NEMI Northern Energy & Mining Inc.

Consolidated Financial Statements
For the year ended September 30, 2012

(Expressed in Canadian Dollars)

MANAGEMENT’S REPORT

The management of NEMI Northern Energy & Mining Inc. is responsible for the preparation of all information included in these consolidated financial statements and Management’s Discussion & Analysis (“MD&A”). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and adopted in Canada. Financial information that is presented in the MD&A is consistent with the consolidated financial statements.

In preparation of the consolidated financial statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been presented fairly in all material respects.

Management maintains appropriate systems of internal control that provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records provide reliable and accurate information for the presentation of consolidated financial statements.

Ernst & Young LLP, an independent firm of chartered accountants, was appointed by the shareholders to audit the consolidated financial statements of NEMI Northern Energy & Mining Inc. and provide an independent professional opinion. Their report is presented with the consolidated financial statements below.

The Board of Directors, through its Audit Committee, has reviewed the consolidated financial statements including notes thereto with management and Ernst & Young LLP. The Audit Committee is composed of independent directors. The Directors of NEMI Northern Energy & Mining Inc. approved the information contained in the consolidated financial statements based on the recommendation of the Audit Committee.

[signed] *"Michael Cooney"*

Michael Cooney
President and CEO

[signed] *"Andrew R. Williams"*

Andrew R. Williams
CFO

Vancouver, British Columbia
January 25, 2013

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 statements of financial position as at September 30, 2012 and 2011, and October 1, 2010, the consolidated statements of income and comprehensive income, cash flows and changes in equity for the years ended September 30, 2012 and 2011, 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 International Financial Reporting Standards, 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 our 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, we 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, 2012 and 2011, and October 1, 2010, and its financial performance and its cash flows for the years ended September 30, 2012 and 2011 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Vancouver, Canada,
January 25, 2013.

Chartered Accountants

NEMI Northern Energy & Mining Inc.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	September 30 2012	September 30 2011	October 1 2010
	$	$	$
ASSETS			
Current			
Cash and cash equivalents	**11,516,054**	75,997,850	7,263,349
Investments at fair value - note 7	**15,898,388**	-	-
Investment in Hillsborough - note 8	**-**	-	680,250
Accounts receivable	**17,369**	5,504	5,105
HST recoverable	**4,441**	53,061	16,855
Prepaid expenses and other	**57,504**	41,448	54,489
	27,493,756	76,097,863	8,020,048
Investment in Peace River Coal LP ("PRC") - note 9	**-**	-	54,924,825
Office furniture, equipment and improvements	**11,564**	16,098	20,542
	27,505,320	76,113,961	62,965,415
LIABILITIES			
Current			
Accounts payable and accrued liabilities - note 12	**254,044**	851,247	991,897
Convertible debentures due with in one year - note 10	**323,745**	-	-
	577,789	851,247	991,897
Convertible debentures - note 10	**-**	10,152,133	11,010,341
	577,789	11,003,380	12,002,238
SHAREHOLDERS' EQUITY			
Share capital - note 11	**15,720,949**	52,512,813	51,822,705
Contributed surplus	**6,408,383**	10,133,858	9,966,839
Equity portion of convertible debentures - note 10	**50,822**	1,609,195	1,862,731
Retained earnings (deficit)	**4,747,377**	854,715	(12,689,098)
	26,927,531	65,110,581	50,963,177
	27,505,320	76,113,961	62,965,415

Approved on behalf of the Board of Directors

[Signed]: *"Michael Cooney"*, Director

[Signed]: *"Alex Shaw"*, Director

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

NEMI Northern Energy & Mining Inc.

Consolidated Statements of Income and Comprehensive Income
Year ended September 30,
(Expressed in Canadian dollars)

	2012	2011
	$	**$**
Net investment income		
Interest and other income	**400,767**	35,010
Gains on investments at fair value - note 7	**5,100,070**	-
	5,500,837	35,010
Expenses		
Remuneration and benefits - note 12	**(226,785)**	(393,658)
Professional fees	**(243,375)**	(258,519)
Office	**(121,257)**	(113,798)
Shareholder communication	**(29,168)**	(20,264)
Directors fees - note 12	**(73,146)**	(77,466)
Stock-based compensation - notes 11 and 12	**(97,400)**	(142,000)
Depreciation	**(4,534)**	(4,444)
Income (loss) before the undernoted	**4,705,172**	(975,139)
Interest on current debt and bank charges	**(7,029)**	(3,223)
Interest, accretion and issue costs on convertible debentures - note 10	**(452,101)**	(1,538,899)
Premium paid on debenture retirement - note 10	**(307,705)**	-
Debt retirement transaction costs - note 10	**(45,675)**	-
Equity share of income from PRC operations - note 9	**-**	4,247,000
Gain on PRC Disposition - note 9	**-**	11,814,074
Net income and comprehensive income income for the year	**3,892,662**	13,543,813
Earnings per share - basic	**$ 0.15**	$ 0.25
Weighted average number of shares outstanding	**26,617,434**	54,047,634
Earnings per share - diluted	**$ 0.14**	**$ 0.25**
Diluted number of shares outstanding	**27,782,799**	**54,598,621**

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

NEMI Northern Energy & Mining Inc.

Consolidated Statements of Cash Flows
Year ended September 30,
(Expressed in Canadian dollars)

	2012	2011
	$	$
Cash Flows From (Used In):		
Operating Activities		
Net income (loss) for the period	**3,892,662**	13,543,813
Items not affecting cash:		
Depreciation	**4,534**	4,444
Equity share of (income) from PRC operations	**-**	(4,247,000)
Holding (gains) losses on other securities held-for-trading	**(5,365,200)**	-
Unrealized foreign exchange (gain) loss on marketable securities and on other securities held for trading	**13,598**	-
Financing Activities charged to operations:		
Premium paid on debenture retirement	**307,705**	-
Debt retirement transaction costs	**45,675**	-
Holding gains (losses) in marketable securities	**408,044**	-
Gain on PRC disposition	**-**	(11,814,074)
Gains realized on sale of marketable securities	**(156,512)**	-
Accretion of debenture and deferred financing costs	**228,272**	661,877
Stock-based compensation	**97,400**	142,000
	(523,822)	(1,708,940)
Net changes in non-cash working capital items		
Accounts receivable	**(11,865)**	(399)
HST recoverable	**48,620**	(36,206)
Prepaid expenses and other	**(16,056)**	13,041
Accounts payable and accrued liabilities	**(597,203)**	(140,650)
	(1,100,326)	(1,873,154)
Financing Activities		
Proceeds received on exercise of stock options	**43,940**	43,667
Paid on shares repurchased - Normal Course Issuer Bid	**(228,900)**	(1,102,161)
Paid on shares repurchased - Substantial Issuer Bid	**(40,434,359)**	-
Paid on convertible debentures repurchased - Substantial Issuer Bid	**(11,963,833)**	-
	(52,583,152)	(1,058,494)
Investing Activities		
Purchases of marketable securities and other securities held for trading	**(11,636,875)**	-
Proceeds on disposition of marketable securities	**838,557**	-
Proceeds on PRC disposition	**-**	72,874,419
Proceeds on Hillsborough disposition	**-**	680,250
Capital investment in PRC	**-**	(1,888,520)
	(10,798,318)	71,666,149
(Decrease) in cash	**(64,481,796)**	68,734,501
Cash and equivalents - beginning of period	**75,997,850**	7,263,349
Cash and equivalents - end of period	**11,516,054**	75,997,850

Supplemental cash flow information - note 19

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

NEMI Northern Energy & Mining Inc.

Consolidated Statement of Changes in Equity
Year ended September 30,
(Expressed in Canadian dollars)

	Common shares	Share capital	Contributed surplus	Equity portion of convertible debentures	Retained earnings (deficit)	Total
	(Quantity)	$	$	$	$	$
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:						
Options exercised	83,334	70,142	(26,475)	-	-	43,667
Conversion of debentures	1,612,221	1,773,621	-	(253,536)	-	1,520,085
Stock-based compensation	-	-	142,000	-	-	142,000
Normal Course Issuer Bids	(1,208,700)	(1,153,655)	51,494	-	-	(1,102,161)
Net income and comprehensive income	-	-	-	-	13,543,813	13,543,813
Balance, September 30, 2011	54,808,135	52,512,813	10,133,858	1,609,195	854,715	65,110,581
Shares issued in consideration for:						
Options exercised	84,000	72,185	(28,245)	-	-	43,940
Stock-based compensation	-	-	97,400	-	-	97,400
Shares repurchased per:						
Normal Course Issuer Bids	(240,000)	(229,949)	1,049	-	-	(228,900)
Substantial Issuer Bid	(38,000,000)	(36,634,100)	(3,800,259)	-	-	(40,434,359)
Debenture retirement	-	-	4,580	(1,558,373)	-	(1,553,793)
Net income and comprehensive income	-	-	-	-	3,892,662	3,892,662
Balance, September 30, 2012	**16,652,135**	**15,720,949**	**6,408,383**	**50,822**	**4,747,377**	**26,927,531**

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

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.*

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.

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 $72,874,419 (the "PRC Disposition") on September 28, 2011. On December 28, 2011, the Company repurchased and subsequently cancelled 38,000,000 common shares at a cost of $1.06 each and $10,119,000 in principal amount of 8% convertible debentures paying a 17.8% premium plus accrued interest pursuant to the Company's Substantial Issuer Bid (the "SIB") commenced November 18, 2011.

Following the PRC Disposition, the Company had no significant business assets other than cash. Consequently, the Company was unable to meet the continued listing requirements of the Toronto Stock Exchange (the "TSX"). Therefore on February 15, 2012, the Company announced that management had made application to voluntarily delist its shares from the TSX effective March 14, 2012. On March 15, 2012, NEMI's common shares commenced trading on the Canadian National Stock Exchange ("CNSX") under the trading symbol "NNE".

Since completion of the PRC disposition and the SIB, NEMI has developed a diversified investment and merchant banking operation focused on development of an investment portfolio built on strategic equity and debt investment opportunities in small cap and microcap companies which are perceived to be undervalued. The ultimate objective of these investments is to devise exit strategies that maximize the Company's relative return.

2. Basis of preparation

a) Statement of compliance

These consolidated financial statements have been presented in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Previously, the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The disclosures concerning the transition from Canadian GAAP to IFRS are included in Note 4.

These consolidated financial statements have been prepared on the historical cost basis except for financial assets and liabilities, which have been measured at fair value as set out in the relevant accounting policies.

These consolidated financial statements were approved by the board of directors on January 25, 2013.

b) Basis of consolidation

These consolidated financial statements include the results or financial information of NEMI Northern Energy & Mining Inc. and its inactive subsidiary, Crossroad Ventures Inc., a company incorporated under the laws of British Columbia. The results of the subsidiary will continue to be included in the consolidated financial statements of the Company until the date that the Company's control over the subsidiary ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All significant intercompany transactions and balances have been eliminated.

c) Use of estimates and judgments

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. Estimates and associated assumptions applied in determining asset or liability values are based on historical experience and various other factors including other sources that are believed to be reasonable under the circumstances, but are not necessarily readily apparent or recognizable at the time such estimate or assumption is made. Actual results may differ from these estimates.

Estimates and underlying assumptions used in determining asset and liability values 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 future periods if the revision affects both current and future periods. The significant estimates include valuation of investments at fair value, share-based payments, bifurcation of convertible debentures, impairment of PRC interest, and income taxes.

(i) Valuation of investments at fair value

The Company recognizes its investments at fair value. Fair value is determined on the basis of market prices from independent sources, if available. If there is no market price, then the fair value is determined by using valuation models. The inputs to these models, such as discount rates and gold curve prices, are derived from observable market data where possible, but where observable data is not available, judgment is required to establish fair values.

There is inherent uncertainty and imprecision in estimating the factors that can affect fair value, and in estimating fair values generally, when observable data is not available. Changes in assumptions and inputs used in valuing financial instruments could affect reported fair values.

(ii) Share-based payments

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

(iii) Bifurcation of convertible debentures

On issuing its convertible debentures, the Company allocated the proceeds of issuance to the fair value of the liability component first and treated the equity component as a residual. The liability component was measured, at fair value using interest rates based on management's estimates of prevailing interest rates for similar debt without an associated equity conversion feature at the time the transaction closed. Thereafter the liability component is accounted for in accordance with the rules for measurement of financial liabilities under IAS 39, Financial Instruments: *Recognition and Measurement*.

(iv) Impairment of PRC interest

For the purposes of determining whether impairment of the PRC interests had occurred, and the extent of any impairment or its reversal, the key assumptions the Company used in estimating future cash flows were future coal prices, expected production volumes and anticipated recoverable quantities of proved and probable reserves along with valuations applied to similar or comparable assets sold in the prevailing markets. Such assumptions are subject to change as new information becomes available. As the PRC interests were sold in September 2011, these estimates no longer apply to the Company's operations.

(v) Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

d) Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, these consolidated financial statements continue to be prepared on a going concern basis.

3. Significant accounting policies

Functional and presentation currency

The consolidated financial statements for the Company and its subsidiary are prepared using their functional currency which is the Canadian dollar ("C$"). Functional currency is the currency of the primary economic environment in which an entity operates. The presentation currency of the Company is the C$.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are charged to the consolidated statement of income and comprehensive income.

Cash and equivalents

Cash and cash equivalents include cash and highly liquid investments held in the form of bankers' acceptances, money market investments and certificates of deposit with investment terms of less than three months at acquisition.

Financial Instruments

(i) Investments at fair value

All investments at fair value are classified upon initial recognition at fair value through profit or loss, with changes in fair value reported in profit or loss. The Company has met the requirements of *IAS 39, Financial Instruments: Recognition and Measurement* ("IAS 39") to designate all financial assets at fair value through profit and loss as the investments at fair value constitute a group of financial assets which is managed and its performance is evaluated on a fair value basis in accordance with a documented investment strategy. Information about the fair value of the portfolio is provided internally to the Company's key management personnel.

Investments at fair value through profit and loss are initially recognized at fair value where reliable basis for determination exists. Transaction costs are expensed as incurred. Investments are no longer recognized when the rights to receive cash flows from the investments have expired or the

Company has transferred the financial assets and the transfer qualifies for discontinuation of recognition in accordance with IAS 39.

Subsequent to initial recognition, all investments are measured at fair value. Gains and losses arising from changes in the fair value of the investments at fair value through profit or loss category are presented as gains and losses on investments at fair value in the period in which they arise.

(ii) Investments in associates

Investments in associates are those entities over which the Company has or is deemed to have significant influence, but not control over the financial and operating policies. Investments in Associates are held as part of the Company's investment portfolio and carried in the consolidated statement of financial position at fair value even though the Company may have significant influence over such companies. This treatment is permitted by IAS 28, Investment in Associates ("IAS 28") which allows investments held by venture capital or similar organizations to be excluded from its scope where those investments are measured at fair value through profit or loss in accordance with IAS 39, with changes in fair value recognized as unrealized gains or losses on investments in the consolidated statement of income and comprehensive income. As at September 30, 2012, NEMI had no investments in Associates.

(iii) Financial assets other than investments at fair value

Financial assets other than investments at fair value include cash and cash equivalents, accounts receivable, HST recoverable as well as the prior year's investment in Hillsborough and PRC. These financial assets are recognized initially at fair value and subsequently measured at amortized cost.

Financial assets at amortized cost are measured at initial cost plus interest calculated using the effective interest rate method less cumulative repayments and cumulative impairment losses.

A financial asset is no longer recognized when the rights to receive cash flows from the asset have expired or the company has transferred substantially all of the risks and rewards of the asset. At each reporting date, and assessment is made as to whether there is any objective evidence that a financial asset is impaired. For amounts deemed to be impaired, the impairment provision is based upon the expected loss.

(iv) Convertible debentures

Convertible debentures have been classified as debt and initially recognized at fair value. The fair value of the conversion feature is recognized initially as the difference between fair value of the convertible debentures as a whole and the fair value of their liability component. The convertible debentures are separated into their liability and equity components at the date of issue. Transaction costs related to the issue of convertible debentures are allocated to the liability and equity components in proportion to their allocation of proceeds on initial recognition.

After initial recognition, the convertible debentures are subsequently recorded at amortized cost using the effective interest method. The issue costs allocated to the liability component are amortized over the term of the convertible debentures and accrete up to the principal balance at maturity. The accretion, amortization of issue costs and interest paid are expensed. The equity component is not measured subsequent to initial recognition except upon conversion when it is reclassified to share capital.

Any balance in equity that remains after the settlement of the liability will be transferred to contributed surplus. The equity portion is initially recognized net of deferred income taxes.

(v) Financial liabilities other than convertible debentures

Financial liabilities other than convertible debentures include accounts payable and accrued liabilities. They are initially recognized at fair value and subsequently recognized at amortized cost.

(vi) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Revenue recognition

Investment purchases and sales are recognized on the settlement date. Realized gains and losses on disposal of investments and unrealized gains and losses in the value of investments are included in the determination of income or loss for the reporting period.

Upon disposal of an investment, previously recognized unrealized gains or losses are reversed, so as to recognize the full realized gain or loss in the period of disposition. All transaction costs associated with the acquisition and disposition of investments are immediately expensed and included in the determination of income for the reporting period in which they are incurred. Dividend income is recorded on the ex-dividend date and when the right to receive the dividend has been established. Interest income, other income, and income from loans included in investments at fair value are recorded on an accrual basis.

Impairment of non-financial assets

At the end of each reporting period the carrying amounts of the Company's non-current non-financial assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the earnings or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the lesser of the revised estimate of its recoverable amount or the carrying amount that would have been determined had no impairment loss ever been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in earnings or loss.

Earnings per share

Basic earnings or loss per share represents the profit or loss for the period, divided by the weighted average number of common shares in issue during the period. Diluted earnings represents the profit for the period, divided by the weighted average number of common shares in issue during the period plus the weighted average number of dilutive shares that could result from the exercise of stock options, warrants and other similar instruments where the inclusion of these items would not be anti-dilutive. As a loss per share calculation based on the fully diluted number of shares would be less than the loss per share calculated on the basic number of shares, diluted losses per share are anti-dilutive and accordingly, the diluted loss per share are the same as the basic loss per share.

Office furniture, equipment and improvements

Office furniture, equipment and improvements are carried at cost less accumulated depreciation and any recognized impairment loss. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Furniture and fixtures	20%
Computer hardware	30%
Computer software	100%
Office equipment	30%
Office leasehold improvements	20%

Income tax

Income tax on the earnings or loss for the periods presented comprises current and deferred tax. Income tax is recognized in earnings or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company does not provide for temporary differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date applicable to the period in which realization or settlement can reasonably be expected.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share purchase options or the re-purchase of shares are recognized as a deduction from equity, net of any tax effects.

Share-based payments

The fair value of all stock options granted is recorded as a charge to stock-based compensation and a credit to contributed surplus under the graded attribution method. The fair value, as adjusted for the expected level of vesting of the options and of stock options which vest immediately is recorded at the date of grant; the fair value, as adjusted for the expected level of vesting of the options and of options which vest in the future is recognized over the vesting period. Stock options granted to non-employees are measured at their fair value at the date on which the services are provided.

Any consideration received on the exercise of stock options together with the related portion of contributed surplus is credited to share capital. The fair value of stock options is estimated using the Black-Scholes option pricing model.

Investment in PRC

The Company followed the equity method of accounting for the PRC investment over which it exercised significant influence but did not control. Under this method, consolidated net earnings or loss include the Company's share of PRC's net earnings or losses. In addition to the losses or earnings so recognized in consolidated net earnings or loss, capital contributions to, or distributions including dividends received from PRC are added to or deducted from the reported carrying value of the investment in PRC.

4. Accounting standards issued but not yet effective

The following pronouncements from the IASB will become effective for financial reporting periods beginning on or after January 1, 2013. All of these new or revised standards permit early adoption with transitional arrangements depending upon the date of initial application. The Company is currently assessing the impact of these pronouncements; however, it anticipates that these standards will not have a material impact on the Company's consolidated financial statements.

IFRS-9 - *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for de-recognition. IFRS-9 is expected to be published in three parts. The first part, Phase 1 – classification and measurement of financial instruments sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Phase 1 simplifies the measurement of financial assets by classifying all financial assets as those being recorded at amortized cost or being recorded at fair value. Phase 1 is effective for periods beginning on or after January 1, 2013, although earlier adoption is allowed. Except for certain additional disclosures, the adoption of this standard is not expected to have an impact on the Company's financial statements.

IFRS-10 - *Consolidated Financial Statements* builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS-10 replaces those parts of IAS-27 Consolidated and Separate Financial Statements (revised 2011) that address when and how an entity should prepare consolidated financial statements and replaces SIC-12 Consolidation – Special Purpose Entities in its entirety. IAS-27 retains the current guidance for separate financial statements.

IFRS-11 - *Joint Arrangements* provides for a more substance based reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS-11 supersedes IAS-31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures. IAS-28 Investments in Associates and Joint Ventures (revised 2011) has been amended to conform to changes based on the issuance of IFRS-10 and IFRS-11.

IFRS-12 - *Disclosure of Interests in Other Entities* requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. The effective date of IFRS-12 is January 1, 2013 but entities are permitted to incorporate any of the new disclosures in their financial statements before that date.

IFRS-13 - *Fair Value Measurement* establishes a single framework for measuring fair values. This standard applies to all transactions and balances (whether financial or non-financial) for which IFRS requires or permits fair value measurements, with the exception of share-based payment transactions accounted for under IFRS-2 Share-based Payment and leasing transactions within the scope of IAS-17 Leases. IFRS-13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements.

The IASB has also made amendments to existing standards, including IAS 27 and 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 to IFRS 13.

The Company is currently assessing the impact that these new standards will have on its consolidated financial statements.

5. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The determination of fair value requires judgment based on market information, where available and appropriate. At the end of each financial reporting period, the Company's management estimates the fair value of investments based on the criteria below. Such valuation changes are reflected in the financial statements.

A fair value hierarchy is summarized in note 14 that distinguishes the significance of the inputs used in determining the fair value measurements of various financial instruments. The hierarchy contains the following levels: Level I uses quoted (unadjusted) prices in active markets for identical assets and liabilities; Level 2 uses other techniques for which all inputs having a significant effect on the recorded value are observable, either directly or indirectly; and, Level 3 uses techniques with inputs that have a significant effect on the recorded value that are not based on observable market data.

a) Investments at fair value

i) Publicly traded securities

The fair value of securities that are traded in active markets, such as on a recognized securities exchange is determined by reference to quoted closing market prices or dealer price quotations (bid price for long positions and ask price for short positions) on the reporting date, without any deduction for transaction costs. Certain of the securities that have been acquired through private placement subscriptions may be subject to four-month holding periods as disclosed. Further, in accordance with IFRS, no provision is taken to recognize any possible premium or discount that may be applicable on relatively large board lots in a given prevailing market.

ii) Purchase rights to publicly traded securities

In those instances where the Company has secured additional purchase rights to securities such as warrants attached to shares for which it has subscribed or been granted under the terms of a loan agreement and for which there is no recognized trading value, the Company does not accord any value to such purchase rights. When there are sufficient and reliable observable market inputs, a valuation technique is applied.

iii) Private company equity securities

The Company's investments at fair value include equity issued by private companies. The determinations of fair value of such investments at other than initial cost are subject to certain limitations. Financial information for private companies with whom the Company has made investments may not be available and, even if available, that information may be limited and/or unreliable.

For private company equity securities not traded in an active market, all investments are initially recorded at the transaction price, being the fair value at the time of acquisition. Thereafter, at each reporting date, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models

Absent the occurrence of a recent arm's length market transaction or any significant change in general market conditions, it is generally recognized that the fair value of the investment has not materially changed.

The valuation of private company equity securities involves uncertainties and determinations based on the Company's judgment and any value estimated from these techniques may not be realized or realizable.

iv) Loans

Investments at fair value include loans to corporations for which there is no quoted market value but for which comparable empirical data exists on which the Company has based its valuations. In these instances, fair value is determined using valuation techniques.

b) Cash and cash equivalents

The fair value of cash and cash equivalents, accounts receivable and accounts payable at September 30, 2012 and 2011approximate their carrying values due to their short term to maturity.

c) Stock options

The fair value of employee stock options is measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds).

d) Convertible debentures and related equity attribution

The allocation of fair value to convertible debentures between debt and equity has been determined in accordance with IAS 32, *Financial Instruments: Presentation*. The allocation is determined by calculating the fair value of the debt, discounted at the estimated prevailing interest rates on similar debts granted in the market without the attached conversion privileges. The residual fair value represents the estimated market value of conversion rights on the debt.

6. First-time adoption of IFRS

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.

First-time adoption exemptions 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

(Expressed in Canadian dollars)

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 (September 30, 2011).

7. Investments at fair value

All of the Company's investments at fair value have been classified as fair value through profit or loss. Both realized and unrealized gains or losses are recognized at the end of the accounting period when the carrying values of investments at fair value are adjusted to the quoted market value in the case of publicly traded securities and the estimated market value as determined by management in the case of other securities and loans.

As at September 30, 2012, investments at fair value were as follows:

	Quoted or estimated fair value	Cost
	$	$
a) Investment in publicly traded securities	**4,808,388**	5,216,432
b) BEM Shares	**9,000,000**	3,750,000
c) BZA Note	**1,590,000**	1,456,500
d) Vangold Loan	**500,000**	500,000
	15,898,388	10,922,932

Changes in the Company's investments at fair value were as follows:

	Year ended September 30, 2012
	$
Balance, October 1, 2010	-
Balance, September 30, 2011	-
Purchases	11,636,875
Proceeds on disposition	(838,557)
Realized gains on disposition	156,512
Unrealized foreign exchange gains (losses)	(13,598)
Unrealized gains (losses)	4,957,156
Balance, September 30, 2012	**15,898,388**

As the Company carries its investments at fair value on the fair value through profit or loss basis, the above referenced realized and unrealized gains and losses as well as the foreign exchange gains (loss) totaling $5,100,070 have been recognized in income for the year ended September 30, 2012.

a) Publicly traded securities

In the year ended September 30, 2012, the Company invested in a portfolio of publicly traded securities having a quoted market value of $4,808,388 as at September 30, 2012. As at September

30, 2012, marketable securities include investments having a market value of $1,355,000, the sale of which are subject to hold periods of a maximum of four months from purchase that expire on various dates until January 15, 2013.

b) Black Eagle Mining Corporation ("BEM")

On March 16, 2012, the Company acquired a 17.4% interest or 5 million common shares of Black Eagle Mining Corporation ("BEM") in a private placement for a total cash consideration of $3,750,000 or $0.75 per share. On completion of the acquisition NEMI's CEO was appointed to the BEM board of directors.

BEM is a private company incorporated under the laws of British Columbia and 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").

On June 1, 2012, BEM closed a $12.5 million private placement at a price of $1.80 per share (the "BEM June 2012 Private Placement"). Accordingly, the Company's net income for the year ended September 30, 2012 included an unrealized mark to market gain in the carrying value of its BEM shares of $5,250,000 ($1.05 per share) to adjust the fair value of the shares to the most recent arms length transaction. Upon completion of the BEM June 2012 Private Placement, NEMI owned 14.0% of BEM.

c) American Bonanza Gold Corp ("BZA")

On September 14, 2012, the Company advanced US$1,500,000 (approximately $1,456,800) against a Secured Promissory Note and Guaranty (the "BZA Note") extended by BZA, a corporation organized and existing under the laws of British Columbia and its wholly-owned subsidiary Bonanza Explorations Inc., a company organized and existing under the laws of Nevada (together "BZA" or the "Debtor") under which the Debtor promised to pay to the Company together with all interest and other fees and monies which may from time to time be owing under the BZA Note. The BZA Note is due in full on November 14, 2013 (the "Maturity Date"). Interest on the unpaid balance is payable monthly in US dollars at the rate of 12% per annum commencing November 1, 2012. Subject to provisions for earlier repayment in accordance with terms of the BZA Note, repayment is due in eight equal monthly instalments commencing March 14, 2013, however; the Debtor may, upon five days prior written notice prepay, in whole, or in part, the then outstanding principal amount along with all accrued and unpaid interest due and payable on such amount of prepayment, provided that such prepayment to the Company includes a prepayment penalty in an amount equal to 14 months interest on the amount of the Gold Loan being repaid at the rate of 12% less any interest payments previously paid on the prepayment amount. At the Company's option, repayment shall be made in an aggregate payment of 1250 London good delivery gold ounces, or in cash. BZA has granted the Company a security agreement granting a charge over all of the Debtor's personal property save and except for the Debtor's mining lease dated June 12, 2005 between the Patch Living Trust and the Debtor. The BZA Note is further secured under a Guarantor Security Agreement (the "Guaranty") under which the Debtor has irrevocably and unconditionally guaranteed the due and punctual payment of all obligations incurred under the terms of the loan. In addition the BZA Note provides for various terms and conditions that are typical in the industry under similar circumstances.

As at September, the fair market value of the BZA Note amounted to $1,590,000. Fair market value was determined using a valuation model. The significant assumptions applied to the model were the consensus gold forward prices and discount rate.

In addition, in consideration for having extended the BZA Note the Debtor issued 1,500,000 common share purchase warrants for nominal consideration to the Company (the "BZA Note Warrants"). Such warrants are be exercisable for a period of two years from the date of issuance and entitle the holder to purchase one additional share in the capital of the Debtor at a price of $0.50 per share. At this time, that Company has not assigned any value to these warrants.

(Expressed in Canadian dollars)

d) Vangold Resources Ltd. ("Vangold")

On July 4, 2012 the Company advanced $500,000, in consideration for a one year term loan to Vangold Resources Ltd. ("Vangold") that bears simple interest at a rate of 20% per annum payable monthly (the "Vangold Loan"). The outstanding principal will be due and payable on July 4, 2013.

In addition, under the provisions of the Vangold Loan agreement, following a proposed Vangold share consolidation which took place during the month of October 2012, the Company was entitled to receive a bonus share allotment of 888,889 Vangold shares having a total value of $100,000 in consideration for having made the loan accommodation (the "Vangold Share Bonus").

The Vangold Share Bonus was payable within the earlier of the completion of a proposed Vangold share consolidation and 120 days after July 4, 2012. However during October 2012, as part of an arrangement to subscribe to a Vangold private placement offering for 2,250,000 Vangold shares at a price of $0.10 each, the Company agreed to defer delivery of the bonus shares until such time as the Company would not own more than 20% of Vangold's common shares.

8. 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, during the period prior to September 30, 2010, the Company recognized unrealized holding gains $287,408 in income on the basis of a standing offer for $0.50 per share. On August 26, 2011, as a condition precedent to completing the PRC Disposition, the Company sold its investment in Hillsborough for a net cash consideration equal to the $680,250 carrying value (the "Hillsborough Disposition").

9. Investment in Peace River Coal LP ("PRC")

On September 28, 2011, NEMI completed the sale of its investment in the PRC Coal LP for a total cash consideration of $73 million (the "PRC Disposition"). Concurrently NEMI also completed the Hillsborough Disposition that was contingent to closing the PRC Disposition.

Changes to the investment in PRC were as follows:

	Years ended September 30	
	2012	2011
	$	$
Balance, beginning of year	**-**	54,924,825
Cash call contributions	**-**	1,888,520
	-	56,813,345
Share of income 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 year	**-**	-

10. Convertible Debentures

The Company has recognized convertible debentures as follows:

(Expressed in Canadian dollars)

	September 30, 2012		September 30, 2011		October 1, 2010	
	Liability component	**Equity component**	Liability component	Equity component	Liability component	Equity component
	$	**$**	$	$	$	$
Debenture	**326,542**	**205,207**	10,260,500	1,763,580	11,292,088	2,017,116
Unamortized deferred financing cost	**(2,797)**	**(154,385)**	(108,367)	(154,385)	(281,747)	(154,385)
	323,745	**50,822**	10,152,133	1,609,195	11,010,341	1,862,731

The Company issued a total of $12,724,000 in 8% Convertible Debentures on March 12 and April 1, 2008 for cash. The Debentures are unsecured and bear interest at a rate of 8% per annum, payable semi-annually in arrears, on June 30 and December 31 of each year commencing June 30, 2008. The Debentures mature on March 12, 2013 and are convertible into common shares of the Company at any time up until maturity at a conversion price of $0.90 per share. Since March 12, 2010, the company has had the right, under certain circumstances, to redeem the Debentures in whole or in part. In addition, the Company has the right to repay the principal amount of the Debentures in common shares at a price equal to 95% of the weighted average trading price of the Company's shares for the 20-day trading period ending five trading days prior to the date fixed for redemption or at maturity.

On issuing the Debentures, the Company paid a commission of $763,440 and issued 100,000-transferable agent's warrants as consideration for arranging the financing. The warrants were not exercised and expired.

As the convertible debentures were considered compound financial instruments, the liability and equity components are presented separately as determined on the measurement date. The Company valued the separate components of the convertible debenture using the residual method. The liability component was valued using the current market rate for comparable instruments at the time of issuance, which was estimated to be 17%.

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 as follows:

	September 30 2012	September 30 2011	October 1 2010
	$	$	$
Gross proceeds on issue of Convertible Debentures	**12,724,000**	12,724,000	12,724,000
less equity component	**(2,146,116)**	(2,146,116)	(2,146,116)
	10,577,884	10,577,884	10,577,884
Accretion of liability component	**1,961,203**	1,838,499	1,350,004
Early retirement at allocated value - (principal value - $10,119,000)	**(10,056,660)**	-	-
Debentures converted at allocated value - (principal value - $2,275,000)	**(2,155,885)**	(2,155,885)	(635,800)
Liability - end of year	**326,542**	10,260,498	11,292,088
Less: unamortized deferred issuance costs	**(2,797)**	(108,367)	(281,747)
Net liability - end of year	**323,745**	10,152,131	11,010,341

(Expressed in Canadian dollars)

In conjunction with the SIB offering on December 28, 2011, the Company completed the early retirement of convertible debentures having an allocated value on retirement of $10,056,660 (face value $10,119,000). The cost of retirement was recognized as follows:

Cash payout on retirement:		Early redemption cost allocation:	
	$		$
Face value of retired debt	10,119,000	Debt portion	10,056,660
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	307,705
		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.

Interest expense on the Convertible Debentures was as follows:

	September 30	
	2012	2011
	$	$
Interest on debentures @ 8%	**223,829**	877,021
Accretion of Convertible Debenture	**122,704**	488,495
Amortization of deferred financing charges	**105,568**	173,383
	452,101	1,538,899

As at September 30, 2012, the unpaid principal balance of the 8% Convertible Debentures was $330,000 (September 30, 2011 - $10,449,000).

11. 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) Substantial Issuer Bid

On December 28, 2011, the Company completed the SIB under which a total of 38 million shares were purchased for cancellation at a cost of $1.06 each. The total cost of $40,434,359 included transaction costs of $154,359.

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

(Expressed in Canadian dollars)

Date granted	Number of shares authorized	Number of shares purchased	Total cost	Weighted Average Purchase price (per share)
			$	$
April 2009	2,893,487	2,893,487	1,148,645	0.40
May 2010	2,748,813	1,746,178	1,395,806	0.80
May 2011	2,747,082	373,500	351,888	0.94
		5,013,165	**2,896,339**	**0.58**

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

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 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. The Board in its sole discretion may determine any vesting provisions for options. Options are equity settled.

Since October 1, 2011 when 212,500 options vested, all of the outstanding options have been fully vested. On April 19, 2012, the Company granted 350,000 options, which vested immediately, having an exercise price of one dollar each exercisable at any time up until and including April 19, 2017. The fair value of the options so granted was determined to be $97,400 using the Black-Scholes option pricing model under the following assumptions: risk-free interest rate - 1.15%; expected life - 5.0 years; expected volatility - 35% and expected dividends - nil.

As at September 30, 2012, outstanding options were as follows

Expiry	Number of options outstanding	Weighted average exercise price per share	Average remainng life (years)
May 27, 2014	150,000	$ 0.41	1.65
September 30, 2015	175,000	$ 0.60	3.00
September 30, 2016	250,000	$ 1.00	4.00
September 30, 2016	125,000	$ 0.60	4.00
April 19, 2017	350,000	$ 1.00	4.55
Fully vested and exercisable	**1,050,000**	$ 0.80	3.68

On April 18, 2012, 34,000 options having an exercise price of $0.41 each and an expiry date of May 27, 2014 and 50,000 options having an exercise price of $0.60 each and an expiry date of September 30, 2015 were exercised.

On May 16, 2012, 50,000 options that were to expire September 30, 2016 exercisable at a price of one dollar each were forfeited.

e) Per share amounts

Per share amounts have been calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the year ended

(Expressed in Canadian dollars)

September 30, 2012 is 26,617,434 (2011 - 54,047,634). The average number of common shares outstanding was increased to present the potential dilutive effect that in-the-money outstanding stock options and shares issuable on debt conversion could have on reported basic earnings per share. The diluted number of shares outstanding as at September 30, 2012 is 27,782,799 (2011 - 54,598,621).

f) Shareholder rights plan

The Company has a shareholder rights plan designed to encourage the fair treatment of shareholders in connection with any take-over offer for NEMI (the "Shareholders Rights Plan"). The Shareholders Rights Plan objective is; in the event of a takeover bid, to provide the Board and the shareholders more time to consider the terms of any bid and to allow for the board to pursue, if appropriate, other alternatives to maximize shareholder value. Rights issued under the provisions of the Shareholders Rights Plan become exercisable when a person or a company acquires or announces its intention to acquire 20% or more of NEMI's outstanding Class A Voting Common Shares without complying with the "Permitted Bid" provisions of the plan. Should such an acquisition occur, each right exercise entitles the holder, other than the acquiring person and related persons, to purchase Class A Voting Common Shares at a 50% discount to the market price at the time. The dilutive effects of the plan are not triggered by an acquisition of shares under a Permitted Bid. The plan is similar to plans adopted by many other Canadian companies and is next subject to shareholder ratification on March 30, 2013 and every three years thereafter.

12. Key management compensation

The retention of certain key management personnel is subject to a management agreement, the terms of which are on a month-to-month basis with no fixed expiry date. Upon resignation at the Company's request or in the event of a change of control, these agreements provide for termination benefits that can include unpaid bonuses (currently amounting to $150,000) and termination benefits equal to one month's severance.

Some key management personnel, or their related parties, may hold positions in other entities whose services are retained by the Company. In such instances, these appointments result in the Company's key management personnel representing those related parties in which they hold control or significant influence over the financial or operating policies of these entities. Details of transactions with these related parties can be found in note 18.

Key management includes current and former senior officers and directors (executive and non-executive) of the Company. The Company incurred the following expenditures for services and short term benefits provided to the Company by key management as follows:

	2012	2011
	$	$
Remuneration and benefits	**225,750**	393,658
Directors fees	**56,500**	56,500
Stock-based compensation	**97,400**	142,000
	379,650	592,158

The amounts charged were the exchange amounts, which was the amount of consideration established and agreed upon by the parties.

Included in accounts payable and accrued liabilities as at September 30, 2012 is $165,000 (2011 - $302,851) due to the key management in provision of the above referenced and/or out-of-pocket expenses incurred by the individuals in the course of fulfilling their respective responsibilities. The amounts owing were unsecured, non-interest bearing and due on demand.

(Expressed in Canadian dollars)

13. Income taxes

a) Deferred tax asset recognition

Deferred taxes arising from temporary differences in unused tax losses are summarized as:

i) Deferred tax assets - recognized

	September 30 2012	September 30 2011	October 1 2010
	$	$	$
Non-capital losses	**1,235,890**	-	2,599,952
Resource pools	**-**	-	3,363,157
Investment in securities	**(1,235,890)**	-	-
Partnership interest	**-**	-	(5,963,109)
Net recognized deferred tax assets	**-**	-	-

ii) Deferred tax assets - not recognized

	September 30 2012	September 30 2011	October 1 2010
	$	$	$
Non-capital losses	**1,236,732**	2,605,951	-
Resource pools	**2,227,959**	1,789,176	5,958,031
Capital losses	**230,604**	-	-
Capital assets	**58,793**	57,659	56,548
Other	**37,066**	48,580	122,474
Unrecognized deferred tax assets	**3,791,153**	4,501,366	6,137,053

As at September 30, 2012, the Company and its subsidiary have losses carried forward of approximately $9,890,000 (2011 - $10,424,000) that are available to reduce income taxes in future years that expire as follows:

Year of Expiry	**Tax Loss**
	$
2014	18,249
2015	16,914
2026	7,737
2027	13,794
2028	4,710,872
2029	2,101,281
2030	2,452,892
2031	13,504
2032	555,245

The Company's resource pools of $8,912,000 (2011 - $7,157,000) may be carried forward indefinitely and used to reduce taxable income in any future year.

(Expressed in Canadian dollars)

b) Income tax expense

The provision for income tax differs from the amount calculated using the Canadian federal and provincial statutory income tax rates of 25.38% (2011 - 27%) as follows:

	September 30 2012	September 30 2011
	$	$
Net income and comprehensive income before tax	**3,892,662**	13,543,813
Canadian statutory income tax rate	**25.38%**	27%
Expected tax recovery (expense)	**(987,763)**	(3,656,829)
Share based compensation and other permanent items	**76,225**	1,998,011
Effect of rate differences and other	**201,326**	23,134
Change in unrecognized deductible temporary differences and other	**710,212**	1,635,684
Income tax expense recognized in determination of net income	**-**	-

The decrease in the statutory tax rate from 2011 is as a result of legislative tax decreases in the federal and provincial income tax rates.

14. Financial instruments

a) Fair value risk

When participating in investment activities, the Company may incur losses if it is unable to resell the securities it has purchased or if it is forced to liquidate its holdings at less than their respective carrying values. The Company is also exposed to fair value risk as a result of its principal trading activities in investments at fair value which can include investments in publicly traded securities, private company equity securities, debt securities and derivative financial instruments or instruments in which there exists an embedded derivative. All of the Company's investments at fair value are carried on a fair value through profit or loss basis and recorded at their fair value. As such, changes in fair value affect earnings as they occur.

The following table summarizes the effect on net income as a result of fair value change in investments at fair value as at September 30, 2012. This analysis assumes all other variables remain constant in accordance with the company's established accounting policies:

	September 30, 2012		
	Reported carrying value	**Efffect of a 10% change in value on net income**	
		Increase	**(Decrease)**
	$	**$**	**$**
Investments at fair value	**15,898,388**	**1,589,839**	**(1,589,839)**

During the year ended September 30, 2011, the Company did not hold any comparative investments. As all of the investments at fair value are carried on a fair value through profit or loss basis, changes in the market value are included in income for the year and have no potential effect on other comprehensive income.

As of September 30, 2012, the determination of estimated fair value of the Company's investments at fair value was as follows:

	September 30 2012	Estimated fair values Level 1	Level 2	Level 3
	$	$	$	$
Publicly traded securities	**4,808,388**	**4,808,388**	**-**	**-**
Private company equity securities	**9,000,000**	**-**	**9,000,000**	**-**
Loans	**2,090,000**	**-**	-	**2,090,000**

As at September 30, 2011 or October 1, 2010, that Company did not hold any comparative assets.

b) Currency risk

A portion of the Company's financial assets and liabilities is denominated in foreign currencies giving rise to risks from changes in foreign exchange rates. For every 1% change in the US-Canadian exchange rate, as at September 30, 2012, the Company is exposed to currency losses as follows:

	Reported fair value	Efffect of a 100 bps change in interest rates Increase	(Decrease)
	$	$	$
Approximate US$ investment in:			
Publicly traded securities	**816,422**	**8,164**	**(8,164)**
Loans	**1,590,000**	**15,900**	**(15,900)**
	2,406,422	**24,064**	**(24,064)**

As at September 30, 2011, except for investments at fair value having a market value of approximately $2,406,422 (US$2,447,572) (September 30, 2011 - $nil) all of the Company's financial instruments are held in Canadian dollars. At current levels of foreign investment, management does not believe changes in exchange rates would have a significant effect on the Company's business, financial condition and results of operations.

This foregoing sensitivity analysis discussion assumes all other variables are constant. The methodology used to calculate the interest rate sensitivity in each of the two years presented is consistent.

c) Credit risk

Credit risk is the risk of loss if a customer or third party to a financial instrument fails to meet its commercial obligations.

The majority of the Company's cash is held through a Canadian chartered bank and accordingly, the Company's exposure to credit risk is considered to be limited. From time-to time, cash equivalents may also consist of guaranteed investment certificates or Government of Canada treasury bills acceptances which have an original maturity of three months or less from the date of purchase and which are readily convertible into a known amount of cash.

As at September 30, 2012, investments at fair value included loans to third parties having an estimated fair value of approximately $2,090,000. These loans have been extended under circumstances that carry considerable risk. In recognition of these risks, the Company has sought collateral over the assets of each respective lender. In addition, management has negotiated terms and restrictions on the operations of the borrowers in an effort to mitigate against the possibility of a sudden impairment of the underlying assets. Nonetheless, there can be no assurance that these procedures will not result in the foreclosure on the loans, and in the event of foreclosure, that liquidation proceeds will be sufficient to recover the full amount of the loan value and any related costs incurred in the process of completing such a foreclosure.

(Expressed in Canadian dollars)

d) Liquidity risk

The Company manages liquidity risk by maintaining sufficient cash and cash equivalents balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities are all current.

e) Market risk

Market risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of changes in market prices or prevailing conditions. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

f) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or future cash flows of financial instruments held by the Company. The Company incurs interest rate risk on its cash and cash equivalents balances as well as with respect to loans held within its portfolio of investments at fair value. The Company attempts to minimize and monitor its exposure to interest rate risk by fixing rates of interest on its loans that are well in excess of normal market rates. The company does not engage in the trading of futures in order to mitigate interest rate risk.

All cash and cash equivalents mature within three months.

The following table provides the effect on net income (loss) for the years ended September 30, 2012 and 2011 if interest rates had increased or decreased by 100 basis points ("bps") applied to the reported balances as of those respective dates. This sensitivity analysis assumes all other variables are constant. The methodology used to calculate the interest rate sensitivity in each of the two years presented is consistent.

		September 30, 2012	
	Reported carrying	**Efffect of a 100 bps change in interest rates**	
Financial instrument	**value**	**Increase**	**(Decrease)**
	$	**$**	**$**
Cash and cash equivalents	**11,516,054**	**115,161**	**(115,161)**
Loans included in investments at fair value	**2,090,000**	**20,900**	**(20,900)**

		September 30, 2011	
	Reported carrying	**Efffect of a 100 bps change in interest rates**	
Financial instrument	**value**	**Increase**	**(Decrease)**
	$	**$**	**$**
Cash and cash equivalents	**75,997,850**	**759,979**	**(759,979)**

15. Management of Capital

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

(Expressed in Canadian dollars)

In addition to its cash holdings and investments at fair value, 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 Company does not currently have any short term credit facilities in place.

Current investment activity as it pertains to the management of the Company's investments at fair value is ultimately limited to the extent of the Company's ability to liquidate existing investments on a timely and profitable basis and by the Company's ability to secure new financing through the issuance of 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 were as follows:

	September 30, 2012		**September 30, 2011**	
	$	**ratio**	$	ratio
Debt to equity				
Convertible debentures	**323,745**		10,152,133	
Shareholders' equity	**26,927,531**	**-**	65,110,581	-
Current asset to current liabilities				
Current assets	**27,493,756**		76,097,863	
Current liabilities	**254,044**	**108 : 1**	851,247	89 : 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.

16. Contingencies

The Company could be subject to various contingent liabilities that occur in the normal course of operations. The Company is not aware of any pending or threatened proceedings that would have a material adverse effect on the consolidated financial condition or future results of the Company.

17. Commitment

The annual estimated commitment under the Company's office lease including annual rent and estimated operating expense for the year ending September 30, 2013 totals $58,000. The Company does not have any other on-going commitments.

18. Related parties

Since March 16, 2012, upon subscribing for shares in BEM (note 7), NEMI's Chief Executive Officer who is retained as a Company employee and a director whose compensation is included in the disclosure under "Key management compensation" (note 12) has also been a director of BEM. Other than for the share subscription as disclosed in (note 7(b)), the Company has not engaged in any other commercial transactions with BEM.

On November 26, 2012, NEMI's chief Executive Officer was also appointed a director of Vangold Resources Corp. (note 7) as presented elsewhere herein, following the Company's subscription for 2,250,000 Vangold common shares or approximately 18.1% of Vangold. During December 2012, pursuant to the terms of a secondary Vangold private placement offering, the Company subscribed for an additional 850,000 Vangold shares at a total cost of $97,750 to increase its ownership interest to 19.8% that includes the purchase of an additional 47,000 Vangold common shares on the open market. Other than the Vangold Loan that the Company extended in June 2012 (note 7), the Company has not engaged in any other commercial transactions with Vangold.

(Expressed in Canadian dollars)

19. Supplemental cash flow information

	2012	2011
	$	$
Cash interest received on cash and cash equivalents	**338,904**	(35,010)
Cash dividends received on investments at fair value	**15,018**	-
Cash interest income received on investments at fair value	**15,891**	-
Cash interest expense paid on convertible debentures	**(427,870)**	(906,279)

20. Subsequent event

On December 11, 2012, the Company declared a dividend of $0.05 per share on the Class A Common Voting Shares payable on December 31, 2012 to shareholders of record at the start of business on December 18, 2012.