercise Price
Balance, March 31, 2009 and 2008	142,002	\$14.71
Expired	(22,185)	\$55.32
Balance, March 31, 2010	<u>119,817</u>	<u>\$ 7.19</u>

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

Range of Exercise Prices	Stock Options #	Weighted Average Remaining Life (Years)	Weighted Average Price
\$ 3.50-5.00	69,937	2.33	\$ 3.79
\$8.00-9.00	43,350	0.96	\$ 8.96
\$30.00-40.00	6,158	0.48	\$30.33
\$49.00-70.00	372	0.09	\$57.81
	<u>119,817</u>	<u>1.73</u>	<u>\$ 7.19</u>

All options are currently exercisable.

d) *Employee equity incentive plan*

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

e) *Employee share purchase plan*

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

f) *Private placement*

During 2010, the Company raised gross proceeds of \$408,418 upon the completion of a private placement consisting of 1,237,632 units. Each unit was comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.45 until March 29, 2012. Of the total proceeds, \$340,465 was ascribed to capital stock and \$67,953 was ascribed to warrants (Note 13(j)).

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

g) *Normal course issuer bid*

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

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

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

h) *Reduction of stated capital*

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

NORTHERN FINANCIAL CORPORATION
Notes to the Consolidated Financial Statements
March 31, 2010 and 2009

i) *Earnings per share data*

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

March 31, 2009	9,912,129
March 31, 2010	10,154,141

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

j) *Warrants:*

Warrant activity for the years ended March 31, 2010 and 2009, is summarized as follows:

	#	\$
Balance, March 31, 2009 and 2008	-	-
Private placement	618,816	67,953
Private placement compensation	45,096	5,999
Balance, March 31, 2010	663,912	73,952

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

	Number	Exercise Price	Expiry Date
Private placement	618,816	\$0.45	March 29,2012
Private placement compensation	30,064	\$0.44	March 29,2012
Private placement compensation	15,032	\$0.45	March 29,2012
	663,912		

k) *Contributed surplus:*

Contributed surplus activity for the years March 31, 2010 and 2009, is summarized as follows:

Balance, March 31, 2008	\$ 1,624,886
Employee equity incentive plan	255,555
Employee share purchase plan	6,130
Normal course issuer bid	42,216
Balance, March 31, 2009	1,928,787
Employee equity incentive plan	54,896
Employee share purchase plan	10,721
Balance, March 31, 2010	\$ 1,994,404

14. INCOME TAXES

a) *Provision for income taxes*

Major items causing the Company's income tax rate to differ from the Canadian combined federal and provincial statutory rate of approximately 32% (2009 – 33.5%) are as follows:

	2010	2009
Income (loss) before taxes	\$ (2,968,329)	\$ (7,778,357)
Expected income tax (benefit) based on statutory rate	(949,865)	(2,605,750)
Equity (gain) loss from associated companies	(9,925)	942,648
Amortization	-	140,910
Impact of tax rate reduction in Ontario	1,859,980	-
Finance costs	-	(41,522)
Other	4,498	8,247
	904,688	(1,555,467)
Current year valuation allowance	(904,688)	1,555,467
Income tax expense	\$ -	\$ -

b) *Future tax balances*

The tax effects of temporary differences that give rise to future income tax assets in Canada approximate the following:

NORTHERN FINANCIAL CORPORATION
Notes to the Consolidated Financial Statements
March 31, 2010 and 2009

	2010	2009
Future tax assets		
Non-capital losses carried forward	\$ 4,196,332	\$ 4,626,460
Share issue costs	16,023	41,522
Equipment and intangible assets	1,037,327	1,126,629
Resource deductions	1,058,116	1,417,876
	<u>6,307,798</u>	<u>7,212,487</u>
Valuation allowance	(6,307,798)	(7,212,487)
Total	<u>\$ -</u>	<u>\$ -</u>

The Company has loss carry forwards in Canada of approximately \$16,785,329, which under certain circumstances may be utilized to offset future taxable income. The benefit of these losses has not been recognized in the financial statements. These losses expire as follows:

2010	\$ 2,666,817
2014	1,089,489
2015	837,597
2027	5,382,366
2029	4,098,763
2029	<u>2,710,297</u>
	<u>\$16,785,329</u>

15. COMMITMENTS AND CONTINGENCIES

- a) Northern Securities indemnifies Penson for all obligations to pay for securities purchased and to deliver securities sold by clients. In the event of default by any of its clients on payments due on delivery of securities to Penson, Northern Securities has agreed to pay Penson an amount up to its "excess risk adjusted capital".
- b) The Company is party to legal proceedings in the ordinary course of its operations. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. Where management can estimate that there is a loss probable, a provision has been recorded in its financial statements, where proceedings are at a premature stage or the ultimate outcome is not determinable, then no provision is recorded. It is possible that the final resolution of these matters may require the Company to make expenditures over an extended period of time and in a range of amounts that cannot be reasonably estimated and may differ significantly from any amounts recorded in these consolidated financial statements. Should the Company be unsuccessful in its defense or settlement of one or more of these legal actions, there could be a materially adverse effect on the Company's financial position, future expectations, and cash flows.
- c) The IIROC has advised Northern Securities of an alleged deficiency on Northern Securities' part to maintain required regulatory capital in October 2008 in connection with a client accumulation account and in September 2009 in connection with an escrow agreement relating to a new issue loan letter. Northern Securities does not believe there were capital deficiencies. Northern Securities is also party to ongoing IIROC enforcement proceedings. These matters are still under discussion with the IIROC. It is not possible at this time to determine the amount of any potential liability to Northern Securities which could have a material adverse effect on the Company's financial position, future expectations, or cash flows.
- d) The future minimum annual payments for each fiscal year on equipment and office premises under existing operating leases approximate the following:

2011	\$ 1,224,100
2012	1,067,900
2013	906,200
2014	143,000
2015	<u>8,300</u>
	<u>\$3,349,500</u>

- e) The Company is required to share certain gains on disposal of its investments with clients. Accruals for these sharing arrangements have been made based upon the fair value of the investments at the balance sheet date.
- f) The Company has available a credit facility in the amount of \$250,000 at prime plus 1.75%, secured by a general security agreement covering all assets of the Company and certain guarantees provided personally

by the Chairman and Chief Executive Officer of the Company and a corporation controlled by the Chairman and Chief Executive Officer of the Company. As at March 31, 2010, \$250,000 was owing under the credit facility.

16. RISK MANAGEMENT

Fair value of financial assets and financial liabilities

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

Market risk

Market risk is the risk that a change in market prices, interest rate levels, indices, liquidity and other market factors will result in losses. The Company is exposed to market risk as a result of its principal trading in equity securities and fixed income securities. Securities held for trading are valued at market and as such, changes in market value affect earnings (losses) as they occur. The Company mitigates its market risk exposure through controls to limit concentration levels and capital usage within its inventory trading accounts. As at March 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 (\$17,200) (2009 – (\$15,700)), based on a decrease and \$17,200 (2009 – \$15,700), 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, 2010, the Company did not incur any material loss from counterparty default.

As at March 31, 2010, Northern Securities maintained a deposit with Penson in the amount of \$1,030,484 (2009 – \$1,729,559) (see Note 3) and a cash balance from Penson in the amount of \$1,016,866 (2009 – \$991,138) included in cash on the Consolidated Balance Sheets.

Interest rate risk

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

Foreign exchange risk

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

Liquidity risk

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

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

The contractual maturities of the Company's significant financial liabilities and contractual commitments as at March 31, 2010, on an undiscounted basis are shown in the following table:

Payments Due by Period							
Contractual Obligations	Total	Less than 3 months	3 months to less than 6 months	6 months to 1 year	1 to 3 years	4 to 5 years	After 5 years
Debt	\$3,150,000	\$1,750,000	\$1,400,000	-	-	-	-
Settlement Liability	\$ 787,500	\$ 37,500	\$ 37,500	\$ 47,500	\$ 168,000	\$168,000	\$329,000
Operating Leases	\$3,349,500	\$ 326,300	\$ 316,600	\$581,200	\$1,974,100	\$151,300	-
Total	\$7,287,000	\$2,113,800	\$1,754,100	\$628,700	\$2,142,100	\$319,300	\$329,000

17. RELATED PARTY TRANSACTIONS

The Company had related party transactions with directors or officers of the Company, or companies with which they were associated, which were in the normal course of operations and were measured at the exchange amounts as follows:

During the year ended March 31, 2010, Northern Securities acted as investment advisor and financial advisor with respect to Jaguar, receiving commissions, fees, and cost recoveries in the amount of \$1,058,035 (2009 – \$2,719,830). During the year ended March 31, 2010, Northern Securities also incurred \$25,000 (2009 - \$nil) in commission expense relating to certain transactions with Jaguar. As at March 31, 2010, an amount of \$175 (2009 – \$nil) was receivable from Jaguar and an amount of \$25,000 (2009 – \$nil) was payable to Jaguar.

During the year ended March 31, 2010, Northern Securities acted as financial advisor with respect to Lakeside Steel Corporation and Lakeside Steel Inc. (collectively "Lakeside:), receiving fees and commissions in the amount of \$288,866 (2009 – \$300,000). The Company also received fees in the amount of \$150,000 (2009 – \$nil) from Lakeside.

During the year the Company incurred interest expense in the amount of \$42,241 (2009 - \$76,567) to Romspen Investment Corporation ("Romspen"), a company of which a director of the Company is also a director and senior officer. As at March 31, 2010, the Company had loans payable to Romspen of \$nil (2009 – \$475,000).

During the year ended March 31, 2010, in connection with the Company's private placement, Mr. Vic Alboini, Chairman and Chief Executive Officer of the Company sold an aggregate of 601,272 common shares at \$0.33 per share pursuant to a "gypsy swap" in pre-arranged trades over the facilities of the Toronto Stock Exchange, and subsequently bought the same number of shares under the private placement. Mr. Alboini also subscribed for an additional 606,060 under the private placement through his wholly-owned investment company (Note 13(f)).

All of the above transactions are in the normal course of operations and are recorded at the exchange amounts, being the amounts established and agreed to by the related parties.

18. SUPPLEMENTAL INFORMATION – STATEMENT OF CASH FLOWS

	2010	2009
Interest paid	\$ 307,185	\$ 640,310
Cash consists of the following		
Cash	\$ 298,643	\$ 320,457
Cash at carrying broker	1,016,866	991,138
Total	\$ 1,315,509	\$ 1,311,595

19. SUBSEQUENT EVENTS

- a) On April 6, 2010, the Company secured debt financing in the amount of \$200,000. The loan matures six months from the date of advance, bears interest at a rate of 12%, and is secured by certain guarantees provided personally by the Chairman and Chief Executive Officer of the Company. After June 7, 2010, the loan is payable within 10 business days of receipt by the Company of a written demand notice from the lender.
- b) On April 28, 2010, the Company closed a private placement financing issuing 364,710 units for gross proceeds of \$120,354. Each unit was comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.45 until April 28, 2012.
- c) On April 29, 2010, the Company issued 115,942 shares under the Equity Incentive Plan.

- d) On May 21, 2010, the Ontario Superior Court of Justice issued a judgment in favour of Northern Securities ordering Zaruma Resources Inc. to pay Northern Securities damages in the amount of USD \$440,000 plus interest and costs of \$95,962.
- e) On June 10, 2010, the Company secured a demand loan in the amount of \$200,000. The loan bears interest at 12%, is payable within 90 days of notice, and is secured by certain guarantees provided personally by the Chairman and Chief Executive Officer of the Company.
- f) On June 10, 2010, the Company secured debt financing in the amount of \$355,000. The loan matures six months from the date of advance, bears interest at a rate of 10%, and is secured by certain guarantees provided personally by the Chairman and Chief Executive Officer of the Company.
- g) On April 7, 2010, through June 15, 2010, the Company repaid \$750,000 of its loans outstanding as of March 31, 2010.

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R. Ian Bradley, *Consultant*
William Grant, *Consultant*
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Partner
Romspen Investment Corporation

SHARE INFORMATION

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

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