
NEMI Northern Energy & Mining Inc.

Condensed Interim Consolidated Financial Statements
Three months ended December 31, 2012
(Unaudited)

(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 interim 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)

	December 31 2012	September 30 2012
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	7,634,672	11,516,054
Investments at fair value - note 3	18,377,093	15,898,388
Accounts receivable	28,209	17,369
HST recoverable	13,111	4,441
Prepaid expenses and other	77,587	57,504
	26,130,672	27,493,756
Office furniture, equipment and improvements	8,673	11,564
	26,139,345	27,505,320
LIABILITIES		
Current		
Accounts payable and accrued liabilities - note 6	318,177	254,044
Convertible debentures due within one year - note 4	327,254	323,745
	645,431	577,789
SHAREHOLDERS' EQUITY		
Share capital - note 5	15,720,949	15,720,949
Contributed surplus	6,408,383	6,408,383
Equity portion of convertible debentures - note 4	50,822	50,822
Retained earnings (deficit)	3,313,760	4,747,377
	25,493,914	26,927,531
	26,139,345	27,505,320

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

NEMI Northern Energy & Mining Inc.

Consolidated Statements of Loss and Comprehensive Loss

Three months ended December 31

(unaudited)

(Expressed in Canadian dollars)

	2012	2011
	\$	\$
Net investment income		
Interest and other income	115,204	98,277
(Loss) gains on investments at fair value - note 3	(439,780)	26,670
	(324,575)	124,947
Operating expenses		
Remuneration and benefits - note 6	(97,925)	(69,511)
Professional fees	(75,886)	(68,787)
Office	(52,106)	(43,550)
Shareholder communication	(1,614)	(14,318)
Directors fees and expenses - note 6	(35,050)	(22,130)
Depreciation	(2,891)	(958)
	(590,047)	(94,307)
Loss before the undernoted		
Interest and bank charges	(800)	(3,845)
Interest, accretion and amortization of issue costs on convertible debentures - note 4	(10,163)	(434,254)
Premium paid on convertible debenture retirement - note 4	-	(307,705)
Convertible debenture retirement transaction costs - note 4	-	(45,675)
	(601,010)	(885,786)
Net Loss and Comprehensive Loss		
	(601,010)	(885,786)
Loss per share - basic	(0.04)	(0.02)
Weighted average number of shares outstanding	16,652,135	53,362,918

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

NEMI Northern Energy & Mining Inc.

Consolidated Statements of Cash Flows

Three months ended December 31,

(unaudited)

(Expressed in Canadian dollars)

	2012	2011
	\$	\$
Cash flows from (used in):		
Operating Activities		
Net loss for the period	(601,010)	(885,786)
Items not affecting cash		
Accretion and of debenture premium and amortization of deferred financing costs	3,509	230,210
Depreciation	2,891	958
Holding losses (gains) on investments at fair value	473,106	(26,670)
Unrealized foreign exchange gains on investments at fair value	(428)	-
Financing activities charged to operations:		
Premium paid on debenture retirement	-	307,705
Convertible debenture retirement transaction costs	-	45,675
	(121,932)	(327,908)
Net changes in non-cash working capital items:		
Accounts receivable	(10,840)	987
HST recoverable	(8,670)	(27,289)
Prepaid expenses and other	(20,083)	7,910
Accounts payable and accrued liabilities	64,133	(273,248)
	(97,392)	(619,548)
Financing Activities;		
Dividends paid	(832,607)	-
Paid on shares repurchased - Normal course Issuer Bid	-	(228,900)
Paid on shares repurchased - Substantial Issuer Bid	-	(40,434,360)
Paid on convertible debenture retirement - Substantial Issuer Bid	-	(11,963,833)
	(832,607)	(52,627,093)
Investing activities:		
Purchase of investments at fair value	(3,299,537)	(421,348)
Proceeds on disposition of investments at fair value	381,052	547
Gains realized on disposition of investments at fair value	(32,898)	-
	(2,951,383)	(420,801)
(Decrease) in cash	(3,881,382)	(53,667,442)
Cash and equivalents, - beginning of period	11,516,054	75,997,850
Cash and equivalents - end of period	7,634,672	22,330,408
Supplemental Cash Flow Inflow Information:		
Cash interest expense paid	(13,272)	(421,348)

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

NEMI Northern Energy & Mining Inc.

Consolidated Statement of Changes in Equity

Period from September 30, 2011 to December 31, 2012

(unaudited)

(Expressed in Canadian dollars)

	Common shares (Quantity)	Share capital \$	Contributed surplus \$	Equity portion of convertible debentures \$	Retained earnings (deficit) \$	Total \$
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:						-
Stock based compensation	-	-	97,400	-	-	97,400
Shares repurchased per:						
Normal Course Issuer Bid	(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)
Loss and comprehensive loss:						
Three months ended December 31, 2011	-	-	-	-	(885,786)	(885,786)
Balance, December 31, 2011	16,568,135	15,648,764	6,436,628	50,822	(31,071)	22,105,143
Changes - nine months ended, September 30, 2012:						
Options exercised	84,000	72,185	(28,245)	-	-	43,940
Income and comprehensive income	-	-	-	-	4,778,448	4,778,448
Balance, September 30, 2012	16,652,135	15,720,949	6,408,383	50,822	4,747,377	26,927,531
Changes - three months ended December 31, 2012:						
Loss and comprehensive loss:						
Dividends paid	-	-	-	-	(601,010)	(601,010)
Dividends paid	-	-	-	-	(832,607)	(832,607)
Balance, December 31, 2012	16,652,135	15,720,949	6,408,383	50,822	3,313,760	25,493,914

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

NEMI Northern Energy & Mining Inc.

Notes to the Consolidated Financial Statements

Three months ended December, 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% interest in Peace River Coal Limited Partnership ("PRC") which was sold for net cash consideration of \$73 million (the "PRC Disposition") on September 28, 2011. On December 28, 2011, the Company took up and subsequently cancelled 38 million common shares at a cost of \$1.06 each and \$10.1 million in principal amount of 8% convertible debentures paying an 18% 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 preparation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34 - *Interim Financial Reporting*. These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2012 which have been prepared in accordance with IFRS as issued by the IASB.

In the preparation of these unaudited condensed interim consolidated financial statements, the Company has used the same accounting policies and methods of computation as those used in the audited consolidated financial statements for the year ended September 30, 2012.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on February 28, 2012.

3. 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 December 31, 2012, investments at fair value included the following:

NEMI Northern Energy & Mining Inc.

Notes to the Consolidated Financial Statements (continued)

Three months ended December, 2012

(unaudited)

(Expressed in Canadian dollars)

	December 31, 2012		September 30, 2012	
	Fair value	Cost	Fair value	Cost
	\$	\$	\$	\$
Publicly traded securities	7,071,693	7,952,843	4,808,388	5,216,432
Private company equity securities	9,000,000	3,750,000	9,000,000	3,750,000
Loans	2,305,400	2,171,900	2,090,000	1,956,500
	18,377,093	13,874,743	15,898,388	10,922,932

Changes in the Company's investments at fair value for the three months ended December 31 were as follows:

	2012	2011
	\$	\$
Investments at cost, September 30	10,922,932	-
Purchases	3,299,537	421,348
Proceeds on disposition	(381,052)	(547)
Realized gains on disposition	32,898	-
Foreign exchange gain	428	-
Investments at cost, end of period	13,874,743	420,801
Accumulated unrealized gains (losses) to date	4,502,350	26,670
Investments at fair value, December 31	18,377,093	447,471

As the Company carries its investments at fair value on the fair value through profit or loss basis, during the three months ended December 31, the Company has recognized the gains and losses on its investments at fair value as follows:

	2012	2011
	\$	\$
Accumulated unrealized gains, December 31	4,502,350	26,670
Accumulated unrealized gains, September 30	4,975,456	-
Unrealized gains (losses) recognized in the period	(473,106)	26,670
Realized gains (loss) on dispositions	32,898	-
Foreign exchange gains (losses)	428	-
(Loss) gains on investments at fair value, three months ended December 31	(439,780)	26,670

As at December 31, 2012, the Company's portfolio of publicly traded securities, all of which were purchased on the open market or pursuant to private placement subscriptions had a quoted value of \$7,071,693 and a cost value of \$7,952,843 (September 30, 2012 - \$4,808,388, cost - \$5,216,432). The Company's publicly traded securities can be sold at any time at the Company's discretion subject to market conditions and from time to time hold period restrictions pursuant to the terms of each respective private placement subscription agreement, as well as escrow restrictions, if applicable.

As at December 31, 2012, publicly traded securities included securities subject to escrow having an estimated fair value of \$359,945. The shares will be released from escrow as to \$77,133 each on June 21, 2013 and December 21, 2013 respectively with the balance of \$205,679 scheduled to be released on

NEMI Northern Energy & Mining Inc.

Notes to the Consolidated Financial Statements (continued)

Three months ended December, 2012

(unaudited)

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June 21, 2014. In addition as at December 31, 2012, publicly traded securities included securities having a quoted market value of \$1,767,500 subject to a maximum four-month hold period. As of February 28, 2013, the hold period on all but \$292,500 had expired. With respect to In the process of determining the market value of the securities subject to hold periods or escrow restrictions, management has recognized appropriate discounts to currently prevailing market prices as quoted for each respective security.

The Company intends to hold these investments until the value of the underlying assets can be realized. The Company did not have any comparable assets in the comparative period.

4. Convertible debentures

The Company has recognized convertible debentures as follows:

	December 31, 2012		September 30, 2012	
	Liability component	Equity component	Liability component	Equity component
	\$	\$	\$	\$
Debenture	328,482	205,207	326,542	205,207
Unamortized deferred financing cost	(1,228)	(154,385)	(2,797)	(154,385)
	327,254	50,822	323,745	50,822

The Company issued a total of \$12,724,000 in 8% convertible debentures on March 12 and April 1, 2008 for cash. The convertible 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 convertible 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 convertible debentures in whole or in part. In addition, the Company has the right to repay the principal amount of the convertible 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 convertible 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:

NEMI Northern Energy & Mining Inc.

Notes to the Consolidated Financial Statements (continued)

Three months ended December, 2012

(unaudited)

(Expressed in Canadian dollars)

	December 31 2012	September 30 2012
	\$	\$
Gross proceeds on issue of convertible debentures	12,724,000	12,724,000
Less equity component	<u>(2,146,116)</u>	<u>(2,146,116)</u>
	10,577,884	10,577,884
Accretion of liability component	1,963,143	1,961,203
Early retirement at allocated value -		
Retired on SIB (principal value - \$10,119,000)	(10,056,660)	(10,056,660)
Converted at allocated value (principal value - \$2,275,000)	<u>(2,155,885)</u>	<u>(2,155,885)</u>
Liability, end of period	328,482	326,542
Less: unamortized deferred issuance costs	<u>(1,228)</u>	<u>(2,797)</u>
Net liability, end of period	<u>327,254</u>	<u>323,745</u>

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 SIB Closing		SIB cost allocation	
	\$		\$
Face value of retired debt	10,119,000	Debt component	10,056,650
Retirement cost per \$100	<u>117.78</u>	Equity component	1,558,373
Total retirement payout on		Discount on equity component	(4,580)
SIB Closing	11,918,158	Premium on debt component	307,705
Add transaction cost	<u>45,675</u>	Transaction cost	<u>45,675</u>
	<u>11,963,833</u>		<u>11,963,823</u>

The above premium paid on the debt portion of the convertible debenture and transactions costs were charged to operating expenses in full on the date the early retirement was completed.

For the three months ended December 31, interest expense on the convertible debentures was as follows:

	2012	2011
	\$	\$
Interest on convertible debentures @ 8%	6,654	204,044
Accretion on convertible debentures	1,940	189,988
Amortization of deferred financing charges	<u>1,569</u>	<u>40,222</u>
	<u>10,163</u>	<u>434,254</u>

As at December 31, 2012, the unpaid principal balance of the 8% convertible debentures was \$330,000 (September 30, 2012 - \$330,000).

NEMI Northern Energy & Mining Inc.

Notes to the Consolidated Financial Statements (continued)

Three months ended December, 2012

(unaudited)

(Expressed in Canadian dollars)

5. Shareholders' equity

a) Authorized share capital

An unlimited number of Class A voting Common Shares - 16,652,135 issued and outstanding
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:

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.

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.

NEMI Northern Energy & Mining Inc.

Notes to the Consolidated Financial Statements (continued)

Three months ended December, 2012

(unaudited)

(Expressed in Canadian dollars)

As at December 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	150,000	\$ 0.41	1.40
September 30, 2015	175,000	\$ 0.60	2.75
September 30, 2016	250,000	\$ 1.00	3.75
September 30, 2016	125,000	\$ 0.60	3.75
April 19, 2017	350,000	\$ 1.00	4.30
Fully vested and exercisable	1,050,000	\$ 0.80	3.43

There has been no change in the number of options outstanding in the period since September 30, 2012.

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 three months ended December 31, 2012 is 16,652,135 (2011 - 53,362,18).

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 every three years thereafter.

6. 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 9.

NEMI Northern Energy & Mining Inc.

Notes to the Consolidated Financial Statements (continued)

Three months ended December, 2012

(unaudited)

(Expressed in Canadian dollars)

Key management includes current and former senior officers and directors (executive and non-executive) of the Company. The cost for services and short term benefits provided to the Company by key management has been recorded on the consolidated statement of loss and comprehensive loss and included in reported expenses as follows:

	Three months ended December 31	
	2012	2011
	\$	\$
Remuneration and benefits	91,175	228,179
Directors fees and expenses	12,500	13,500
	103,675	241,679

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 December 31, 2012 is \$176,496 (September 30, 2011 - \$165,000) 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.

7. 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.

8. 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 \$43,000. The Company does not have any other on-going commitments.

9. Related parties

The Company's investments at fair value include private company equity securities of \$9,000,000 which amounts to a 14.0% interest in Back Eagle Mining Corp, ("BEM") as well as investments in Vangold Resources Ltd. ("Vangold") including \$500,000 in loans and a \$756,750 equity interest consisting of 3,027,000 common shares which as of February 28, 2013 amounts to an approximate 19.8% equity interest.

NEMI's Chief Executive Officer and Chairman is a director of BEM and Vangold.