

Consolidated Financial Statements of

NEMI NORTHERN ENERGY & MINING INC.
(A Development Stage Enterprise)

For the years ended September 30, 2007 and 2006

(Expressed in Canadian Dollars)



AUDITORS' REPORT

To the Shareholders of
NEMI Northern Energy & Mining Inc.
(a development stage enterprise)

We have audited the consolidated balance sheets of **NEMI Northern Energy & Mining Inc.** ("the Company") (a development stage enterprise) as at September 30, 2007 and 2006 and the consolidated statements of operations, comprehensive earnings and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada,
December 21, 2007.

Ernst & Young LLP

Chartered Accountants

NEMI NORTHERN ENERGY & MINING INC.

(A Development Stage Enterprise)

Consolidated Balance Sheets

(incorporated in Alberta)

(Expressed in Canadian dollars)

	As at September 30, 2007	As at September 30, 2006
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 9,689,389	\$ 2,174,407
Accounts receivable	29,602	201,811
Taxes recoverable	2,574	881,018
Prepaid expenses and other	37,931	359,503
Inventory (Note 6)	-	9,354,928
	9,759,496	12,971,667
INVESTMENT IN PEACE RIVER COAL LP (Note 4)	43,625,000	-
DEPOSITS (Note 7)	-	1,836,971
COAL PROPERTIES (Note 8)	-	733,937
DEFERRED EXPENDITURES - schedule	-	64,992,898
PLANT AND EQUIPMENT (Note 9)	17,942	31,878,216
Total Assets	\$ 53,402,438	\$ 112,413,689
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 99,290	\$ 11,685,619
Loan payable – current portion (Note 10)	-	10,000,000
Due to Anglo Coal Canada Limited (Note 12)	-	28,161,699
Capital lease obligations – current portion (Note 13)	-	91,748
	99,290	49,939,066
LOAN PAYABLE (Note 10)	-	10,000,000
CAPITAL LEASE OBLIGATIONS (Note 13)	-	334,406
ASSET RETIREMENT OBLIGATION (Note 14)	-	1,811,320
Total Liabilities	99,290	62,084,792
SHAREHOLDERS' EQUITY (Note 15)		
SHARE CAPITAL	54,217,072	54,217,072
CONTRIBUTED SURPLUS	7,650,103	3,792,327
WARRANTS	-	3,852,688
DEFICIT	(8,564,027)	(11,533,190)
Total Shareholders' Equity	53,303,148	50,328,897
Total Liabilities and Shareholders' Equity	\$ 53,402,438	\$ 112,413,689

NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY (Note 1)

COMMITMENTS (Note 20)

SUBSEQUENT EVENTS (Note 21)

ON BEHALF OF THE BOARD

(signed) "W. Durand Eppler"

(signed) "Patrick C. Devlin"

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

NEMI NORTHERN ENERGY & MINING INC.
(A Development Stage Enterprise)
Consolidated Statements of Operations,
Comprehensive Earnings and Deficit

(Expressed in Canadian dollars)

	For the year ended	
	September 30, 2007	September 30, 2006
EXPENSES		
Accretion expense	\$ 14,206	\$ 85,236
Advertising and public relations	20,885	121,120
Amortization	32,224	171,186
Consulting	87,802	138,003
Directors' fees	20,000	20,000
Insurance	83,514	275,177
Management fees	13,950	315,050
Office and sundry	31,448	185,945
Office rent	79,370	189,175
Professional fees	848,544	1,051,229
Regulatory fees	69,625	201,586
Stock-based compensation (Note 15)	5,088	124,024
Stock transfer fees	11,257	14,095
Telecommunications	27,882	66,568
Travel and accommodation	129,768	255,447
Wages and benefits	478,740	1,162,161
Workers compensation fees	13,727	86,760
Loss before other income (expenses)	(1,968,030)	(4,462,762)
Break fee settlement (Note 11)	(1,275,000)	-
Other tax recovery (expense)	(22,516)	905
Foreign exchange loss	(13,186)	(95,614)
Gain on asset transfer to Peace River Coal LP (Note 4)	8,457,225	-
Interest on current debt and bank charges	(587,618)	(649,699)
Interest on long term debt	(128,009)	(1,129,282)
Interest and other income	378,064	346,773
Loss on disposal of equipment	(3,518)	-
Production bonus settlement	(293,249)	-
Share of loss of Peace River Coal LP	(1,575,000)	-
Tax benefits not previously recognized (Note 16)	-	1,699,196
NET EARNINGS (LOSS) AND COMPREHENSIVE		
EARNINGS (LOSS) FOR THE YEAR	2,969,163	(4,290,483)
DEFICIT, BEGINNING OF THE YEAR	(11,533,190)	(7,242,707)
DEFICIT, END OF THE YEAR	\$ (8,564,027)	\$ (11,533,190)
Earnings (loss) per share (Basic and diluted)	\$ 0.05	\$ (0.08)
Weighted average number of shares outstanding	56,954,192	54,975,854

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

NEMI NORTHERN ENERGY & MINING INC.
(A Development Stage Enterprise)
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	For the year ended	
	September 30,	September 30,
	2007	2006
CASH FLOWS FROM		
OPERATING ACTIVITIES		
Net earnings (loss) and comprehensive earnings (loss) for the year	\$ 2,969,163	\$ (4,290,483)
Items not affecting cash:		
Amortization	32,224	171,186
Accretion expense	14,206	85,236
Gain on asset transfer to Peace River Coal LP	(8,457,225)	-
Loss on disposal of equipment	3,518	-
Share of loss of Peace River Coal LP	1,575,000	-
Stock-based compensation	5,088	124,024
Tax benefits not previously recognized	-	(1,699,196)
	(3,858,026)	(5,609,233)
Net changes in non-cash working capital items		
Accounts receivable	202,115	(27,055)
Taxes recoverable	173,335	425,005
Prepaid expenses and other	110,955	(287,309)
Materials inventory	-	(65,888)
Accounts payable and accrued liabilities	(9,936,778)	4,627,221
Net cash used in operating activities	(13,308,399)	(937,259)
FINANCING ACTIVITIES		
Net cash proceeds from the issue of shares	-	9,955,454
Repayments on capital lease obligations	(14,827)	(43,118)
Loan financing	17,900,000	38,161,699
Net cash provided by financing activities	17,885,173	48,074,035
INVESTING ACTIVITIES		
Net cash received on transfer of assets to Peace River Coal LP	9,918,687	-
Proceeds on disposal of equipment	53,500	-
Acquisition of plant and equipment	(1,566,114)	(18,936,318)
Deferred expenditures, net of pre-commercial revenue	(5,467,865)	(51,200,365)
Deposits	-	(1,142,789)
Net cash provided by (used in) investing activities	2,938,208	(71,279,472)
INCREASE (DECREASE) IN CASH	7,514,982	(24,142,696)
CASH AND EQUIVALENTS - BEGINNING OF THE YEAR	2,174,407	26,317,103
CASH AND EQUIVALENTS - END OF THE YEAR	\$ 9,689,389	\$ 2,174,407
SUPPLEMENTARY INFORMATION		
Interest expense paid	\$ 715,627	\$ 1,770,047
Income taxes paid (recovered)	22,516	(906)

Supplementary cash flow information (note 17)

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

NEMI NORTHERN ENERGY & MINING INC.

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

September 30, 2007 and 2006

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

NEMI Northern Energy & Mining Inc. (“NEMI” or the “Company”) is a development stage Canadian company incorporated under the Business Corporations Act of Alberta and extra-provincially registered under the Company Act of British Columbia.

On November 29, 2006, the Company concluded an agreement with Hillsborough Resources Limited (“Hillsborough”) and Anglo Coal Canada Limited (“Anglo”), indirectly a wholly-owned subsidiary of Anglo American plc, wherein the north-eastern British Columbia metallurgical coal assets of the Company, Hillsborough and Anglo have been consolidated into a new entity, Peace River Coal Limited Partnership (“Peace River Coal LP”) which is owned 65.9% by Anglo, 14.1% by Hillsborough, and 20% by NEMI. The assets transferred to Peace River Coal LP by the Company include the Trend mine and related facilities, and NEMI’s 50% interest in the Belcourt Saxon Coal Limited Partnership (“Belcourt Saxon Coal LP”).

The Company’s principal assets are accordingly the interests it holds in Peace River Coal LP.

Significant risk factors affecting the development of Peace River Coal LP’s properties include the determination of coal resource to support mine operations; the successful execution of mine plans; the long term strength of metallurgical coal markets; and the ability to secure permits should commercial production from properties be demonstrated to be feasible. It is expected that the capital requirements to develop the various properties now held within Peace River Coal LP over the coming years will be significant. Accordingly, the Company’s investment in Peace River Coal LP is subject to financing and dilution risk.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) *Principles of consolidation*

These consolidated financial statements include the accounts of the Company’s subsidiaries, Belcourt Saxon Coal Ltd., consolidated to November 29, 2006 (see below), and Crossroad Ventures Inc.

On March 2, 2005, the Company acquired a 50% interest in the Belcourt Saxon Coal Limited Partnership (“Belcourt Saxon Coal LP”). The Company accounts for its interest in this partnership using the proportionate consolidation method.

On November 29, 2006, the Company’s interests in Belcourt Saxon Coal Ltd. and in the Belcourt Saxon Coal LP were transferred to Peace River Coal LP.

(b) *Investment in Peace River Coal LP*

The Company follows the equity method of accounting for its investments in which it owns 50% or less and over which it exercises significant influence. Under this method, the Company includes in its net earnings or loss its share of the net earnings or losses of the associated investees. The Company accounts for its investment in Peace River Coal LP using the equity method.

NEMI NORTHERN ENERGY & MINING INC.

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

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(Expressed in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) *Coal properties*

The Company is in the exploration stage and defers all expenditures related to coal properties, including rail replacement costs, until such time as the properties are put into commercial production, sold or abandoned. Under this method the amounts shown as coal properties represent costs incurred to date less amounts amortized and/or written off, and do not necessarily represent present or future values.

If the properties are put into commercial production, the expenditures will be depleted based upon the proven reserves available. If the properties are sold or abandoned, the expenditures will be charged to operations. The Company does not accrue the estimated future costs of maintaining in good standing its coal properties.

The carrying values of a coal interest, on a property-by-property basis, will be reviewed by management at least annually to determine if they have become impaired. If impairment is deemed to exist, the coal property will be written down to its net recoverable value. The ultimate recoverability of the amounts capitalized for the coal properties is dependent upon the identification of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and to realize profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in various projects have been based on current conditions. However, it is possible that changes could occur in the near term, which could adversely affect management's estimates and may result in future writedowns of capitalized property carrying values.

Mine startup costs, including mobilization costs for the mining contractor and the initial prestripping of the mine site, are recorded as deferred expenditures, and included in the depletion base. Prior to the commencement of commercial production, revenues are netted against deferred expenditures.

Management has determined each property to be a cost centre.

(d) *Revenue recognition*

Revenues from coal shipments are recognized at contracted or market prices when the risks and rewards of ownership pass to the customer and when collection is reasonably assured provided that persuasive evidence of a contract or other arrangement exists.

(e) *Coal inventory*

Coal inventory is valued at the lower of average production cost and realizable value.

(f) *Plant and equipment*

Plant and equipment is recorded at cost. Assets acquired under capital lease are recorded at the present value of the minimum lease payments. Equipment and assets acquired under capital lease are amortized using the declining balance method, at rates ranging from 20% to 30%. Plant and rail loop and loadout are amortized over the assets' estimated useful lives. Amortization for plant and rail loop and loadout commences when the assets are put into commercial production.

(g) *Loss per share*

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

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Notes to Consolidated Financial Statements

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(Expressed in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) *Financial instruments*

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, and accounts payable. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

(i) *Cash and cash equivalents*

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

(j) *Use of estimates and measurement uncertainty*

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

(k) *Future income taxes*

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

(l) *Long-lived assets impairment*

Long-lived assets of the Company are reviewed when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations (undiscounted and without interest charges). If impairment is deemed to exist, the assets will be written down to their fair value.

NEMI NORTHERN ENERGY & MINING INC.

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

September 30, 2007 and 2006

(Expressed in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) *Stock-based compensation*

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

(n) *Foreign currency transactions*

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

(o) *Flow through shares*

The Company has adopted CICA Accounting Standard, EIC 146, in respect of flow through shares. Under this Standard, a future income tax liability must be recognized, and the shareholders' equity reduced, on the date that the Company renounces the tax credits associated with the flow through expenditures, provided that there is reasonable assurance that the expenditures will be made.

A company with future income tax assets that it has not recognized in previous years as a result of applying the “more likely than not” test thereby recording a valuation allowance, recognizes the previously unrecorded future income tax assets as a reduction of income tax expense in the determination of net income or loss in the period incurred.

(p) *Asset retirement obligations*

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

Under this standard, the Company recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. The liability is measured at fair value and is adjusted to its present value in subsequent periods as accretion expense is recorded. The fair value of the estimated asset retirement costs is capitalized as part of the carrying amount of the long-lived asset when incurred and amortized to earnings over the asset's estimated useful life.

NEMI NORTHERN ENERGY & MINING INC.

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

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(Expressed in Canadian dollars)

3. CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

On October 1, 2006, the Company adopted two new accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”); Section 3855, “Financial Instruments – recognition and measurement”, and Section 1530, “Comprehensive income”.

(a) *Financial instruments - recognition and measurement*

The Company has adopted the provisions of Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3855 for financial instruments. Section 3855 requires that all financial assets, except those classified as held to maturity, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at cost. The adoption of this policy had no material impact on opening deficit.

The Company has classified its cash and cash equivalents as held-for-trading. Accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other liabilities which are measured at amortized cost.

(b) *Comprehensive income*

The Company has adopted the provisions of CICA Handbook Section 1530 for comprehensive income. Comprehensive income is the change in the Company’s net assets that results from transactions, events and circumstances from sources other than the Company’s shareholders and includes items that would not normally be included in the statement of operations such as unrealized gains or losses on available-for-sale investments. The adoption of this policy had no material impact on opening deficit. For the year ended September 30, 2007, the Company did not have other comprehensive income or loss, therefore comprehensive earnings for the year was equal to the net earnings for the year.

The Company has also adopted Section 3861, “Financial Instrument – Disclosure and Presentation”, and Section 3251, “Equity”.

4. INVESTMENT IN PEACE RIVER COAL LP

On October 13, 2006, the Company signed an asset transfer agreement among the Company, Anglo, and Hillsborough whereby the three parties agreed to combine their respective northeast British Columbia metallurgical coal assets and interests. In addition, the Company voluntarily sought and obtained protection under the *Companies’ Creditors Arrangement Act* (“CCAA”) pursuant to an Order of the Supreme Court of British Columbia (the “Court”). The purpose of obtaining the Order was to afford the Company an opportunity to preserve the going concern value of its assets pending completion of this transaction.

Under the Order, the Company was authorized to obtain debtor-in-possession financing comprised of a \$20 million credit facility to be provided by Anglo (the “DIP Loan”). The DIP Loan was secured by a first-priority charge on the Company’s assets.

On November 29, 2006, the Company successfully closed the asset combination transaction (the “Transaction”) with Anglo and Hillsborough. The Transaction formed the basis for the Company’s CCAA Plan of Arrangement (the “Plan”) which was approved by the British Columbia Supreme Court on November 23, 2006. The Transaction resulted in the creation of the Peace River Coal LP, initially owned as to 20% by each of the Company and Hillsborough, and 60% by Anglo.

NEMI NORTHERN ENERGY & MINING INC.

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

September 30, 2007 and 2006

(Expressed in Canadian dollars)

4. INVESTMENT IN PEACE RIVER COAL LP (Continued)

On closing of the Transaction, the Company received a \$10 million cash payment, including \$3.5 million held in trust pending resolution of whether a break fee would be payable to Western Canadian Coal Corp. ("Western") (Note 11). In addition, the Company received as consideration a free cash carry in Peace River Coal LP to December 31, 2007 to a maximum of \$18 million. The DIP Loan provided by Anglo during CCAA proceedings was assumed by Peace River Coal LP and all of the Company's creditors, secured and unsecured, were paid in full, including Itochu Corporation ("Itochu") (Note 10) and Anglo (Note 12).

Following the closing of the Transaction, the Company filed with the Court a closing certificate which resulted in the Company's full emergence from CCAA protection.

Upon formation, the partnership accounts of Anglo, Hillsborough and NEMI were credited with the amounts of \$103.8 million, \$34.6 million and \$34.6 million, respectively, being the fair values of contributed property interests as determined by a formal valuation process and as agreed by the parties.

In May 2007, Peace River Coal LP provided to the partners its detailed operating and development program for 2007. Cash requirements for 2007 under the 2007 Program and Budget, including capital expenditures and working capital to fund net operating losses through the pre-commercial operation phase, totalled \$53 million. The Company's share, amounting to \$10.6 million, was funded by the free cash carry received pursuant to the Transaction. Hillsborough elected not to participate in either the 2007 Program and Budget or its share of NEMI's carry, allowing its interest in the partnership to be diluted. As at September 30, 2007, Anglo's interest in the partnership is 65.9%, Hillsborough's interest is 14.1%, and the Company's interest remains at 20%.

NEMI accounts for its interest in Peace River Coal LP under the equity method. The net book value of the net assets of Peace River Coal LP at the time of formation was \$173 million, of which the Company's 20% share was \$34.6 million. The 2007 cash call increased the partners' equity, prior to considering results of operations, to \$226 million, the Company's 20% share of which is \$45.2 million.

The following assets and liabilities were transferred to or assumed or repaid by Peace River Coal LP and accordingly are no longer included in NEMI's consolidated balance sheet. The Company's net investment in Peace River Coal LP is determined as follows:

Assets transferred to Peace River Coal LP	
Coal properties	\$ 733,937
Deferred expenditures	70,460,763
Plant and equipment	33,337,146
Inventory	9,354,928
Other assets	2,804,104
	<u>116,690,878</u>
Consideration paid to the Company	
Net debts assumed or repaid	69,948,103
Cash payment on closing	10,000,000
	<u>79,948,103</u>
Net book value of assets transferred	36,742,775
Gain on transfer of assets	8,457,225
	<u>45,200,000</u>
NEMI's share of partners' contributions	45,200,000
Accumulated share of losses	(1,575,000)
	<u>43,625,000</u>
Balance – September 30, 2007	\$ 43,625,000

NEMI NORTHERN ENERGY & MINING INC.

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

September 30, 2007 and 2006

(Expressed in Canadian dollars)

5. INVESTMENT IN BELCOURT SAXON COAL LP

In 2005, the Company acquired a 50% interest in the Belcourt Saxon Coal Limited Partnership (“Belcourt Saxon Coal LP”), a partnership with Western Canadian Coal Corp. (“Western”) formed for the exploration and development of the Company’s Saxon property and Western’s Belcourt property located in British Columbia. Under royalty agreements applicable to certain properties within the partnership, the partnership is obligated to make royalty payments to various third parties based on the selling price upon delivery of all coal sales relating to those properties, ranging from 0.75% to 1.00%. In addition, the partners are entitled to a royalty equal to US\$0.50 per tonne of coal produced from that partner’s contributed property.

On November 29, 2006, the Company’s interest in the Belcourt Saxon Coal LP, including the royalty commitments, was transferred to Peace River Coal LP (Note 4).

The Company’s 50% share of its interest in and results from the partnership is as follows:

	September 30, 2007	September 30, 2006
ASSETS		
Cash	\$ -	\$ 247,756
Other current	-	87,096
Long-term	-	10,370,048
	<u>\$ -</u>	<u>\$ 10,704,900</u>
LIABILITIES		
Current	\$ -	\$ 164,728
PARTNERS’ EQUITY		
	-	10,540,172
	<u>\$ -</u>	<u>\$ 10,704,900</u>
	Year Ended Sept. 30, 2007	Year Ended Sept. 30, 2006
Interest and other income	\$ -	\$ 92,843
Expenses	(28,733)	(304,038)
Net loss	<u>\$ (28,733)</u>	<u>\$ (211,195)</u>
	Year Ended Sept. 30, 2007	Year Ended Sept. 30, 2006
CASH PROVIDED BY (USED FOR)		
Operating activities	\$ 165,671	\$ (1,818,266)
Financing activities	-	-
Investing activities	(332,856)	(5,617,467)
	<u>\$ (167,185)</u>	<u>\$ (7,435,733)</u>

NEMI NORTHERN ENERGY & MINING INC.

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6. INVENTORY

	Sept. 30, 2007	Sept. 30, 2006
Coal inventory	\$ -	\$ 9,289,040
Materials inventory	-	65,888
	<u>\$ -</u>	<u>\$ 9,354,928</u>

On November 29, 2006, inventory was transferred to Peace River Coal LP (Note 4).

7. DEPOSITS

	Sept. 30, 2007	Sept. 30, 2006
BC Government Mines Act Permit reclamation deposits	\$ -	\$ 1,250,000
Other deposits	-	586,971
	<u>\$ -</u>	<u>\$ 1,836,971</u>

In connection with the receipt of the BC Government Mines Act Permit ("Permit") to commence development of the Trend Small Mine Project, the Company had provided the B.C. government with reclamation security deposits totaling \$1,250,000, including \$1,075,000 pledged under a safekeeping agreement. A further \$750,000 which was due on or before December 31, 2006 was paid directly by Peace River Coal LP.

On November 29, 2006, the deposits and the Permit, including all rights and obligations, were transferred to Peace River Coal LP (Note 4).

8. COAL PROPERTIES

	Sept. 30, 2007	Sept. 30, 2006
Acquisition of coal licenses – Peace River District, B.C.		
Trend property	\$ -	\$ 176,481
Saxon property	-	473,865
Belcourt property	-	83,591
	<u>\$ -</u>	<u>\$ 733,937</u>

The Trend property was acquired in an agreement with a former officer of the Company and carries a 1% royalty interest. During the year ended September 30, 2006, two of the Company's officers each acquired a percentage of this royalty interest in private transactions. See Note 18 b).

The Saxon and Belcourt properties had been contributed to the Belcourt Saxon Coal LP, and are subject to certain royalties as described in Note 5.

On November 29, 2006, the Company's coal properties, including the royalty commitments, were transferred to Peace River Coal LP (Note 4).

NEMI NORTHERN ENERGY & MINING INC.

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September 30, 2007 and 2006

(Expressed in Canadian dollars)

9. PLANT AND EQUIPMENT

	September 30, 2007			September 30, 2006		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Plant	\$ -	\$ -	\$ -	\$ 25,393,315	\$ -	\$ 25,393,315
Rail loop and loadout	-	-	-	5,886,497	-	5,886,497
Equipment and other	21,034	3,092	17,942	365,205	177,359	187,846
Assets under capital lease	-	-	-	469,272	58,714	410,558
	<u>\$ 21,034</u>	<u>\$ 3,092</u>	<u>\$ 17,942</u>	<u>\$ 32,114,289</u>	<u>\$ 236,073</u>	<u>\$ 31,878,216</u>

On November 29, 2006, the plant, rail loop and loadout, equipment and other assets located in Tumbler Ridge and assets under capital lease were transferred to Peace River Coal LP (Note 4).

10. LOAN PAYABLE

	Sept. 30, 2007	Sept. 30, 2006
Loan payable	\$ -	\$ 20,000,000
Less: current portion	-	(10,000,000)
	<u>\$ -</u>	<u>\$ 10,000,000</u>

The Company had entered into a loan agreement dated September 15, 2005 with Itochu pursuant to which Itochu provided a \$20 million loan in two tranches to the Company. The loan bore interest at a rate of six-months LIBOR for Canadian dollars plus 2.5% per annum and principal payments of \$5,000,000 were due on each of March 14, 2007, September 14, 2007, March 14, 2008 and September 14, 2008. This loan was repaid in full with accrued interest in connection with the asset combination transaction with Anglo and Hillsborough (Note 4).

11. ABANDONED TRANSACTION WITH WESTERN

On May 19, 2006, the Company and Western Canadian Coal Corp. ("Western") entered into an agreement relating to a business combination whereby the Company would become a wholly-owned subsidiary of Western. The agreement provided for the business combination to occur by way of a plan of arrangement (the "Arrangement") to be approved at a special meeting of the Company's shareholders. Under the terms of the agreement, and subject to certain conditions, Western agreed to issue one Western common share for every 1.8 common shares of the Company. Under the agreement, Western would be entitled to a break fee of \$3.5 million in certain circumstances.

In July 2006, Western advised the Company that it was not prepared to complete the Arrangement on the basis of the existing exchange ratio, and the board of directors of the Company determined that an adjustment to the ratio was not in the best interests of the Company's shareholders. On November 10, 2006, the Company signed an agreement with Anglo, Hillsborough and Western pursuant to which Western consented to the transfer of the Company's interest in the Belcourt Saxon Coal LP to the Partnership to be formed by the Company, Anglo and Hillsborough. This agreement also provided a mechanism to resolve the issue of whether a \$3.5 million break fee would be payable by the Company in connection with the termination of the previously-announced merger transaction between the Company and Western. During the year ended September 30, 2007, the Company reached a settlement with Western and paid to Western an amount of \$1.275 million in full settlement of the break fee.

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12. DUE TO ANGLO COAL CANADA LIMITED

	Sept. 30, 2007	Sept. 30, 2006
Due to Anglo Coal Canada Limited	\$ -	\$ 28,161,699

In connection with the asset combination transaction with Anglo and Hillsborough (Note 4), the Company had entered into a loan agreement with Anglo which provided for loans by Anglo to the Company of up to \$31.5 million. The loans bore interest at a floating rate of LIBOR for Canadian dollars plus 2.5% per annum, and were to mature in four months, subject to Anglo's discretion to extend the maturity date by up to a further three months. As security for the loans, the Company had granted to Anglo a general security agreement charging all of its presently owned and after-acquired property, with the exception of the Company's investment in Belcourt Saxon Coal LP. These loans were repaid in connection with the asset combination transaction.

13. CAPITAL LEASE OBLIGATIONS

	Sept. 30, 2007	Sept. 30, 2006
Capital lease obligations	-	426,154
Less: current portion	-	(91,748)
Long-term portion of capital lease obligations	\$ -	\$ 334,406

The Company had certain equipment under capital leases expiring in 2008 and 2009 and at interest rates ranging from 0.4% to 9.1%. On November 29, 2006, these leases were transferred to Peace River Coal LP (Note 4).

14. ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligation related to the restoration and closure of the Trend Small Mine. This obligation has been assumed by Peace River Coal LP (Note 4).

The following table summarizes the movements in the asset retirement obligation activities for the years ended September 30, 2007 and 2006:

	Sept. 30, 2007	Sept. 30, 2006
Beginning of the year	\$ 1,811,320	\$ 1,726,084
Accretion of liability component of asset retirement obligation	14,206	85,236
Transfer of obligation to Peace River Coal LP	(1,825,526)	-
End of the year	\$ -	\$ 1,811,320

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15. SHAREHOLDERS' EQUITY

(a) *Authorized:*

Unlimited number of Class A no par value voting common shares
Unlimited number of Class B no par value non-voting common shares
Unlimited number of Class C no par value non-voting common shares
Unlimited number of Class D no par value non-voting, non-cumulative redeemable
and retractable preferred shares

(b) *Issued and fully paid:*

Class A shares	Sept. 30, 2007		Sept. 30, 2006	
	Number of Shares	Amount	Number of Shares	Amount
Beginning of the year	56,954,192	\$ 54,217,072	48,844,906	\$ 47,335,506
Private placements of units	-	-	7,386,923	7,715,966
Exercise of warrants	-	-	247,363	160,786
Exercise of stock options	-	-	475,000	704,010
Future income tax on flow through shares	-	-	-	(1,699,196)
End of the year	56,954,192	\$ 54,217,072	56,954,192	\$ 54,217,072

(i) There were no shares issued during the year ended September 30, 2007.

(ii) During the year ended September 30, 2006, the Company closed a \$6,438,886 underwritten private placement, issuing 2,000,000 flow-through Class A shares at a purchase price of \$1.50 per share, and 2,645,297 non-flow-through units at a purchase price of \$1.30 per unit, with each unit being comprised of one Class A share and one-half of one share purchase warrant. Each whole warrant was exercisable into one Class A share for 18 months at a price of \$1.85 per share. The value of \$724,811 (\$0.548 per warrant) was attributed to the warrants issued under these private placements based on the Black Scholes pricing model and was credited to warrants within shareholders' equity.

The Company also raised an additional \$3,564,113 by issuing a further 2,741,626 non-flow-through units at a purchase price of \$1.30 per unit, with each unit being comprised of one Class A share and one-half of one share purchase warrant. Each whole warrant was exercisable into one Class A share for 18 months at a price of \$1.85 per share. The value of \$751,205 (\$0.548 per warrant) was attributed to the warrants issued under these private placements based on the Black Scholes pricing model and was credited to warrants within shareholders' equity.

As consideration for the underwritten portion of the private placement, the Company paid a cash commission of \$418,528, and issued 301,944 broker warrants. Each broker warrant was exercisable into one Class A share for 18 months at a price of \$1.40 per share. The value of \$204,416 was attributed to these broker warrants based on the Black Scholes pricing model and was credited to warrants within shareholders' equity.

The Company also paid a cash commission of \$71,282 in respect of the non-brokered portion of the placement and incurred aggregate share issue costs of \$116,791. The proceeds of the flow-through portion of this offering were used to fund qualified expenditures on the Company's coal properties.

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September 30, 2007 and 2006

(Expressed in Canadian dollars)

15. SHAREHOLDERS' EQUITY (Continued)

(iii) During the year ended September 30, 2006, the Company renounced \$3,000,000 of Canadian exploration expenditures to subscribers for flow through share offerings. The tax credits of \$1,699,196 associated with these expenditures were used to recognize benefits of current and historical tax losses in the statements of operations, with a corresponding reduction in shareholders' equity.

(c) *Stock options:*

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

The Company's stock options outstanding as at September 30, 2007 and 2006 and the changes for the years then ended are as follows:

	Sept. 30, 2007	Weighted average exercise price	Sept. 30, 2006	Weighted average exercise price
Beginning of the year	3,580,000	\$ 1.63	4,015,000	\$ 1.55
Options granted	-	-	170,000	1.75
Options exercised	-	-	(475,000)	0.84
Options expired	(3,500,000)	1.63	(130,000)	1.68
End of the year	80,000	\$ 1.75	3,580,000	\$ 1.63
Options exercisable	80,000	\$ 1.75	3,550,000	\$ 1.63

The fair values of the options granted during 2006 were estimated using an option-pricing model. Assumptions used in the pricing model were as follows: risk-free interest rate - 3.6% to 4.0%; expected life - 2 years; expected volatility - 77%; and expected dividends - nil.

The fair value of these options amounted to \$129,112 of which \$5,088 (2006 - \$124,024) was expensed during the year and credited to contributed surplus within shareholders' equity. The weighted average fair value of the options granted was \$0.58 per option.

Options to acquire Class A shares at September 30, 2007 are as follows:

Number Outstanding	Exercise Price	Expiry Date
30,000	1.75	November 1, 2007
20,000	1.75	January 10, 2008
30,000	1.75	April 3, 2008
<u>80,000</u>		

The outstanding options have a weighted average remaining contractual life of 0.3 years.

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15. SHAREHOLDERS' EQUITY (Continued)

(d) Warrants:

The Company's share purchase warrants and broker warrants outstanding as at September 30, 2007 and 2006 and the changes for the years then ended are as follows:

	Sept. 30, 2007	Weighted average exercise price	Sept. 30, 2006	Weighted average exercise price
Beginning of the year	3,662,072	\$ 1.79	20,271,138	\$ 2.07
Issued under private placements	-	-	2,693,461	1.85
Broker warrants issued	-	-	301,944	1.40
Exercised during the year	-	-	(247,363)	0.65
Expired during the year	(3,662,072)	\$ 1.79	(19,357,108)	2.10
End of the year	-	\$ -	3,662,072	\$ 1.79

There are no outstanding warrants as at September 30, 2007.

(e) Contributed surplus:

The changes in contributed surplus are as follows:

	Sept. 30, 2007	Sept. 30, 2006
Contributed surplus – beginning of year	\$ 3,792,327	\$ 3,974,043
Stock-based compensation	5,088	124,024
Contributed surplus on exercise of stock options	-	(305,740)
Book value of expired warrants	3,852,688	-
Contributed surplus – end of year	\$ 7,650,103	\$ 3,792,327

16. INCOME TAXES

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

	Sept. 30, 2007	Sept. 30, 2006
Net earnings (loss) for the year	\$ 2,969,163	\$ (4,290,483)
Statutory tax rate	34.12%	36.4%
Income taxes (recovery) at statutory rates	\$ 1,013,078	\$ (2,180,243)
Permanent differences	(1,136,709)	313,231
Income tax rate change	88,470	295,473
Change in valuation allowance	-	74,957
Other	35,161	(202,614)
Income taxes (recovery) at effective rates	\$ -	\$ (1,699,196)

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(Expressed in Canadian dollars)

16. INCOME TAXES (Continued)

Future income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of future income tax assets and liabilities at September 30, 2007 are as follows:

	Sept. 30, 2007	Sept. 30, 2006
Future income tax assets		
Non-capital losses	\$ 4,521,560	\$ 2,713,676
Share issue costs	413,933	656,831
Capital assets	39,557	-
Canadian exploration and development costs	6,645,478	-
Other	-	767,622
	<u>11,620,528</u>	<u>4,138,129</u>
Future income tax liabilities		
Capital assets	-	(171,805)
Canadian exploration and development costs	-	(3,737,428)
Partnership interest	(6,223,883)	-
	<u>5,396,645</u>	<u>228,896</u>
Less: Valuation allowance	<u>(5,396,645)</u>	<u>(228,896)</u>
	<u>\$ -</u>	<u>\$ -</u>

During the year ended September 30, 2006, the Company renounced \$3,000,000 of Canadian exploration expenditures to subscribers for flow through share offerings. As a result of these renunciations, the Company is not entitled to deduct these expenses for tax purposes.

The Company has approximately \$13,190,000 (2006 - \$53,313,000) in tax deductions associated with Canadian resource expenditures which may be carried forward indefinitely and used to reduce taxable income in future years. The Company has available temporary differences for tax purposes. The net amount which would give rise to a future income tax asset has not been recognized as realization is not considered more likely than not.

The valuation reflects the Company's estimate that the tax assets will not likely be realized. As at September 30, 2007, the Company has approximately \$13,141,000 (2006 - \$8,480,000) in losses for tax purposes which expire between the years ended 2008 - 2027.

2008	\$ 93,000
2009	233,000
2010	241,000
2014	667,000
2015	1,500,000
2026	5,895,000
2027	4,512,000
	<u>\$ 13,141,000</u>

NEMI NORTHERN ENERGY & MINING INC.

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Notes to Consolidated Financial Statements

September 30, 2007 and 2006

(Expressed in Canadian dollars)

17. SUPPLEMENTARY CASH FLOW INFORMATION

The Company conducted non-cash investing and financing activities as follows:

	Year ended Sept. 30, 2007	Year ended Sept. 30, 2006
Transfer of assets to Peace River Coal LP	\$ 116,609,567	\$ -
Transfer of liabilities to Peace River Coal LP	(69,948,105)	-
Book value of exercised warrants transferred to contributed surplus	3,852,688	-
Broker warrants issued for financing costs	-	(204,416)
Capital lease obligation recognized for assets under capital lease	-	469,272
Coal inventory credited to deferred development costs	-	9,289,040
Coal license applications transferred to coal properties	-	25,600
Contributed surplus on issue of warrants	-	1,476,016
Contributed surplus on exercise of stock options	-	305,740

18. RELATED PARTY TRANSACTIONS

- a) During the year ended September 30, 2007, consulting fees of \$78,000 (2006 - \$93,600) and management fees totaling \$nil (2006 - \$282,000), including \$nil (2006 - \$76,250) included in deferred expenditures, were charged in respect of services rendered by directors or by companies with common directors or officers. In addition, legal fees totaling \$15,392 (2006 - \$192,566), including \$nil (2006 - \$20,000) in respect of share issue costs, were charged by a legal firm in which a director was a partner. Included in accounts payable and accrued liabilities at September 30, 2007 was \$8,097 (2006 - \$7,247) payable to related parties. Transactions with related parties are recorded at the exchange amount, being the price agreed between the parties.
- b) The Trend Property was acquired in an agreement with a former officer of the Company and carries a 1% royalty interest. During the year ended September 30, 2006, two of the Company's officers each acquired a percentage of this royalty interest in private transactions. The Trend property was transferred to Peace River Coal LP on November 29, 2006. During the year ended September 30, 2007, royalties paid or payable to these officers by NEMI amounted to \$nil (2006 - \$59,930).

19. SEGMENTED INFORMATION

The Company operates in one segment – the acquisition, exploration and development of coal properties, and subsequent production. As at September 30, 2007, all the operations and assets were in Canada.

NEMI NORTHERN ENERGY & MINING INC.

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Notes to Consolidated Financial Statements

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(Expressed in Canadian dollars)

20. COMMITMENTS

- a) The Company is committed under the terms of an office lease agreement for the following annual rent and estimated operating costs:

year ending September 30, 2008	\$231,000
year ending September 30, 2009	\$237,000
year ending September 30, 2010	\$244,000
year ending September 30, 2011	\$123,000

The Company has sublet this office space at its cost to Peace River Coal LP.

- b) During the year ended September 30, 2007, the Company entered into an office lease agreement for its current premises for the following annual rent and estimated operating costs:

year ending September 30, 2008	\$36,000
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21. SUBSEQUENT EVENTS

- a) The partners of Peace River Coal LP have been presented with a 2007 Supplemental Program and Budget for expenditures amounting to \$25 million. The Company's pro rata share of this cash call is \$5 million. The Company has elected to contribute its pro rata share which amount will be funded by the Company's free cash carry (Note 4).
- b) The partners of Peace River Coal LP have been presented with Peace River Coal LP's 2008 Program and Budget for expenditures amounting to \$198 million, the Company's pro rata share of which is \$39.6 million. Under the terms of the limited partnership agreement, the partners are not obliged to fully participate in any program and budget that may be proposed by the partnership, but they are subject to dilution provisions should they not elect to participate fully. The Company has elected to provide funding of \$5 million in respect of this budget, and accordingly, it is expected that the Company's interest in Peace River Coal LP will be diluted to approximately 12%.
- c) Subsequent to September 30, 2007, 30,000 stock options expired, unexercised.

NEMI NORTHERN ENERGY & MINING INC.
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Consolidated Schedules of Deferred Expenditures

(Expressed in Canadian dollars)

	Belcourt Saxon	Trend Property	Total
Balance at September 30, 2005	\$ 2,165,336	\$ 20,916,237	\$ 23,081,573
Field programs	3,573,907	2,719,021	6,292,928
Consultants and contractors	1,781,672	10,781,199	12,562,871
Coal licenses	239,189	73,005	312,194
First nations	3,923	16,883	20,806
Laboratory	78,631	25,342	103,973
Mine stripping and preproduction costs	-	41,531,120	41,531,120
Project administration	2,875	275,892	278,767
Rail replacement	-	1,158,711	1,158,711
	5,680,197	56,581,173	62,261,370
Less: pre-commercial revenue coal inventory	-	(11,061,005)	(11,061,005)
	-	(9,289,040)	(9,289,040)
	5,680,197	36,231,128	41,911,325
Balance at September 30, 2006	\$ 7,845,533	\$ 57,147,365	\$ 64,992,898
Field programs	50,677	558,841	609,518
Consultants and contractors	270,832	167,572	438,404
First nations	90	-	90
Laboratory	6,612	110	6,722
Mine stripping and preproduction costs	-	4,333,613	4,333,613
Project administration	4,645	74,873	79,518
	332,856	5,135,009	5,467,865
	8,178,389	62,282,374	70,460,763
Transfer of costs to Peace River Coal LP	(8,178,389)	(62,282,374)	(70,460,763)
Balance at September 30, 2007	\$ -	\$ -	\$ -