
NEMI Northern Energy & Mining Inc.
Unaudited Interim Consolidated Financial Statements
For the three and six-month periods ended March 31, 2011

(Expressed in Canadian Dollars)

Notice of no Auditor Review of Interim Financial Statements

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

The accompanying unaudited 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.

Interim Consolidated Statements of Loss and Comprehensive Loss

Periods ended March 31,

(Unaudited)

(Expressed in Canadian dollars)

	2011	Three months 2010	2011	Six months 2010
	\$	\$	\$	\$
Administrative expenses				
Remuneration and benefits - note 8	(81,885)	(86,135)	(135,929)	(143,017)
Professional fees	(68,381)	(41,345)	(108,765)	(51,160)
Office	(38,913)	(49,275)	(66,082)	(87,229)
Shareholder communication	(4,294)	(1,770)	(8,673)	(3,203)
Directors fees	(16,174)	(14,611)	(32,022)	(36,524)
Stock based compensation - note 7	(10,000)	(8,000)	(36,000)	(16,000)
Depreciation	(1,162)	(1,525)	(2,325)	(3,051)
Loss before the undernoted	(220,809)	(202,661)	(389,796)	(340,184)
Interest on current debt and bank charges	(2,514)	(2,282)	(4,352)	(3,846)
Interest, accretion and placement charges				
On convertible debentures - note 6	(383,279)	(411,760)	(804,192)	(832,671)
Interest and other income	7,968	13,177	19,830	28,583
Share of loss from Peace River Coal LP - note 5	(1,005,000)	(367,000)	(1,832,000)	(31,000)
Increase in Hillsborough investment - note 4	-	-	-	20,407
Net (loss) and comprehensive (loss) for the period	(1,603,634)	(970,526)	(3,010,510)	(1,158,711)
Loss per share - basic and diluted	\$(0.03)	\$(0.02)	\$(0.06)	\$(0.02)
Weighted average number of shares outstanding	54,196,079	55,144,795	54,047,634	55,944,588

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

NEMI Northern Energy & Mining Inc.

Interim Consolidated Statements Cash Flows

Periods ended March 31,

(Unaudited)

(Expressed in Canadian dollars)

	2011	Three months 2010	2011	Six months 2010
Cash (used in) provided by:	\$	\$	\$	\$
Operating activities				
Net (loss) for the period	(1,603,634)	(970,526)	(3,010,510)	(1,158,711)
Items not affecting cash				
Depreciation	1,162	1,525	,2,325	3,051
Share of (income) loss of Peace River Coal LP - note 5	1,005,000	367,000	1,832,000	31,000
Increase in value of investment in Hillsborough - note 4	-	-	-	(20,407)
Accretion of debenture and deferred financing costs - note 6	165,321	177,020	346,276	357,975
Stock-based compensation - note 7	10,000	8,000	36,000	16,000
	(422,151)	(416,981)	(793,909)	(771,092)
Net changes in non-cash working capital items				
Accounts receivable	532	(12)	2,480	1,126,410
HST recoverable	14,470	(459)	3,870	(4,735)
Prepaid expenses and other	8,735	10,235	26,768	22,083
Accounts payable and accrued liabilities	(103,576)	199,043	(435,256)	(102,662)
	(501,990)	(208,174)	(1,196,047)	270,004
Financing activities				
Shares issued on exercise of stock options	13,667	-	13,667	-
Common shares repurchased	-	-	(979,172)	(770,318)
	13,667	-	(965,505)	(770,318)
Investing activities				
Capital investment in Peace River Coal LP - note 5	-	(4,081,640)	(1,888,520)	(10,876,120)
Capital distribution from Peace River Coal LP - note 5	-	2,627,827	-	6,241,428
	-	(1,453,813)	(1,888,520)	(4,634,692)
(Decrease) in cash	(488,323)	(1,661,987)	(4,050,072)	(5,135,006)
Cash and equivalents -beginning of period	3,701,600	14,500,992	7,263,349	17,974,011
Cash and equivalents - end of period	3,213,277	12,839,005	3,213,277	12,839,005
Supplementary cash flow information				
Cash interest expense paid	-	-	479,912	479,912

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

NEMI Northern Energy & Mining Inc.

Interim Consolidated Statement of Changes in Net Equity

Six months ended March 31, 2011

(Unaudited)

(Expressed in Canadian dollars)

	Common Shares <small>(quantity)</small>	Share capital \$	Contributed surplus \$	Equity Portion of Convertible Debentures \$	Deficit \$	Total \$
Balance, September 30, 2010	54,321,280	51,822,705	9,966,839	1,862,731	(12,689,098)	50,963,177
Shares issued in consideration for:						
Cash on options exercised	33,334	22,147	(8,480)	-	-	13,667
Conversion of debentures	1,612,221	1,773,621	-	(253,536)	-	1,520,085
Shares repurchased per Normal Course Issuer Bid	(1,075,200)	(1,025,745)	46,573	-	-	(979,172)
Stock-based compensation	-	-	36,000	-	-	36,000
Loss for the period	-	-	-	-	(3,010,510)	(2,943,510)
Balance, March 31, 2011	54,891,635	52,592,728	10,040,932	1,609,195	(15,699,608)	48,543,247

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

NEMI Northern Energy & Mining Inc.

Notes to Unaudited Interim Consolidated Statements

Six months ended March 31, 2011

1. Organization and nature of operations

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

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

PRC operates the Trend Mine near Tumbler Ridge, British Columbia and holds substantial metallurgical coal assets under exploration and development in northeast British Columbia, including the Roman and Horizon projects, and a 50% interest in the Belcourt Saxon ("Belsax") properties. The Trend Mine has operated as an open-pit excavator-truck operation under a full mine permit since January 2007. In the period since January 2008 when PRC commenced commercial operations, the Trend Mine has produced over 2 million tonnes of hard coking coal which has been exported to steel mills around the world. Over that period management has sought to improve production facilities in order to achieve a targeted annual production capacity of 1.3 million tonnes. Total coal resources for the PRC properties, including Trend Mine, Roman Mountain and Horizon, all in which PRC holds a 100% interest, are currently estimated to be in excess of 480 million tonnes.

A technical study on the Belsax interests was completed in 2008 and a NI 43-101 Technical Report dated March 2009 was jointly filed on SEDAR by NEMI and Western Coal Corporation, which holds the other 50% interest. The report states coal resources (at 100%) for the Belsax properties to be in excess of 170 million tonnes. A scoping study of the Belsax interests suggested a potential to produce approximately 6 million tonnes per year of metallurgical ROM coal over a 15 year period. Further evaluation work is being conducted.

In October 2009, Anglo announced that it was restructuring its global portfolio of assets, a plan that included divestiture of its interest in PRC. Subsequently, Anglo reached an agreement with NEMI and Hillsborough which will allow a prospective purchaser to acquire up to a 100% interest in PRC. The NEMI/Anglo agreement will remain in effect until September 30, 2011. The PRC partners believe that a new owner with a 100% interest in PRC will be able to realize the asset potential in a more expeditious and efficient manner than is possible under the current ownership structure. Anglo has advised that the PRC divestment process is continuing. As permitted under the Limited Partnership Agreement, in September 2010, PRC adopted a set-off approach in relation to distributions and cash calls. Accordingly, in order to facilitate the divestment, any cash distributions to which the limited partners might otherwise be entitled are being retained in PRC until the transaction is concluded. To this end, as at March 31, 2011 cash holdings retained in PRC totaled \$49.090 million and working capital amounted to \$46.240 million. Management does not anticipate that additional funding will be required in order to fund PRC operations and capital requirements for the duration of the 2011 PRC program and budget.

These consolidated financial statements include the accounts and the results of operations for the Company and its wholly-owned subsidiary, Crossroad Ventures Inc., incorporated under the laws of the Province of British Columbia.

NEMI Northern Energy & Mining Inc.

Notes to Unaudited Interim Consolidated Statements (continued)

Six months ended March 31, 2011

2. Basis of presentation

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("CGAAP") applicable to a going concern on a basis consistent with those accounting principles followed in the most recent audited financial statements. However, as unaudited interim financial statements, they do not include all the information and notes required by CGAAP for annual financial statements. Therefore these unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended September 30, 2010.

The use of CGAAP applicable to a going concern assumes that the Company will be able to meet its obligations and continue its operations for the next twelve months. Realization values may be substantially different from carrying values as presented herein. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern or in the event of a successful PRC divestiture. As at March 31, 2011, NEMI operations have never reached a level of sustained profitability and the Company had an accumulated deficit of \$15,699,608 since inception and could expect to incur further losses in the development of its business in the event a divestiture is not completed. At the present time, the Company's plans to continue as a going concern are primarily focused on the sale of its PRC interest.

As at March 31, 2011, the Company had working capital of \$3,380,216. Currently, management expects that the Company has sufficient funds on hand in order to meet its expected obligations in the period through the anticipated PRC divestiture.

The results of operations for the three and six-month periods ended March 31, 2011 are not necessarily indicative of those that could be expected for the entire year ending September 30, 2011.

3. Future changes in accounting and financial reporting

International financial reporting standards ("IFRS")

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

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

4. Investment in Hillsborough

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.

NEMI Northern Energy & Mining Inc.

Notes to Unaudited Interim Consolidated Statements (continued)

Six months ended March 31, 2011

During the quarter ended December 31, 2009, Hillsborough completed a statutory arrangement (the "Arrangement") whereby Vitol Anker International B.V. ("Vitol") acquired all the shares of Hillsborough at a price of \$0.50 per share. As permitted by the terms of the Arrangement, NEMI filed a notice of dissent.

As there is no longer a market price for the Hillsborough shares, NEMI is carrying the shares at a value of \$0.50 per share, representing Vitol's most recent offer to pay which was received January 11, 2010. The carrying value of the shares at March 31, 2011 was \$680,250, resulting in a gain of \$nil (2009 - \$20,407) included in net loss and comprehensive loss during the period then ended. The price NEMI eventually receives may be more or less than \$0.50, based on the outcome of the dissent process.

5. Investment in Peace River Coal LP

Since September 30, 2010, changes to the investment in PRC have been as follows:

	Six months ended March 31, 2011	Year ended September 30, 2010
	\$	\$
Balance, beginning of period	54,924,825	46,116,103
Capital contributions paid during the period	1,888,520	21,829,536
Capital distribution allocated during the period	-	(12,983,814)
Share of income (loss) for the period	(1,832,000)	(37,000)
Balance, end of period	54,981,345	54,924,825

As permitted under the Limited Partnership Agreement, in September 2010 PRC adopted a set-off approach in relation to distributions and cash calls and, in order to facilitate the divestment process, distributions are being retained in PRC until the transaction is concluded. The Company expects that any cash so retained in PRC will be sufficient to cover any PRC capital requirements pending the divestiture.

6. Convertible debentures

As at March 31, 2011 the debentures were recognized as follows:

	Liability Component	Equity Component
	\$	\$
Debenture	10,027,061	1,763,580
Unamortized deferred financing costs	(190,529)	(154,385)
	9,836,532	1,609,195

As at March 31, 2011, the unpaid principal balance of the 8% convertible debentures was \$10,449,000 (September 30, 2009 - \$11,900,000). The convertible debentures mature on March 12, 2013. Interest is payable semi-annually on June 30 and December 31.

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

NEMI Northern Energy & Mining Inc.

Notes to Unaudited Interim Consolidated Statements (continued)

Six months ended March 31, 2011

	\$
Gross debenture proceeds on issue	12,724,000
less: equity component	<u>(2,146,116)</u>
Liability component	10,577,884
Accretion of liability component	1,605,062
Debentures converted to equity at allocated value, (principal value -\$2,275,000)	<u>(2,155,885)</u>
Liability - end of period	<u>10,027,061</u>

Interest expense on the convertible debenture for the current period is comprised of:

	\$
Interest on debenture @ 8%	457,917
Accretion of convertible debenture	255,056
Amortization of deferred financing charges	<u>91,219</u>
	<u>804,192</u>

7. Shareholders' equity

a) Authorized share capital

The authorized share capital of the Company remained unchanged from that as disclosed in the Company's most recently released audited consolidated financial statements for the year ended September 30, 2010.

b) Issued, fully-paid and outstanding

As at March 31, 2011 the balance of Class A common shares outstanding was as follows:

	Number of common shares
Issued and fully-paid	55,492,301
Less: shares repurchased and held in treasury	<u>(600,666)</u>
Issued, fully paid and outstanding	<u>54,891,635</u>

Subsequent to March 31, 2011, the balance of shares repurchased and held in treasury was reduced by 50,000 to 550,666 and the number of issued, fully paid and outstanding shares increased to 54,941,635 when 50,000 shares from treasury were issued upon the exercise of 50,000 options.

NEMI Northern Energy & Mining Inc.

Notes to Unaudited Interim Consolidated Statements (continued)

Six months ended March 31, 2011

c) Options

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

	Six months ended March 31, 2011		Year ended September 30, 2010	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Beginning of period	784,000	\$0.60	400,000	\$0.59
Granted	-	\$ -	400,000	\$0.60
Forfeited	(150,000)	\$0.90	-	\$ -
Exercised	(33,334)	\$0.41	(16,000)	\$0.41
	600,666	\$0.54	784,000	\$0.60

Options to acquire Class A common shares as at March 31, 2011 were as follows:

Expiry	Number of options outstanding	Weighted average exercise Price per share	Average remaining life (years)
May 27, 2014	200,666	\$0.41	3.16
September 30, 2015	275,000	\$0.60	4.50
September 30, 2016	125,000	\$0.60	5.51
Total outstanding	600,666	\$0.54	4.26
Unvested	(145,833)	\$0.49	4.17
Exercisable	454,833	\$0.55	4.29

Subsequent to March 31, 2011, 16,666 unvested options having an exercise price of \$0.41 per share that were to expire May 27, 2014 were forfeited and 50,000 were exercised at a price of \$0.60 each. On April 26, 2011, the Company granted 300,000 options to officers and directors exercisable for a period of five years at a price of \$1.00 each. As at May 15, 2011, there were 834,000 options outstanding.

During the six-month period ended March 31, 2011, the Company recognized \$36,000 in stock-based compensation incurred with respect to unvested options.

8. Related party transactions

For the three and six-month periods ended March 31, 2011, remuneration and benefits included fees the Company paid for CFO and non-audit accounting services totaling \$10,250 (2010 - \$19,500) and \$26,250 (2010 - \$38,000). These fees were paid to companies owned by the former CFO or in which the current CFO has significant influence.

These transactions were measured by the exchange amount, which is agreed upon by the transacting parties. As at March 31, 2011, accounts payable and accrued liabilities include \$21,139 due to related parties (September 30, 2010 - \$nil). Amounts due on these accounts, if any, are unsecured, non-interest bearing, and have no fixed terms of repayment.

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Notes to Unaudited Interim Consolidated Statements (continued)

Six months ended March 31, 2011

9. Segmented information

The Company operates in one segment - the acquisition, exploration and development of coal properties, and subsequent production. All the operations and assets are located in Canada.

10. Financial instruments and capital disclosures

The Company's financial instruments consist of cash, investment in Hillsborough, amounts receivable, investments, accounts payable and accrued liabilities. For cash and current receivables and accounts payable and accrued liabilities, carrying value is considered to be a reasonable approximation of fair value due to the short-term nature of these instruments. The fair value of other financial assets represents the market value of quoted investments.

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

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

a) Credit risk

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

The primary sources of credit risk for the Company arise from the following financial assets: (1) cash and cash equivalents held with major Canadian financial institutions; (2) marketable securities; and (3) amounts receivable. The Company has not had any credit losses in the past, nor does it expect to have any credit losses in the future. At March 31, 2011, the Company has no financial assets that are past due or impaired due to credit risk defaults.

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

	March 31, 2011	September 30, 2010
	\$	\$
Cash	3,213,277	7,263,349
Investment in Hillsborough	680,250	680,250
Accounts receivable	2,625	5,105
	<u>3,896,152</u>	<u>7,948,704</u>

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations with respect to financial liabilities as they fall due. The Company's financial liabilities are comprised of accounts and interest payable and accrued liabilities. The Company frequently assesses its liquidity position by reviewing the timing of amounts due and the Company's current cash flow

NEMI Northern Energy & Mining Inc.

Notes to Unaudited Interim Consolidated Statements (continued)

Six months ended March 31, 2011

position to meet its obligations. The Company manages its liquidity risk by maintaining sufficient cash and cash equivalents and short-term investment balances to meet its anticipated operational needs.

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

The following table summarizes the remaining contractual maturities of the Company's financial liabilities:

	March 31, 2011	September 30, 2010
	\$	\$
Accounts payable and accrued liabilities	566,642	991,897
	566,642	991,897

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

c) Market risk

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

d) Foreign currency risk

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

e) Capital disclosure

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

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

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

The components of capital and key ratios as of March 31, 2011 and September 30, 2010 were as follows:

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Notes to Unaudited Interim Consolidated Statements (continued)

Six months ended March 31, 2011

	March 31, 2011		September 30, 2010	
	\$	ratio	\$	ratio
Debt to equity				
Long-term debt	9,836,532		11,010,341	
Shareholders' equity	48,543,247	0.2:1	50,963,177	0.2:1
Working capital ratio				
Current assets	3,936,857		8,020,048	
Current liabilities	556,642	7.1:1	991,897	8.1:1

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

11. Contingencies and commitments

a) Sub-let office premises

The Company is committed under the terms of an office lease agreement for previously occupied premises for the following estimated annual rent and operating costs:

year ending September 30, 2011 \$61,500

This office space is currently sub-let to PRC at the Company's cost.

b) Current office lease

During the year ended September 30, 2008, the Company entered into an office lease agreement for its current premises for the following estimated annual rent and operating costs:

year ending September 30, 2011 \$29,000
year ending September 30, 2012 \$58,000
year ending September 30, 2013 \$58,000