
NEMI Northern Energy & Mining Inc.

Unaudited Condensed Consolidated Financial Statements
For the six months ended March 31, 2012

(Expressed in Canadian Dollars)

Notice of no Auditor Review of Condensed Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated financial statements of NEMI Northern Energy & Mining Inc. have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

NEMI Northern Energy & Mining Inc.

Condensed Consolidated Statement of Financial Position

(Unaudited)

(Expressed in Canadian dollars)

| | March 31 2012 | September 30 2011 |
|---|-------------------|----------------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | 17,852,126 | 75,997,850 |
| Investment in marketable securities - note 5 | 847,683 | - |
| Other securities held for trading - note 6 | 3,750,000 | - |
| Accounts receivable | 4,137 | 5,504 |
| HST recoverable | 112,890 | 53,061 |
| Prepaid expenses and other | 33,538 | 41,448 |
| | <u>22,600,374</u> | <u>76,097,863</u> |
| Plant and equipment | 13,361 | 16,098 |
| | <u>22,613,735</u> | <u>76,113,961</u> |
| LIABILITIES | | |
| Current | | |
| Accounts payable - note 10 | 222,587 | 851,247 |
| Convertible debentures due within one year - note 8 | 330,686 | - |
| | <u>553,273</u> | <u>851,247</u> |
| Convertible debentures - note 8 | - | 10,152,133 |
| | <u>553,273</u> | <u>11,003,380</u> |
| EQUITY ATTRIBUTABLE TO SHAREHOLDERS | | |
| Share capital - note 9 | 15,648,764 | 52,512,813 |
| Reserves | 6,339,227 | 10,133,858 |
| Equity portion of convertible debentures - note 8 | 50,822 | 1,609,195 |
| Retained earnings | 21,649 | 854,715 |
| | <u>22,060,462</u> | <u>65,110,581</u> |
| | <u>22,613,735</u> | <u>76,113,961</u> |

Basis of presentation - note 2

Commitments - notes 8, 9 and 11

Subsequent events - note 9

ON BEHALF OF THE BOARD

[Signed]: "Michael Cooney",

Director

[Signed]: "Alex Shaw",

Director

The accompanying notes are an integral part of these consolidated financial statement

NEMI Northern Energy & Mining Inc.

Consolidated Condensed Statement of Income (Loss) and Comprehensive Income (Loss)

Periods ended March 31,

(Unaudited)

(Expressed in Canadian dollars)

| | Three months ended | | Six months ended | |
|---|--------------------|--------------------|------------------|--------------------|
| | 2012 | 2011 | 2012 | 2011 |
| | \$ | \$ | \$ | \$ |
| Expenses | | | | |
| Remuneration and benefits - note 10 | (54,406) | (83,585) | (123,917) | (135,929) |
| Professional fees | (54,707) | (82,681) | (123,494) | (108,765) |
| Office | (8,927) | (24,501) | (52,477) | (66,082) |
| Shareholder communication | (4,972) | (4,295) | (19,290) | (8,673) |
| Directors fees | (16,002) | (14,587) | (38,132) | (32,022) |
| Stock based compensation | - | (10,000) | - | (36,000) |
| Depreciation | (1,779) | (1,163) | (2,737) | (2,325) |
| Loss before the undernoted | (140,793) | (220,812) | (360,047) | (389,796) |
| Bank charges | (2,289) | (2,513) | (6,134) | (4,352) |
| Interest, accretion and amortization of placement charges on convertible debentures - note 8 | (11,585) | (383,280) | (370,737) | (804,192) |
| Premium paid on early debenture retirement - note 8 | - | - | (382,807) | - |
| Debt retirement transaction costs - note 8 | - | - | (45,675) | - |
| Interest and other income | 135,009 | 7,971 | 233,286 | 19,830 |
| Share of loss income from Peace River Coal LP - note 7 | - | (1,005,000) | - | (1,832,000) |
| Realized and unrealized holding gains on marketable securities - note 5 | 72,378 | - | 99,048 | - |
| Net income (loss) and comprehensive income (loss) for the period | 52,720 | (1,603,634) | (833,066) | (3,010,510) |
| Loss per share : | | | | |
| - basic | \$ 0.00 | \$ (0.03) | \$ (0.03) | \$ (0.06) |
| - fully diluted | \$ 0.00 | \$ (0.03) | \$ (0.03) | \$ (0.06) |
| Weighted average number of shares outstanding: | | | | |
| - basic | 16,568,135 | 54,196,079 | 26,827,259 | 54,047,634 |
| - fully diluted | 16,846,068 | 54,196,079 | 26,827,259 | 54,047,634 |

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

NEMI Northern Energy & Mining Inc.

Condensed Consolidated Statements of Cash Flows

Six months ended March 31,

(Unaudited)

(Expressed in Canadian dollars)

| | 2012 | 2011 |
|--|---------------------|--------------------|
| | \$ | \$ |
| Cash Flows From (Used In): | | |
| Operating Activities | | |
| Net (loss) for the period | (833,066) | (3,010,510) |
| Items not affecting cash: | | |
| Depreciation | 2,737 | 2,325 |
| Share of loss of Peace River Coal LP - note 7 | - | 1,832,000 |
| Holding gains in marketable securities - note 5 | (99,048) | - |
| Accretion and amortization of debenture deferred financing costs - note 8 | 160,111 | 346,276 |
| Stock-based compensation | - | 36,000 |
| | (769,266) | (793,909) |
| Net changes in non-cash working capital items | | |
| Accounts receivable | 1,367 | 2,480 |
| HST recoverable | (59,829) | 3,870 |
| Prepaid expenses and other | 7,910 | 26,768 |
| Accounts payable and accrued liabilities | (628,660) | (435,256) |
| | (1,448,478) | (1,196,047) |
| Financing Activities | | |
| Proceeds received on exercise of stock options | - | 13,667 |
| Paid on shares repurchased - NCIB - note 9 | (228,900) | (979,172) |
| Paid on shares re-purchased - SIB - note 9 | (40,434,360) | - |
| Paid on Convertible debentures re-purchased - SIB - note 8 | (11,535,351) | - |
| | (52,198,611) | (965,505) |
| Investing Activities | | |
| Purchases of marketable securities - note 5 | (874,002) | - |
| Purchases of other securities held for trading - note 6 | (3,750,000) | - |
| Proceeds on disposition of marketable securities note 5 | 125,367 | - |
| Capital investment in Peace River Coal LP - note 7 | - | (1,888,520) |
| | (4,498,635) | (1,888,520) |
| Decrease in cash and cash equivalents | (58,145,724) | (4,050,072) |
| Cash and equivalents - beginning of period | 75,997,850 | 7,263,349 |
| Cash and equivalents - end of period | 17,852,126 | 3,213,277 |
| Supplemental Cash Flow Inflow Information: | | |
| Cash interest expense paid | 414,742 | 479,912 |

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

NEMI Northern Energy & Mining Inc.

Condensed Consolidated Statement of Changes in Equity Attributable to Shareholders

Six months ended March 31

(Unaudited)

(Expressed in Canadian dollars)

| | Common Shares (quantity) | Share capital \$ | Reserves \$ | Equity Portion of Convertible Debentures \$ | Retained earnings (deficit) \$ | Total \$ |
|--|--------------------------------|------------------------|-------------------|---|---|-------------------|
| Balance, October 1, 2010 | 54,321,280 | 51,822,705 | 9,966,839 | 1,862,731 | (12,689,098) | 50,963,177 |
| Shares issued in consideration for: | | | | | | |
| Cash on options exercised | 33,334 | 22,147 | (8,480) | - | - | 13,667 |
| Conversion of debentures | 1,612,221 | 1,773,621 | | (253,536) | - | 1,520,085 |
| Stock-based payments | - | - | 36,000 | - | - | 36,000 |
| Shares repurchased per Normal Course Issuer Bids | (1,075,200) | (1,025,745) | 46,573 | - | - | (979,172) |
| Net loss and Comprehensive Loss | - | - | - | - | (3,010,510) | (3,010,510) |
| Balance, March 31, 2011 | 54,891,635 | 52,592,728 | 10,040,932 | 1,609,195 | (15,699,608) | 48,543,247 |
| Balance, September 30, 2011 | 54,808,135 | 52,512,813 | 10,133,858 | 1,609,195 | 854,715 | 65,110,581 |
| Shares repurchased per issuer bids: | | | | | | |
| Normal Course Issuer Bid | (240,000) | (229,949) | 1,049 | - | - | (228,900) |
| Sustantive Issuer Bid | (38,000,000) | (36,634,100) | (3,800,260) | - | - | (40,434,360) |
| Debenture retirement | - | - | 4,580 | (1,558,373) | - | (1,553,793) |
| Net loss and Comprehensive Loss | - | - | - | - | (833,066) | (833,066) |
| Balance, March 31, 2012 | 16,568,135 | 15,648,764 | 6,339,227 | 50,822 | 21,649 | 22,060,462 |

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

NEMI Northern Energy & Mining Inc.

Notes to the Condensed Consolidated Financial Statements

Six months ended March 31, 2012

(Unaudited)

(Expressed in Canadian dollars)

1. Organization and nature of operations

NEMI Northern Energy & Mining Inc. (the "Company" or "NEMI") is a specialized merchant bank whose principal activity is the development of its asset and equity portfolio. Although NEMI retains the flexibility to make any investments which management determines are in its best interests, NEMI's primary target investments are shares of small-cap and micro-cap public companies which NEMI's management believes are undervalued.

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*.

The address and domicile of the Company's registered office and its principal place of business is suite 200,1095 West Pender Street, Vancouver, British Columbia V6E 2M6.

Prior to 2012, the Company's principal business interest consisted of a 12.184% interest in Peace River Coal Limited Partnership ("PRC") which was sold for net cash consideration of \$73,000,000 (the "PRC Disposition") on September 28, 2011. On December 28, 2011, the Company took up and subsequently cancelled 38,000,000 common shares at a cost of \$1.06 each and \$10,119,000 in principle amount of 8% convertible debentures paying a 17.8% premium plus accrued interest pursuant to the terms of the Company's substantial issuer bid dated November 18, 2011 (the "SIB").

The Company's common shares are listed for trading on the Canadian National Stock Exchange ("CNSX") under the trading symbol NNE.

2. Basis of presentation and adoption of International Financial Reporting Standards ("IFRS")

The Company prepares its financial statements on accordance with Canadian Generally Accepted Accounting Principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (the "Handbook"). In 2010, the Handbook was revised to incorporate International Reporting Financial Reporting Standards ("IFRS"), and requires publicly reporting enterprises to apply such standards for the first fiscal year commencing after December 31, 2010. Accordingly, the Company commenced reporting under IFRS standards in its condensed consolidated financial statements for any fiscal period commencing after September 30, 2011.

In these unaudited condensed consolidated financial statements, the term Canadian GAAP refers to Canadian GAAP before the adoption of IFRS.

These condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including *International Accounting Standard 34 ("IAS 34")* and *IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS1")*. The accounting policies followed in these interim financial statements are the same as those applied in the Company's unaudited condensed consolidated financial statements for the three months ended December 31, 2011. The Company has consistently applied the same accounting policies throughout all periods presented as if these policies had always been in effect. As disclosed in note 4, the transition to IFRS had no significant impact on the Company's: reported equity as at March 31, 2011; the statement of income (loss) and comprehensive income (loss) for the interim periods ended March 31, 2011; or the net equity as reported in the Company's audited financial statements for the year ended September 30, 2010.

The accounting policies applied in these condensed consolidated financial statements are based on IFRS as of May 22, 2012, the date the Board of Directors approved these statements. Any subsequent changes to IFRS, that are given effect in the Company's annual consolidated financial statements for the year ending September 30, 2012 could result in restatement of these interim consolidated financial statements, including any transition adjustments not currently recognized on change-over to IFRS.

The condensed consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended September 30, 2011. Throughout these

NEMI Northern Energy & Mining Inc.

Notes to the Condensed Consolidated Statements (continued)

Six months ended March 31, 2012

(Unaudited)

(Expressed in Canadian dollars)

unaudited condensed consolidated financial statements, any comparative disclosures relating to the year ended September 30, 2011 are presented in accordance with IFRS applicable to interim financial statements.

These unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for marketable securities and the BEN investment which are measured at fair value, as explained in the accounting policies set out in note 3. The comparative figures presented in these condensed consolidated financial statements are in accordance with IFRS and any changes from figures previously reported under Canadian GAAP have been disclosed in note 5.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

3. **Accounting standards issued but not yet applied**

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

- i) **IFRS 9, Financial Instruments**, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.
- ii) **IFRS 10, Consolidated Financial Statements**, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation—Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.
- iii) **IFRS 11, Joint Arrangements**, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS

NEMI Northern Energy & Mining Inc.

Notes to the Condensed Consolidated Statements (continued)

Six months ended March 31, 2012

(Unaudited)

(Expressed in Canadian dollars)

31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

- iv) **IFRS 12, Disclosure of Interests in Other Entities**, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.
- v) **IFRS 13, Fair Value Measurement**, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.
- vi) There have been amendments to existing standards, including **IAS 27, Separate Financial Statements** ("IAS27"), and **IAS 28, Investments in Associates and Joint Ventures** ("IAS 28"). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.
- vii) **IAS 19, Employee Benefits**, has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in other comprehensive income as they arise, without subsequent recycling to net income. This is consistent with the company's current accounting policy. Past service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period but instead will be recognized immediately in the period of a plan amendment. Pension benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. A number of other amendments have been made to recognition, measurement and classification including redefining short term and other long-term benefits, guidance on the treatment taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures.
- viii) **IAS 1, Presentation of Financial Statements**, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.
- ix) **IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine**, sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. Stripping activity may create two types of benefit: i) inventory produced and ii) improved access to ore. Stripping costs associated with the former should be accounted for as a current production cost in accordance with IAS 2, Inventories. The latter should be accounted for as an addition to or enhancement of an existing asset.
- x) **IFRS 7, Financial Instruments: Disclosures**, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.
- xi) **IFRS 1, First-time Adoption of International Financial Reporting Standards**, has been amended for two changes. The first replaces references to a fixed date of January 1, 2004 with 'the date of

NEMI Northern Energy & Mining Inc.

Notes to the Condensed Consolidated Statements (continued)

Six months ended March 31, 2012

(Unaudited)

(Expressed in Canadian dollars)

transition to IFRSs'. This eliminates the need for entities adopting IFRS for the first time to restate de-recognition transactions that occurred before the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation. The amendment is effective for annual periods beginning on or after July 1, 2011 with earlier application permitted.

- xii) **IAS 12, Income Taxes**, was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner of recovery or settlement. SIC 21, Income Taxes - Recovery of Re-valued Non-Depreciable Assets, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after January 1, 2012 with earlier application permitted.

4. First-time adoption of IFRS

First-time adoption exemptions applied

The Company adopted IFRS on October 1, 2011 with the transition date of October 1, 2010 (the "Transition Date"). Under IFRS 1 "First-time Adoption of International Financial Reporting Standards", the IFRS are applied retrospectively at the Transition Date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to deficit unless certain exemptions are applied. The Company has elected to apply the following exemptions:

- not restate previous business combinations that occurred prior to the Transition Date and the accounting thereof;
- IFRS 1 permits the application of IFRS 2 Share Based Payments only to equity instruments granted after November 7, 2002 that had not vested by the date of transition to IFRS. The Company has applied this exemption and will apply IFRS 2 for equity instruments granted after November 7, 2002 that had not vested by October 1, 2010; and,
- not restate the accounting for any compound financial instruments issued and settled by the Company prior to the Transition Date.

The adoption of IFRS has not resulted in changes to the Company's reported financial position and results of operations for any period previously reported. The Company's adoption of IFRS did not have an impact on the total operating, investing or financing cash flows. There was no impact on the Company's statement of financial position as of the date of transition to IFRS (October 1, 2010) or for the comparative period (March 31, 2011).

5. Investment in marketable securities

Changes in the Company's investment in marketable securities were as follows:

| | Six months ended | |
|-------------------------------|-------------------------|-------------|
| | March 31 | |
| | 2012 | 2011 |
| | \$ | \$ |
| Balance, beginning of period | - | - |
| Purchases | 874,002 | - |
| Proceeds on disposal | (125,367) | - |
| Realized gains | 21,971 | - |
| Holding gains (losses) | 77,077 | - |
| Balance, end of period | 847,683 | - |

NEMI Northern Energy & Mining Inc.

Notes to the Condensed Consolidated Statements (continued)

Six months ended March 31, 2012

(Unaudited)

(Expressed in Canadian dollars)

6. Other securities held for trading

On March 16, 2012, the Company acquired a 17.38% interest (5,000,000 common shares) of Black Eagle Mining Corporation ("BEM"), a private company incorporated under the laws of British Columbia for a total cash consideration of \$3,750,000. On completion of the acquisition NEMI's CEO was appointed to the BEM board of directors. BEM holds the sole and exclusive right to acquire a 100% interest in certain applications forming the Blackstone metallurgical coal project in Alberta pursuant to an agreement between BEM and Rio Tinto Exploration Canada Inc. ("Rio") under which Rio has retained a 51% back-in right. Management has classified these securities as "held-for-trading". Accordingly the investment is classified as a current asset carried at its estimated fair value which will be subject to adjustment to the prevailing estimated market value at the end of each reporting period through profit and loss which is consistent with the Company's established accounting policies for such investments.

7. Investment in Peace River Coal LP and PRC disposition

On September 28, 2011, NEMI completed the sale of its investment in the PRC Coal LP for a total cash consideration of \$73,000,000.

Changes to the investment in PRC were as follows:

| | Six months ended March 31 2012 | One year ended September 30 2011 |
|--|---|---|
| | \$ | \$ |
| Balance, beginning of period | - | 54,924,825 |
| Cash call contributions | - | 1,888,520 |
| Capital distributions | - | - |
| | - | 56,813,345 |
| Share of Income (loss) allocated until PRC disposition, September 28, 2011 | - | 4,247,000 |
| | - | 61,060,345 |
| Proceeds on disposition, net of disposal costs - \$125,581 | - | (72,874,419) |
| Gain on PRC disposition | - | 11,814,074 |
| Balance, end of period | - | - |

8. Convertible debentures

The Company has recognized convertible debentures as follows:

| | March 31, 2012 | | September 30, 2011 | |
|--------------------------------------|--------------------------------|-----------------------------|------------------------|---------------------|
| | Liability Component | Equity Component | Liability Component | Equity Component |
| | \$ | \$ | \$ | \$ |
| Debenture | 397,109 | 205,207 | 10,260,500 | 1,763,580 |
| Unamortized deferred financing costs | (66,425) | (154,385) | (108,367) | (154,385) |
| | 330,684 | 50,822 | 10,152,133 | 1,609,195 |

In conjunction with the SIB on December 28, 2011, the Company completed the early retirement of convertible debentures having an allocated value on retirement of \$9,981,558 (face value \$10,119,000). The cost of retirement was recognized as follows:

NEMI Northern Energy & Mining Inc.

Notes to the Condensed Consolidated Statements (continued)

Six months ended March 31, 2012

(Unaudited)

(Expressed in Canadian dollars)

| Cash payout on retirement: | | Early redemption cost allocation: | |
|-----------------------------------|-------------------|--|-------------------|
| \$ | | \$ | |
| Face value of retired debt | 10,119,000 | Debt portion | 9,981,558 |
| Retirement cost per \$100 | 117.78 | Equity portion | 1,558,373 |
| Total retirement payout | 11,918,158 | Discount on equity portion | (4,580) |
| Add: Transaction cost | 45,675 | Premium on debt portion | 382,807 |
| | | Transaction cost | 45,675 |
| | 11,963,833 | | 11,963,833 |

The above premium paid on the debt portion of the debenture and transactions costs were charged to operating expenses in full on the date the early retirement was completed. After charging transaction costs and the premium paid on retirement to operating expense, net cash paid on the retirement was \$11,535,351.

As at December 31, 2011, the unpaid principal balance of the 8% convertible debentures was \$330,000 (September 30, 2011 - \$10,449,000). The convertible debentures that remain outstanding as at March 31, 2012 have a face value of \$330,000, mature on March 12, 2013 and can be converted at the holder's option at any time into 366,666 common shares. 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:

| | March 31 2012 | September 30 2011 |
|--|--------------------------|----------------------|
| | \$ | \$ |
| 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 | 1,956,668 | 1,838,501 |
| Early retirement at allocated value - (principal value - \$10,119,000) | (9,981,558) | - |
| Debentures converted to equity at allocated value - (principal value - \$2,275,000) | (2,155,885) | (2,155,885) |
| | 397,109 | 10,260,500 |

Convertible debenture interest expense was as follows:

| | Three months ended March 31 | | Six months ended March 31 | |
|--|--|---------|--------------------------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| | \$ | \$ | \$ | \$ |
| Interest on debenture @ 8% | 6,582 | 217,959 | 210,626 | 457,917 |
| Accretion of convertible debenture | 3,283 | 121,402 | 118,169 | 255,056 |
| Amortization of deferred financing charges | 1,720 | 43,919 | 41,942 | 91,219 |
| | 11,585 | 383,280 | 370,737 | 804,192 |

The maximum number of Class A common shares issuable on conversion of \$330,000 in convertible debentures, if converted at the holder's option at the rate of \$0.90 per share is 366,666. Under certain

NEMI Northern Energy & Mining Inc.

Notes to the Condensed Consolidated Statements (continued)

Six months ended March 31, 2012

(Unaudited)

(Expressed in Canadian dollars)

circumstances, the Company may redeem the convertible debentures by issuing shares, in which case, the number of Class A common shares issuable on a conversion of the convertible debentures will depend on the weighted average trading price of the Company's shares for the 20 day trading period prior to the date fixed for redemption or at maturity.

9. 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.

As at March 31, 2012, there were 16,568,135 common shares issued, fully paid, outstanding and voting.

c) Substantial issuer bid

On December 28, 2011, the Company completed the SIB resulting in a buy-back of 38,000,000 common shares at a cost of \$1.06 each and an aggregate total cost of \$40,434,360 including transaction costs of \$154,360.

c) Options

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

As of October 1, 2011 when 212,500 options vested, all of the outstanding options had vested. In the six-month period ended March 31, 2012 no options have been granted and none have been exercised. As at March 31, 2012, outstanding options 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 | 2.15 |
| September 30, 2015 | 225,000 | \$ 0.60 | 3.50 |
| September 30, 2016 | 125,000 | \$ 0.60 | 4.50 |
| September 30, 2016 | 300,000 | \$ 1.00 | 4.50 |
| Fully vested and exercisable | 834,000 | \$ 0.70 | 3.71 |

On April 18, 2012, 34,000 options having an exercise price of \$0.41 each and 50,000 having an exercise price of \$0.60 each having an expiry date of May 27, 2014 and September 30, 2015 respectively were exercised. On April 19, 2012, the Company granted options on 350,000 common shares that may be exercised at a price of \$1.00 each at any time up until and including April 19, 2017. On May 16, 2012, 50,000 options that were to expire September 30, 2016 exercisable at a price of \$1.00 were forfeited.

d) 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. Accordingly, in the period since March 31, 2009, the Company has purchased and cancelled Class A Common Shares as follows:

NEMI Northern Energy & Mining Inc.

Notes to the Condensed Consolidated Statements (continued)

Six months ended March 31, 2012

(Unaudited)

(Expressed in Canadian dollars)

| Date granted | Number of shares authorized | Number of shares purchased | Total cost | Purchase price range (per share) |
|--------------|-----------------------------|----------------------------|------------------|----------------------------------|
| | | | \$ | |
| April 2009 | 2,893,487 | 2,893,487 | 1,148,645 | \$0.33 - \$0.44 |
| May 2010 | 2,748,813 | 1,746,178 | 1,395,806 | \$0.58 - \$0.95 |
| May 2011 | 2,747,082 | 373,500 | 351,888 | \$0.88 - \$0.95 |
| | | 5,013,165 | 2,896,339 | \$0.33 - \$0.95 |

The NCIB dated May 2011 was suspended upon announcement of the SIB.

10. Related party transactions

For the three and six-month periods March 31, 2012, remuneration and benefits included fees the Company incurred for CFO and non-audit accounting services totaling \$19,065 (2011 - \$10,250) and \$53,236 (2011 - \$26,250) respectively. These fees were paid to companies owned by the former CFO or in which the current CFO has significant influence.

As at March 31, 2011, accounts payable and accrued liabilities included \$23,792 due to related parties (September 30, 2011 - \$25,952). Amounts due on these accounts, if any, are unsecured, non-interest bearing, and have no fixed terms of repayment.

Key management includes the Chief Executive Officer and the Chief Financial Officer. Compensation paid or payable to key management for services provided was as follows:

| | Three months ended | | Six months ended | |
|--------------------------------------|--------------------|---------------|------------------|---------------|
| | 2012 | March 31 2011 | 2012 | March 31 2011 |
| | \$ | \$ | \$ | \$ |
| Management remuneration and benefits | 53,750 | 52,825 | 111,625 | 102,325 |
| Share-based payments | - | 28,800 | - | 36,000 |
| | 53,750 | 81,625 | 111,625 | 138,325 |

11. Commitment

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 | \$29,000 |
| year ending September 30, 2013 | \$58,000 |