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**NEMI Northern Energy & Mining Inc.**

Consolidated Financial Statements  
For the year ended September 30, 2011

(Expressed in Canadian Dollars)

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
**NEMI Northern Energy & Mining Inc.**

We have audited the accompanying consolidated financial statements of **NEMI Northern Energy & Mining Inc.**, which comprise the consolidated balance sheets as at September 30, 2011 and 2010, and the consolidated statements of income (loss), comprehensive income (loss), cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' responsibility**

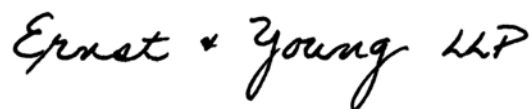
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **NEMI Northern Energy & Mining Inc.** as at September 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Vancouver, Canada,  
December 7, 2011

Ernst & Young LLP  
Chartered Accountants

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# NEMI Northern Energy & Mining Inc.

Consolidated Balance Sheets

Years ended September 30,

(Expressed in Canadian dollars)

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	2011	2010
	\$	\$
<b>ASSETS</b>		
Current		
Cash and cash equivalents	75,997,850	7,263,349
Investment in Hillsborough - note 4	-	680,250
Accounts receivable	5,504	5,105
HST recoverable	53,061	16,855
Prepaid expenses and other	41,448	54,489
	<u>76,097,863</u>	8,020,048
Investment in Peace River Coal LP - note 5	-	54,924,825
Office equipment and improvements - note 6	16,098	20,542
	<u>76,113,961</u>	62,965,415
<b>LIABILITIES</b>		
Current		
Accounts payable	851,247	991,897
Convertible debentures - note 7	10,152,133	11,010,341
	<u>11,003,380</u>	12,002,238
<b>SHAREHOLDERS' EQUITY</b>		
Share capital - note 8	52,512,813	51,822,705
Contributed surplus	10,133,858	9,966,839
Equity portion of convertible debentures - note 7	1,609,195	1,862,731
Retained earnings (deficit)	854,715	(12,689,098)
	<u>65,110,581</u>	50,963,177
	<u>76,113,961</u>	62,965,415

Commitments - notes 7, 8, 12 and 13

Subsequent events - notes 8 and 13

ON BEHALF OF THE BOARD

   [Signed]: "Michael Cooney",  
Director

   [Signed]: "Lyle Stein",  
Director

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*The accompanying notes are an integral part of these consolidated financial statements*

# NEMI Northern Energy & Mining Inc.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

Years ended September 30,

(Expressed in Canadian dollars)

	2011	2010
	\$	\$
<b>Expenses</b>		
Remuneration and benefits - note 9	(393,658)	(526,975)
Professional fees	(258,519)	(413,171)
Office	(113,798)	(139,298)
Shareholder communication	(20,264)	(22,687)
Directors fees	(77,466)	(83,402)
Stock based compensation - note 8	(142,000)	(158,000)
Depreciation	(4,444)	(6,101)
<b>Loss before the undernoted</b>	<b>(1,010,149)</b>	<b>(1,349,634)</b>
<b>Other income (expense)</b>		
Interest on current debt and bank charges	(3,223)	(1,347)
Interest, accretion and amortization of deferred placement charges on convertible debentures - note 7	(1,538,899)	(1,673,953)
Interest and other income	35,010	53,828
Share of income (loss) from Peace River Coal LP - note 5	4,247,000	(37,000)
Increase in value of investment in Hillsborough - note 4	-	20,408
Gain on PRC Disposition - note 5	11,814,074	-
<b>Net income (loss) and comprehensive income (loss)</b>	<b>13,543,813</b>	<b>(2,987,698)</b>
<b>Earnings (loss) per share - basic</b>	<b>\$ 0.25</b>	<b>\$ (0.05)</b>
<b>Basic weighted average number of shares outstanding</b>	<b>54,155,942</b>	<b>55,130,999</b>
<b>Income per share - diluted</b>	<b>\$ 0.25</b>	<b>\$ -</b>
<b>Diluted number of shares outstanding</b>	<b>54,598,621</b>	<b>55,130,999</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

# NEMI Northern Energy & Mining Inc.

Consolidated Statements of Cash Flows

Years ended September 30,

(Expressed in Canadian dollars)

	2011	2010
	\$	\$
<b>Cash Flows From (Used In):</b>		
<b>Operating Activities</b>		
<b>Net income (loss) for the year</b>	<b>13,543,813</b>	<b>(2,987,698)</b>
Items not affecting cash:		
Amortization	4,444	6,102
Gain on PRC Disposition	(11,814,074)	-
Share of (income) loss of Peace River Coal LP - note 5	(4,247,000)	37,000
Increase in value of investment in Hillsborough - note 4	-	(20,408)
Accretion of debenture and deferred financing costs - note 7	661,877	717,917
Stock-based compensation - note 8	142,000	158,000
	<b>(1,708,940)</b>	<b>(2,089,087)</b>
<b>Net changes in non-cash working capital items</b>		
Accounts receivable	(399)	1,125,866
HST recoverable	(36,206)	(14,965)
Prepaid expenses and other	13,041	777
Accounts payable and accrued liabilities	(188,150)	292,860
	<b>(1,920,654)</b>	<b>(684,549)</b>
<b>Financing Activities</b>		
Shares issued on exercise of stock options - note 8	43,667	6,560
Common shares repurchased - note 8	(1,102,161)	(1,186,951)
	<b>(1,058,494)</b>	<b>(1,180,391)</b>
<b>Investing Activities</b>		
Proceeds on PRC Disposition- note 5	72,921,919	-
Proceeds on sale of Hillsborough - note 4	680,250	-
Capital investment in Peace River Coal LP - note 5	(1,888,520)	(21,829,536)
Capital distribution from Peace River Coal LP - note 5	-	12,983,814
	<b>71,713,649</b>	<b>(8,845,722)</b>
<b>Increase (decrease) in cash</b>	<b>68,734,501</b>	<b>(10,710,662)</b>
Cash and equivalents -beginning of year	7,263,349	17,974,011
<b>Cash and equivalents - end of year</b>	<b>75,997,850</b>	<b>7,263,349</b>
<b>Supplemental Cash Flow Inflow Information:</b>		
Cash interest expense paid	890,807	952,000

*The accompanying notes are an integral part of these consolidated financial statements.*

# NEMI Northern Energy & Mining Inc.

Consolidated Statement of Changes in Equity

Years ended September 30,

(Expressed in Canadian dollars)

	Common Shares (quantity)	Share capital \$	Contributed surplus \$	Equity Portion of Convertible Debentures \$	Retained earnings (deficit) \$	Total \$
<b>Balance, September 30, 2009</b>	<b>56,882,355</b>	<b>54,188,712</b>	<b>8,623,224</b>	<b>1,862,731</b>	<b>(9,701,400)</b>	<b>54,973,267</b>
Shares issued in consideration for:						
Options exercised - note 8	16,000	6,560	-	-	-	6,560
Stock-based compensation- note 8	-	-	158,000	-	-	158,000
Shares repurchased per Normal Course Issuer Bids - note 8	(2,577,075)	(2,372,567)	1,185,615	-	-	(1,186,952)
Net loss and comprehensive loss	-	-	-	-	(2,987,698)	(2,987,698)
<b>Balance, September 30, 2010</b>	<b>54,321,280</b>	<b>51,822,705</b>	<b>9,966,839</b>	<b>1,862,731</b>	<b>(12,689,098)</b>	<b>50,963,177</b>
Shares issued in consideration for:						
Options exercised - note 8	83,334	70,142	(26,475)	-	-	43,667
Conversion of debentures - note 8	1,612,221	1,773,621	-	(253,536)	-	1,520,085
Shares repurchased per Normal Course Issuer Bids - note 8	(1,208,700)	(1,153,655)	51,494	-	-	(1,102,161)
Stock-based compensation- note 8	-	-	142,000	-	-	142,000
Net income and comprehensive income	-	-	-	-	13,543,813	13,543,813
<b>Balance, September 30, 2011</b>	<b>54,808,135</b>	<b>52,512,813</b>	<b>10,133,858</b>	<b>1,609,195</b>	<b>854,715</b>	<b>65,110,581</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

# NEMI Northern Energy & Mining Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2011

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## 1. Organization and nature of operations

NEMI Northern Energy & Mining Inc. (the "Company" or "NEMI") was continued under the *Business Corporations Act (British Columbia)* on April 15, 2010. Previously NEMI was incorporated under the *Business Corporations Act of Alberta* and extra-provincially registered under the *Company Act of British Columbia*. Its common shares are publicly traded on the TSX Stock Exchange (the "TSX" or the "Exchange").

The Company's principal business interest consisted of a 12.184% interest in Peace River Coal Limited Partnership. The other interest owners in PRC were Anglo Coal Canada Inc. ("Anglo") - as to 74.825%, an indirectly wholly-owned subsidiary of Anglo American plc ("Anglo American") and Hillsborough Resources Limited as to 12.991% ("Hillsborough").

In October 2009, Anglo announced that it was restructuring its global portfolio of assets, a plan that included divestiture of its interest in PRC. On May 24, 2011, Anglo advised the Company, that following an internal review, it had decided to retain and grow PRC as a core asset. On August 17, 2011, NEMI announced an agreement to sell its interest in PRC to Anglo for \$73 million (the "PRC Disposition"). Concurrent with, and as part of the PRC Disposition, the Company also sold the shares it held in Hillsborough (the "Hillsborough Disposition"). Following shareholder approval at a special general meeting of the shareholders, the PRC Disposition closed on September 28, 2011.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("CGAAP") applicable to a going concern and applied on a basis consistent with those accounting principles that were applied in the prior year. They include the accounts and the results of operations for the Company and its wholly-owned subsidiary, Crossroad Ventures Inc., incorporated under the laws of the Province of British Columbia.

## 2. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

### a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its inactive subsidiary, Crossroad Ventures Inc.

### b) Investment in Peace River Coal LP

The Company follows the equity method of accounting for its investments over which it exercises significant influence but does not control. Under this method, the Company includes in its net earnings or loss its share of the net earnings or losses of the associated investees and capital contributions to, or distributions from, investees increase or decrease the Company's investment. The Company accounts for its investment in PRC using the equity method.

### c) Plant and equipment

Plant and equipment are recorded at cost. Equipment and assets are amortized using the declining balance method, at rates ranging from 20% to 30%.

# NEMI Northern Energy & Mining Inc.

Notes to Consolidated Statements (continued)

Year ended September 30, 2011

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## **d) Loss per share**

Loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is determined using the treasury method. When losses are reported, all outstanding options and warrants are anti-dilutive, and therefore have no effect on determination of loss per share.

## **e) Financial instruments and comprehensive income**

Financial instruments are classified into one of five categories: held-for-trading, held to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value at the date of acquisition. Subsequent measurement and accounting for changes in fair value will depend on the initial classification, as follows:

- i) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net loss;
- ii) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net loss; and
- iii) loans and receivables, held-to-maturity investments and other financial liabilities, are measured at amortized cost. The Company designated its cash and cash equivalents and short-term investments as held-for-trading, which are measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. Transaction costs directly attributable to the acquisition or issuance of financial instruments are recognized in net earnings (loss) in the year incurred or amortized, depending upon the nature of the financial instrument.

## **f) Cash and cash equivalents**

Cash and cash equivalents include cash and highly liquid investments held in the form of high quality commercial paper and bankers' acceptances. These investments are stated at cost plus accrued value, which approximates market value. Investments of cash are of sufficient quality and diversity to ensure a high probability of liquidity at the accrued value, at such times as needed to meet financial obligations. Furthermore, the investment terms are less than three months at the time of acquisition.

## **g) Use of estimates and measurement uncertainty**

Estimates by management represent an integral component of financial statements prepared in conformity with Canadian generally accepted accounting principles. The estimates made in these consolidated financial statements reflect management's judgments based on past experiences, present conditions, and expectations of future events. Where estimates were made, the reported amounts for assets, liabilities, revenues and expenses may differ from the amounts that would otherwise be reflected if the ultimate outcome of all uncertainties and future events were known at the time these consolidated financial statements were prepared. Significant estimates included the recoverability of the investment in PRC, the recoverability of mining claims and deferred exploration expenditures, the physical and economic lives of equipment, realization of coal inventory,



# NEMI Northern Energy & Mining Inc.

Notes to Consolidated Statements (continued)

Year ended September 30, 2011

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asset retirement obligations, and the variables in calculating the fair value of stock based compensation and convertible debentures.

## **h) Future income taxes**

Income taxes are calculated using the liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheets are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect of a change in a tax rate is recognized in income in the period that includes the date of enactment or substantive enactment. The recognition of future benefits is limited to the extent that the realization of such benefits is more likely than not.

## **j) Long-lived asset impairment**

Long-lived assets of the Company are reviewed when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the undiscounted future projected cash flows from related operations. If impairment is deemed to exist, the assets will be written down to their fair value.

## **j) Stock-based compensation**

The Company has an incentive stock option plan. The Company has adopted the recommendations of CICA Handbook Section 3870 - "Stock Based Compensation and Other Stock Based Payments" to account for stock based transactions with employees, directors, and outside consultants. Accordingly the fair value of stock options is charged to operations as appropriate, with an offsetting credit to contributed surplus. The fair value of stock options which vest immediately is recorded at the date of grant; the fair value of options which vest in future is recognized on a graded basis over the vesting period. Any consideration received on exercise of stock options together with the related portion of contributed surplus is credited to share capital. The fair value of stock options is assessed using the Black-Scholes Option Pricing Model.

## **k) Foreign currency transactions**

Transactions denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect on the transaction date. At the balance sheet date, monetary items denominated in a foreign currency are adjusted to reflect the exchange rate in effect at that time. Exchange gains and losses arising on the translation or settlement of foreign currency denominated monetary items are included in the determination of net earnings (loss) for the year.

## **l) Asset retirement obligations**

The Company adopted the provisions of CICA Handbook Section 3110 for asset retirement obligations in relation to future mine site reclamation and closure costs. This standard focuses on the recognition, measurement and disclosure of legal obligations and costs associated with the retirement of long-lived capital assets that result from the acquisition, construction, development or normal operation of those assets.

Under this standard, the Company recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. The

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# NEMI Northern Energy & Mining Inc.

Notes to Consolidated Statements (continued)

Year ended September 30, 2011

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liability is measured at fair value and is adjusted to its present value in subsequent periods as accretion expense is recorded. The fair value of the estimated asset retirement costs is capitalized as part of the carrying amount of the long-lived asset when incurred and amortized to earnings over the asset's estimated useful life.

## **m) Goodwill and Intangibles – Section 3064**

The CICA issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The standard was adopted in the Company's annual and interim financial statements for the year ended September 30, 2010. There was no impact upon adoption of this standard.

## **n) Business Combinations - Section 1582, Consolidations - Section 1601, and Non-controlling Interests - Section 1602,**

In January 2009, the CICA issued these new sections to replace Section 1581, "Business Combinations" and Section 1600, "consolidated Financial Statements." Section 1582 will apply to a transaction in which the acquirer obtains control of one or more business (as defined in the Section). Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. A bargain purchase will result in the recognition of a gain. Acquisition costs will be expensed. Any non-controlling interest will be recognized as a separate component of shareholders' equity and net income will be allocated between the controlling and non-controlling interests. These new standards will apply to fiscal years beginning on or after January 1, 2011. The Company does not believe that these new Sections will have an impact on its financial statements unless the Company enters into a business acquisition subsequent to January 1, 2011.

Early adoption of this section is permitted. Section 1601, together with Section 1602, establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning October 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these sections, the other two sections must also be adopted at the same time.

## **3. Future changes in accounting and financial reporting**

### **International financial reporting standards ("IFRS")**

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to adopt IFRS, replacing CGAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of October 1, 2011 will require that in order to present comparative information in financial statements for the year ending September 30, 2012, a restatement of the 2011 comparative information reported by the Company for the year ended September 30, 2011 will be required.

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# NEMI Northern Energy & Mining Inc.

Notes to Consolidated Statements (continued)

Year ended September 30, 2011

The company has begun an internal diagnostic review to understand, identify and assess the overall effort required to produce financial statements under IFRS, however, at this time, the financial reporting impact of the transition to IFRS has not yet been determined.

#### 4. Investment in Hillsborough and disposition

During the year ended September 30, 2009 the Company acquired 1,360,500 common shares of Hillsborough Resources Limited ("Hillsborough") for a total cost of \$392,842 for an average price of \$0.29 per share. On acquisition, NEMI classified the shares as "held-for-trading". Accordingly the carrying value was subject to periodic mark to market adjustments including \$nil in 2011 (\$20,408 in 2010). During the quarter ended December 31, 2009, Hillsborough completed a statutory arrangement whereby Vitol Anker International B.V. ("Vitol") acquired all the shares of Hillsborough at a price of \$0.50 per share. As there was no longer a market price for the Hillsborough shares, NEMI held the shares at a value of \$0.50 per share, representing Vitol's most recent offer to pay which was received January 11, 2010. On August 26, 2011, the Company completed the Hillsborough Disposition realizing \$680,250.

#### 5. Investment in Peace River Coal LP and PRC disposition

On May 24, 2010, following an internal review of its operations, Anglo advised the Company that rather than sell the PRC operation as originally planned, it had decided to retain PRC as a core asset. On August 17, 2011, NEMI announced it had entered into an agreement with Anglo to complete the PRC Disposition for consideration of \$73 million. As Anglo was concurrently purchasing the Hillsborough interest in PRC, the Anglo offer was contingent on completing the Hillsborough Disposition. On September 26, 2011, at a special general meeting, NEMI shareholders approved the PRC Disposition and the sale was closed on September 28, 2011 on receipt of \$73 million cash.

In the period from September 30, 2009 up until the PRC Disposition, changes to the investment in PRC were as follows:

	2011	2010
	\$	\$
Balance beginning of year	54,924,825	46,116,103
Cash call contributions	1,888,520	21,829,536
Capital distributions	-	(12,983,814)
	56,813,345	54,961,825
Share of Income (loss) allocated until PRC disposition, September 28, 2011	4,247,000	(37,000)
	61,060,345	54,924,825
Proceeds on disposition, net of disposal costs - \$125,581	(72,874,419)	-
Gain on PRC disposition	11,814,074	-
Balance, end of year	-	54,924,825

# NEMI Northern Energy & Mining Inc.

Notes to Consolidated Statements (continued)

Year ended September 30, 2011

## 6. Office equipment and improvements

	September 30, 2011			September 30, 2010		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
	\$	\$	\$	\$	\$	\$
Office equipment	28,104	19,721	8,383	28,104	17,206	10,898
Office leasehold improvements	16,744	9,029	7,715	16,744	7,100	9,644
	<b>44,848</b>	<b>28,750</b>	<b>16,098</b>	<b>44,848</b>	<b>24,306</b>	<b>20,542</b>

## 7. Convertible debentures

As at September 30, the debentures were recognized as follows:

	September 30, 2011		September 30, 2010	
	Liability Component	Equity Component	Liability Component	Equity Component
	\$	\$	\$	\$
Debenture	10,260,500	1,763,580	11,292,088	2,017,116
Unamortized deferred financing costs	(108,367)	(154,385)	(281,747)	(154,385)
	<b>10,152,133</b>	<b>1,609,195</b>	<b>11,010,341</b>	<b>1,862,731</b>

As at September 30, 2011, the unpaid principal balance of the 8% convertible debentures was \$10,449,000 (September 30, 2010 - \$11,900,000). The convertible debentures mature on March 12, 2013. Interest is payable semi-annually on June 30 and December 31.

The proceeds from the issue of the convertible debenture have been allocated based upon the fair value of the liability component with the residual allocated to the equity component:

	2011	2010
	\$	\$
Gross debenture proceeds on issue	12,724,000	12,724,000
less: equity component	(2,146,116)	(2,146,116)
Liability component	10,577,884	10,577,884
Accretion of liability component	1,838,499	1,350,004
Debentures converted to equity at allocated value, (principal value -\$2,275,000)	(2,155,885)	(635,800)
<b>Liability - end of period</b>	<b>10,260,500</b>	<b>11,292,088</b>

Interest expense on the convertible debenture for the current years comprised of:

	2011	2010
	\$	\$
Interest on debenture @ 8%	877,023	952,000
Accretion of convertible debenture	488,495	530,257
Amortization of deferred financing charges	173,381	187,660
	<b>1,538,894</b>	<b>1,669,917</b>

# NEMI Northern Energy & Mining Inc.

Notes to Consolidated Statements (continued)

Year ended September 30, 2011

## 8. Shareholders' equity

### a) Authorized share capital

An unlimited number of Class A voting Common Shares

An unlimited number of Preferred Shares issuable in one or more series with rights and quantity subject to the discretion of the directors - none issued

### b) Issued, fully-paid and outstanding

As at September 30, the number of Class A common shares voting and outstanding was as follows:

	2011	2010
Issued and fully-paid	55,492,301	54,976,258
Less: shares repurchased and held in treasury	(684,166)	(654,978)
Issued, fully paid and outstanding	54,808,135	54,321,280

### c) Normal course issuer bids

In each of the last three years, the Company filed a notice with regulatory authorities to conduct a normal course issuer bid ("NCIB") pursuant to the rules of the TSX under each of which the Company was authorized to purchase up to 5% of the common shares outstanding on the date such notices was filed over the 12-month period following each date of filing. Accordingly, in the period since September 30, 2009, the Company has purchased and cancelled or retained in treasury Class A Common Shares as follows:

Date granted	Number of shares authorized	Number of shares purchased	Total cost	Purchase price range (per share)
			\$	
April 2009	2,893,487	1,906,097	770,317	\$0.37 - \$0.41
May 2010	2,748,813	1,746,178	1,395,806	\$0.58 - \$0.95
May 2011	2,747,082	133,500	122,988	\$0.58 - \$0.95
		3,785,775	2,289,111	

In the period following September 30, 2011 the Company purchased an additional 240,000 shares for a total cost of \$228,900 for an average price of \$0.95 per share under the provisions of the May 2011 NCIB.

### d) Options

The Company has adopted a rolling 10% stock option plan ("Plan") which provides that the directors of the Company may grant options to purchase Class A shares of the Company to directors, officers, employees and service providers of the Company, with the number of options being limited to 10% of the issued Class A shares of the Company at the time of granting of options.

During the year ended September 30, 2011, the Company granted options to acquire 300,000 common shares of the Company exercisable a price of \$1.00 per share until September 30, 2016. The option on 150,000 of these shares vested immediately and the option on the remaining 150,000 shares vested on October 1, 2011. The fair value of the

# NEMI Northern Energy & Mining Inc.

Notes to Consolidated Statements (continued)

Year ended September 30, 2011

options was determined to be \$115,943 using the Black Scholes model with the following assumptions: risk-free interest rate - 1.15%; expected life - 1 year; expected volatility - 100%; and expected dividends - nil. Stock compensation expense for the year ended September 30, 2011 was \$142,000 which included the vesting period to October 1, 2011.

Changes for the year in the outstanding balance of stock options to acquire Class A shares were as follows:

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Beginning of period	784,000	\$0.60	400,000	\$0.59
Granted	300,000	\$1.00	400,000	\$0.60
Forfeited	(166,000)	\$0.85	-	
Exercised	(83,334)	\$0.41	(16,000)	\$0.41
	834,000	\$0.70	784,000	\$0.60
Unvested	(212,500)	\$0.88	(345,833)	\$0.60
Exercisable	621,500	\$0.64	438,167	\$0.60

Options to acquire Class A common shares outstanding as at September 30, 2011 were as follows:

Expiry	Number of options outstanding	Weighted Average Exercise price per Share	Average remaining life (years)
May 27, 2014	184,000	\$0.41	2.66
September 30, 2015	225,000	\$0.60	4.00
September 30, 2016	125,000	\$0.60	5.00
September 30, 2016	300,000	\$1.00	5.00
Total outstanding	834,000	\$0.70	4.22
Unvested	(212,500)	\$0.88	5.00
Exercisable	621,500	\$0.64	3.14

## 9. Related party transactions

For the year ended September 30, 2011, remuneration and benefits included fees the Company incurred for CFO and non-audit accounting services totaling \$61,724 (2010 - \$78,000) respectively. These fees were paid to companies owned by the former CFO or in which the current CFO has significant influence.

These transactions were measured at the exchange amount, which is agreed upon by the transacting parties. As at September 30, 2011, accounts payable and accrued liabilities included \$25,952 due to related parties (September 30, 2010 - \$nil). Amounts due on these accounts, if any, are unsecured, non-interest bearing, and have no fixed terms of repayment.

## 10. Income taxes

Income tax recovery (expense) differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

# NEMI Northern Energy & Mining Inc.

Notes to Consolidated Statements (continued)

Year ended September 30, 2011

	2011	2010
	\$	\$
Net Income (loss for the year)	13,543,813	(2,987,698)
Statutory tax rate	27.00%	28.88%
Income tax (expense) recovery at statutory rates	(3,656,830)	862,847
Permanent differences	1,998,012	(108,021)
Income tax rate change	130,055	(72,370)
Change in valuation allowance	1,635,684	(1,111,118)
Tax benefit of tax losses and resource pool not recognized	(106,921)	428,662
Income taxes at effective rates	-	-

Future income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of future income tax assets and liabilities are as follows:

	2011	2010
	\$	\$
Future income tax assets		
Non-capital losses	2,605,951	2,599,952
Share issue costs	11,080	76,344
Capital assets	57,659	56,548
Canadian exploration and development costs	1,789,176	9,321,188
Other	37,500	116,567
	4,501,366	12,170,599
Future income tax liabilities		
Other	-	(70,437)
Partnership interest	-	(5,963,109)
	-	(6,033,546)
Net future income tax assets	4,501,366	6,137,053
Less: Valuation allowance	(4,501,366)	(6,137,053)
	-	-

As at September 30, 2011, the Company has approximately \$7,157,000 (2010 - \$35,323,000) in tax deductions associated with Canadian resource expenditures which may be carried forward indefinitely and used to reduce taxable income in future years. Additionally, the Company has approximately \$10,424,000 in losses for tax purposes which expire between 2012 and 2031. The Company has available temporary differences for tax purposes.

The Company has established a valuation allowance to offset the tax assets to reflect the Company's estimate that the tax assets will not likely be realized.

## 11. Financial instruments and capital disclosures

The Company's financial instruments consist of cash, amounts receivable, investments, accounts payable accrued liabilities and convertible debentures. For cash and current receivables and accounts payable and accrued liabilities, carrying value is considered to be a reasonable approximation of fair value due to the short-term nature of these instruments. The fair value of other financial assets represents the market value of quoted investments. The fair value of the convertible debentures represents the estimated fair value of the liability component with the residual allocated to the equity component.

# NEMI Northern Energy & Mining Inc.

Notes to Consolidated Statements (continued)

Year ended September 30, 2011

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Cash is are designated as held for trading and therefore carried at fair value, with the unrealized gain or loss recorded on the statement of operations.

The Company's financial instruments are exposed to a number of financial and market risks, including credit, liquidity, foreign exchange, interest rate and price risks. The Company may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company's management does not believe that the current size, scale and pattern of its operations would warrant such hedging activities.

## a) *Credit risk*

Credit risk is the risk that a counterparty to a financial instrument will not discharge its obligations, resulting in a financial loss to the Company. The Company has procedures in place to minimize its exposure to credit risk. Company management evaluate credit risk on an ongoing basis, including evaluation of counterparty credit rating, monitoring activities related to trade and other receivables and counterparty concentrations measured by amount and percentage.

The primary sources of credit risk for the Company arise from the following financial assets: (1) cash and cash equivalents held with major Canadian financial institutions or the Government of Canada in the form of 30-day treasury bills; (2) marketable securities; and (3) amounts receivable. The Company has not had any credit losses in the past, nor does it expect to have any credit losses in the future. At September 30, 2011, the Company has no financial assets that are past due or impaired due to credit risk defaults.

The Company's maximum exposure to credit risk at the reporting date is as follows:

	September 30 2011	September 30 2010
	\$	\$
Cash	75,997,850	7,263,349
Investment in Hillsborough	-	680,250
Accounts receivable	5,504	5,105
	<u>76,003,354</u>	<u>7,948,704</u>

## b) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations with respect to financial liabilities as they fall due. The Company's financial liabilities are comprised of accounts and interest payable and accrued liabilities. The Company frequently assesses its liquidity position by reviewing the timing of amounts due and the Company's current cash flow position to meet its obligations. The Company manages its liquidity risk by maintaining sufficient cash and cash equivalents and short-term investment balances to meet its anticipated operational needs.

The Company's financial liabilities, consisting of accounts and interest payable and accrued liabilities, arose as a result of corporate expenses and interest on the convertible debentures. Payment terms on these liabilities are typically 30 to 60 days from receipt of invoice and do not generally bear interest. Interest on the convertible debentures is paid semi-annually on June 30 and December 31.



# NEMI Northern Energy & Mining Inc.

Notes to Consolidated Statements (continued)

Year ended September 30, 2011

The following table summarizes the remaining contractual maturities of the Company's financial liabilities as at September 30:

	2011	2010
	\$	\$
Accounts payable and accrued liabilities	851,247	991,897

Typical repayment terms for the Company do not exceed 90 days.

## c) Market risk

Market risk is the risk that the fair value for assets classified as held-for-trading and available-for-sale or future cash flows for assets or liabilities considered to be held-to maturity, other financial liabilities, and loans or receivables of a financial instrument will fluctuate because of changes in market conditions. The Company evaluates market risk on an ongoing basis. The Company's exposure to interest rate risk is limited as its convertible debentures carry a fixed rate of interest and the Company has sufficient funds available for the interest payments.

## d) Foreign currency risk

PRC coal sales are conducted in US currency and thus PRC sales and income are subject to fluctuation due to changes in the prevailing US - Canadian dollar exchange rate. For every 1% change in the exchange rate, PRC sales and income would fluctuate by \$1 million for every \$100 million of shipments which would impact NEMI's recognized share of income or loss from PRC by \$121,840.

## e) Capital disclosure

The Company's objectives when managing its capital are to maintain a flexible structure in order to optimize the cost of capital at an acceptable level of risk, balancing the interests of both equity and debt holders while allowing for development of the business.

The Company considers shareholders' equity, long term debt or debentures and short term borrowing to be components, from time to time, of capital under management.

The current activities of the Company are limited, however, the Company may issue new shares or incur debt, as required, in order to meet the objectives above. The Company monitors its capital based upon debt to equity and current asset to current liability ratios.

The components of capital and key ratios as of September 30, were as follows:

	2011		2010	
	\$	ratio	\$	ratio
<b>Debt to equity</b>				
Long-term debt	10,152,133		11,010,341	
Shareholders' equity	65,110,581	0.2:1	50,963,177	0.2:1
<b>Current assets to current liabilities</b>				
Current assets	76,097,863		8,020,048	
Current liabilities	851,247	89.4:1	991,897	8.1:1

The Company believes these ratios are within reasonable limits in light of its current business activities and objectives and there have not been any significant changes in the Company's objectives from the previous period.

# NEMI Northern Energy & Mining Inc.

Notes to Consolidated Statements (continued)

Year ended September 30, 2011

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## 12. Commitments

The annual estimated commitment under the Company's office lease including annual rent and estimated operating expense is as follows:

year ending September 30, 2012	\$58,000
year ending September 30, 2013	\$58,000

## 13. Subsequent events

### Substantial issuer bid

On November 18, 2011, the Company filed an issuer bid circular under which it offered to purchase for cancellation: up to 38,000,000 shares from holders of Class A Common Shares at a price of \$1.06 each for an aggregate consideration of \$40,280,000; and all of the convertible debentures from holders of the 8% convertible debentures having a principal amount of \$10,449,000 at a price of \$117.78 per \$100 of principal amount for an aggregate consideration of \$12,306,832 plus accrued interest to the date of closing estimated to be in the order of \$412,500 (the "SIB Offer"). Unless the Company advises otherwise, the expiry date for the SIB Offer is December 28, 2011. Estimated total costs to complete the SIB Offer will be in the order of \$340,000.

### TSX listing

NEMI's common shares are currently listed for trading on the TSX. In order to maintain a listing on the TSX, certain qualitative and quantitative requirements must be met. Due to the Company having sold substantially all of its business assets following the PRC Disposition, the TSX has notified NEMI that it will initiate the delisting review. If the Company is unable to meet the original TSX listing requirements by the end of the review period, the Company will seek a listing on the TSX Venture Exchange or such other recognized stock exchange as the Board of Directors may determine. The Company is currently contemplating seeking a listing as an investment issuer, subject to a number of conditions including, but not limited to, advice from legal and financial advisors, and receipt of regulatory approval including approval of the exchange on which it is listed.

### May 2011 NCIB

The May 2011 NCIB was suspended when the SIB Offer was announced on October 21, 2011 and will remain suspended until the completion of the SIB Offer.