Consolidated Financial Statements of

NEMI NORTHERN ENERGY & MINING INC.

(A Development Stage Enterprise)

For the year ended September 30, 2008

(Expressed in Canadian Dollars)

ERNST & YOUNG

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, 2008 and 2007 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Vancouver, Canada,
December 18, 2008.

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, 2008		As at September 30, 2007
ASSETS				
CURRENT				
Cash and cash equivalents	$	10,681,935	$	9,689,389
Amounts receivable		12,131,057		29,602
Taxes recoverable		5,927		2,574
Prepaid expenses and other		63,357		37,931
		22,882,276		9,759,496
INVESTMENT IN PEACE RIVER COAL LP (Note 3)		46,708,040		43,625,000
PLANT AND EQUIPMENT (Note 4)		34,124		17,942
Total Assets	$	69,624,440	$	53,402,438
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	$	516,449	$	99,290
CONVERTIBLE DEBENTURES (Note 6)		9,574,505		-
Total Liabilities		10,090,954		99,290
SHAREHOLDERS' EQUITY (Note 7)				
SHARE CAPITAL		54,981,872		54,217,072
CONTRIBUTED SURPLUS		8,154,103		7,650,103
WARRANTS		35,289		-
EQUITY PORTION OF CONVERTIBLE DEBENTURES (Note 6)		1,862,731		-
DEFICIT		(5,500,509)		(8,564,027)
Total Shareholders' Equity		59,533,486		53,303,148
Total Liabilities and Shareholders' Equity	$	69,624,440	$	53,402,438

NATURE OF OPERATIONS (Note 1)
COMMITMENTS (Note 13)
SUBSEQUENT EVENTS (Note 14)

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, 2008	September 30, 2007
EXPENSES		
Accretion expense	$ **-**	$ 14,206
Advertising and public relations	**22,520**	20,885
Amortization	**7,638**	32,224
Consulting	**120,840**	87,802
Directors' fees	**82,000**	20,000
Insurance	**28,648**	83,514
Management fees	**-**	13,950
Office and sundry	**48,597**	31,448
Office rent	**70,980**	79,370
Professional fees (Note 14)	**535,591**	848,544
Regulatory fees	**24,848**	69,625
Stock-based compensation (Note 7(c))	**504,000**	5,088
Stock transfer fees	**13,896**	11,257
Telecommunications	**29,096**	27,882
Travel and accommodation	**136,398**	129,768
Wages and benefits	**522,359**	478,740
Workers compensation fees	**5,241**	13,727
Loss before other income (expenses)	**(2,152,652)**	(1,968,030)
Break fee settlement (Note 5)	**-**	(1,275,000)
Other tax recovery (expense)	**-**	(22,516)
Foreign exchange gain (loss)	**3,043**	(13,186)
Gain on asset transfer to Peace River Coal LP (Note 3)	**-**	8,457,225
Interest on current debt and bank charges	**(6,325)**	(587,618)
Interest on long term debt	**-**	(128,009)
Interest on convertible debentures (Note 6)	**(939,812)**	-
Interest and other income	**403,785**	378,064
Loss on disposal of equipment	**(1,521)**	(3,518)
Production bonus settlement	**-**	(293,249)
Gain on free carry of 2007 capital contributions to Peace River Coal LP (Note 3)	**5,000,000**	-
Share of income (loss) of Peace River Coal LP	**757,000**	(1,575,000)
NET EARNINGS AND COMPREHENSIVE EARNINGS FOR THE YEAR	**3,063,518**	2,969,163
DEFICIT, BEGINNING OF THE YEAR	**(8,564,027)**	(11,533,190)
DEFICIT, END OF THE YEAR	**$ (5,500,509)**	$ (8,564,027)
Earnings per share (Basic and diluted)	**$ 0.05**	$ 0.05
Weighted average number of shares outstanding	**57,124,761**	56,954,192

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, 2008	September 30, 2007
CASH FLOWS FROM		
OPERATING ACTIVITIES		
Net earnings (loss) and comprehensive earnings (loss) for the year	$ **3,063,518**	$ 2,969,163
Items not affecting cash:		
Amortization	**7,638**	32,224
Accretion expense	**-**	14,206
Gain on free carry of 2007 capital contributions to Peace River Coal LP	**(5,000,000)**	
Share of (income) loss of Peace River Coal LP	**(757,000)**	1,575,000
Accretion of debenture and deferred financing costs	**393,343**	
Gain on asset transfer to Peace River Coal LP	**-**	(8,457,225)
Loss on disposal of equipment	**1,521**	3,518
Stock-based compensation	**504,000**	5,088
	(1,786,980)	(3,858,026)
Net changes in non-cash working capital items		
Accounts receivable	**21,227**	202,115
Taxes recoverable	**(3,353)**	173,335
Prepaid expenses and other	**(25,426)**	110,955
Accounts payable and accrued liabilities	**417,160**	(9,936,778)
Net cash used in operating activities	**(1,377,372)**	(13,308,399)
FINANCING ACTIVITIES		
Repayments on capital lease obligations	**-**	(14,827)
Loan financing	**11,843,981**	17,900,000
Net cash provided by financing activities	**11,843,981**	17,885,173
INVESTING ACTIVITIES		
Net cash received on transfer of assets to Peace River Coal LP	**-**	9,918,687
Investment in Peace River Coal	**(9,448,722)**	-
Proceeds on disposal of equipment	**-**	53,500
Acquisition of plant and equipment	**(25,341)**	(1,566,114)
Deferred expenditures, net of pre-commercial revenue	**-**	(5,467,865)
Net cash provided by (used in) investing activities	**(9,474,063)**	2,938,208
INCREASE IN CASH	**992,546**	7,514,982
CASH AND EQUIVALENTS - BEGINNING OF THE YEAR	**9,689,389**	2,174,407
CASH AND EQUIVALENTS - END OF THE YEAR	$ **10,681,935**	$ 9,689,389

SUPPLEMENTARY CASH FLOW INFORMATION (Note 9)

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

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 asset is accordingly the interest 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.

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) Earnings per share

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and convertible debentures. 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 and convertible debentures.

(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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New accounting pronouncements

On October 1, 2007, the Company adopted three new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"); Section 1535, "Capital Disclosures" and Sections 3862 and 3863, "Financial Instruments – Disclosures" and "Financial Instruments – Presentation".

Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. The section seeks to establish whether the entity has complied with capital requirements and if not, the consequences of such non-compliance.

Section 3862, "Financial Instruments – Disclosures", describes the required disclosures to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863, "Financial Instruments – Presentation", establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments – Disclosure and Presentation".

The adoption of the accounting pronouncements had no material effect on the consolidated financial statements for the year ended September 30, 2008.

(r) Convergence with International Financial (IFRS)

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being evolved and converged with International Financial Reporting Standards (IFRS) over a transitional period to be completed by 2011. The Company will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Canadian GAAP will be converged with IFRS through a combination of two methods: as joint-convergence of the United States' Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced in Canada before the complete changeover to IFRS. Also, the United States' Financial Accounting Standards Board and the International Accounting Standards Board have completed a joint-project on business combinations and non-controlling interests. As the International Accounting Standards Board currently, and expectantly, has projects underway that should result in new pronouncements that continue to evolve IFRS, and as this Canadian convergence initiative is in an early stage as of the date of these consolidated financial statements, it is premature to currently assess the impact of the Canadian initiative on the Company.

3. 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.

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 5). 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") and Anglo.

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 partners of PRC were presented with a 2007 Supplemental Program and Budget for expenditures amounting to $25 million, with the Company's pro rata share of this cash call amounting to $5 million. The Company elected to contribute its pro rata share which was funded by the Company's free cash carry, resulting in a gain to the Company of $5 million.

(Expressed in Canadian dollars)

3. INVESTMENT IN PEACE RIVER COAL LP (Continued)

The partners of PRC were presented with PRC'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 PRC will be diluted, on a provisional basis, to approximately 12% (the "Provisional Interest") in 2008.

On December 24, 2007, the partners of PRC were presented with a cash call to fund $14.1 million of the 2008 Program and Budget for expenditures, with the Company's pro rata share being $1.7 million. Despite funding the $1.7 million cash call, the Company has taken the position that any cash calls until December 31, 2007 should be covered by the free cash carry and is pursuing the return of the $1.7 million which would be recorded as a gain, if received.

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
		116,690,878
Consideration paid to the Company		
Net debts assumed or repaid		69,948,103
Cash payment on closing		10,000,000
		79,948,103
Net book value of assets transferred		36,742,775
Gain on transfer of assets		8,457,225
NEMI's share of partners' contributions		45,200,000
Accumulated share of losses to September 30, 2007		(1,575,000)
Balance – September 30, 2007		43,625,000
Capital contributions to September 30, 2008		9,448,722
Capital contribution distribution accrued at September 30, 2008		(12,122,682)
		40,951,040
Gain on free carry of 2007 Supplemental Program and Budget capital contributions		5,000,000
Share of income for October 1, 2008 to September 30, 2008		757,000
Balance – September 30, 2008	$	46,708,040

(Expressed in Canadian dollars)

3. INVESTMENT IN PEACE RIVER COAL LP (Continued)

In the nine months of 2008, the partners of Peace River Coal LP were presented with, and paid, cash calls to fund \$52.6 million of the 2008 Program and Budget for expenditures, with the Company funding its elected amount of \$5 million. In April and May of 2008, the partners of PRC approved Supplemental Programs and Budgets for Phase One and Two of the Trend Transition Project, respectively. The total amount budgeted for these phases are \$51 million of which NEMI's share is \$6.1 million based on its Provisional Interest. NEMI has elected to fund its full share of these Supplemental Programs and Budgets Project, respectively. As of September 30, 2008, the partners of Peace River Coal LP were presented with, and paid, cash calls to fund \$37 million of the Trend Transition Project, with the Company funding \$4.4 million.

4. PLANT AND EQUIPMENT

	September 30, 2008		
	Cost	Accumulated Depreciation	Net Book Value
Equipment	$ 27,642	$ 8,558	$ 19,084
Leasehold improvements	16,744	1,674	15,070
	$ 44,386	$ 10,232	$ 34,154

	September 30, 2007		
	Cost	Accumulated Depreciation	Net Book Value
Equipment	$ 21,034	$ 3,092	$ 17,942

5. ABANDONED TRANSACTION WITH WESTERN CANADIAN COAL CORP.

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.

(Expressed in Canadian dollars)

6. CONVERTIBLE DEBENTURES

	Liability Component	Equity Component
Debenture	$ 10,231,572	$ 2,017,116
Deferred financing costs	(657,066)	(154,385)
	$ 9,574,506	$ 1,862,731

The Company issued a total of $12,724,000 in 8% Convertible Debentures, on March 12 and April 1, 2008, for cash. The Debentures are unsecured and bear interest at a rate of 8% per annum, payable semi-annually in arrears, on June 30th and December 31st each year commencing June 30th, 2008. The Debentures mature on March 12, 2013 and are convertible into common shares of the Company at any time up until maturity at a conversion price of $0.90 per share. After March 12, 2010, the Company has the right, under certain circumstances, to redeem the debentures in whole or in part. In addition, the Company has the right to repay the principal amount of the Debentures in common shares at a price equal to 95% of the weighted average trading price of the Company's shares on the Toronto Stock Exchange for the 20 trading day period ending 5 trading days prior to the date fixed for redemption or at maturity.

The Company paid a cash commission of $763,440 and issued 100,000 non-transferable agent's warrants to the Agent as consideration for arranging the financing. Each warrant entitles the Agent to acquire one common share of the Company at a price of $0.90 per share at any time until March 12, 2010.

As the convertible debentures were considered to be 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 proportionate 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:

Proceeds	$12,724,000
Less equity component	(2,146,116)
Amount recorded as liability component	10,577,884
2008 accretion of liability component	289,488
Conversion of debentures to common shares	(635,800)
	$10,231,572

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

Interest on convertible debenture	$ 546,468
Accretion of convertible debenture	289,488
Accretion of deferred finance costs	103,856
Debenture interest	$939,812

During the year ended September 30, 2008, $824,000 in debentures were converted into 915,553 shares.

(Expressed in Canadian dollars)

7. 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, 2008 Number of Shares		Sept. 30, 2008 Amount	Sept. 30, 2007 Number of Shares		Sept. 30, 2007 Amount
Beginning of the year	56,954,192	$	54,217,072	56,954,192	$	54,217,072
Conversion of debentures	915,553		764,800	-		-
End of the year	57,869,745	$	54,981,872	56,954,192	$	54,217,072

During the year ended September 30, 2008, debentures with a face value of $824,000 were converted into 915,553 shares.

(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, 2008 and 2007 and the changes for the years then ended are as follows:

	Sept. 30, 2008		Weighted average exercise price	Sept. 30, 2007		Weighted average exercise price
Beginning of the year	80,000	$	1.75	3,580,000	$	1.63
Options granted	1,400,000		0.90	-		-
Options expired	(80,000)		1.75	(3,500,000)		1.63
End of the year	1,400,000	$	0.90	80,000	$	1.75
Options exercisable	1,400,000	$	0.90	80,000	$	1.75

During the year ended September 30, 2008, the Company granted options to acquire 1,400,000 shares of the Company at a price of $0.90 per share exerciseable at any time until April 1, 2013. The fair value of the options was determined to be $504,000 using the Black Scholes model with the following assumptions: risk-free interest rate – 2.64%; expected life - 2 years; expected volatility - 100%; and expected dividends - nil. $5,088 was expensed during the year ended September 30, 2007 in connection with the vesting of options granted in previous years.

(Expressed in Canadian dollars)

7. SHAREHOLDERS' EQUITY (Continued)

(c) Stock options (continued):

Options to acquire Class A shares at September 30, 2008 are as follows:

Number Outstanding	Exercise Price	Expiry Date
1,400,000	$0.90	April 1, 2013

The outstanding options have a weighted average remaining contractual life of 4.5 years.

(d) Warrants:

The Company's share purchase warrants and broker warrants outstanding as at September 30, 2008 and 2007 and the changes for the years then ended are as follows:

	Sept. 30, 2008		Weighted average exercise price	Sept. 30, 2007		Weighted average exercise price
Beginning of the year	-	$	-	3,662,072	$	1.79
Broker warrants issued	100,000		0.90	-		-
Expired during the year	-	$	-	(3,662,072)		1.79
End of the year	100,000	$	0.90	-	$	-

The Company granted 100,000 non-transferable agent's warrants in connection with the closing of the Debenture financing. Each warrant entitles the agent to acquire one common share of the Company at a price of $0.90 per share at any time until March 12, 2010. The fair value of the warrants was determined to be $35,289 using the Black Scholes model with the following assumptions: risk-free interest rate – 4.67%; expected life - 2 years; expected volatility - 141%; and expected dividends - nil.

(e) Contributed surplus:

The changes in contributed surplus are as follows:

		Sept. 30, 2008		Sept. 30, 2007
Contributed surplus – beginning of year	$	7,650,103	$	3,792,327
Stock-based compensation		504,000		5,088
Book value of expired warrants		-		3,852,688
Contributed surplus – end of year	$	8,154,103	$	7,650,103

(Expressed in Canadian dollars)

8. 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, 2008	Sept. 30, 2007
Net earnings for the year	$ 3,063,518	$ 2,969,163
Statutory tax rate	31.91%	34.12%
Income taxes at statutory rates	$ 977,415	$ 1,013,078
Permanent differences	(664,495)	(1,136,709)
Income tax rate change	738,310	88,470
Change in valuation allowance	(831,403)	-
Other	(219,827)	35,161
Income taxes at effective rates	$ -	$ -

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, 2008 and 2007 are as follows:

	Sept. 30, 2008	Sept. 30, 2007
Future income tax assets		
Non-capital losses	$ 1,018,627	$ 4,521,560
Share issue costs	330,842	413,933
Capital assets	36,123	39,557
Canadian exploration and development costs	9,602,646	6,645,478
	10,988,238	11,620,528
Future income tax liabilities		
Other	(170,837)	-
Partnership interest	(6,252,159)	(6,223,883)
	4,565,242	5,396,645
Less: Valuation allowance	(4,565,242)	(5,396,645)
	$ -	$ -

(Expressed in Canadian dollars)

8. INCOME TAXES (Continued)

The Company has approximately $36,933,000 (2007 - $13,190,000) 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 $3,817,000 (2006 - $13,141,000) in losses for tax purposes which expire in 2028.

9. SUPPLEMENTARY CASH FLOW INFORMATION

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

	Year ended Sept. 30, 2008	Year ended Sept. 30, 2007
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
Cash interest expense paid	301,998	-
Free carry of 2007 Supplemental Program and Budget Capital Contributions	5,000,000	-
Conversion of debentures into common shares	764,800	-

10. RELATED PARTY TRANSACTIONS

a) During the year ended September 30, 2008, consulting fees of $119,000 (2006 - $78,000) were charged in respect of services rendered by directors or officers or by companies with common directors or officers. In addition, legal fees totaling $4,451 (2007 - $15,392) were charged by a legal firm in which a director was a member. Included in accounts payable and accrued liabilities at September 30, 2008 was $NIL (2007 - $8,097) 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. There were no royalties paid or payable to these officers by NEMI during the years ended September 30, 2007 and 2008.

(Expressed in Canadian dollars)

11. SEGMENTED INFORMATION

The Company operates in one segment – the acquisition, exploration and development of coal properties, and subsequent production. As at September 30, 2008, all the operations and assets were in Canada.

12. CAPITAL DISCLOSURES

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 September 2008 and 2007 are as follows:

	Sept. 30, 2008	Sept. 30, 2007
Long-term debt	$ 9,574,505	$ -
Shareholders' equity	$ 59,533,486	$ 53,303,148
Debt to equity	0.16 : 1	0 : 0
Current assets	$ 22,882,276	$ 9,759,496
Current liabilities	$ 516,449	$ 99,290
Working Capital ratio	44 : 1	98 : 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 objective from the previous period

(Expressed in Canadian dollars)

13. 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, 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, 2008, 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, 2009	$56,000
year ending September 30, 2010	$56,000
year ending September 30, 2011	$58,000
year ending September 30, 2012	$58,000
year ending September 30, 2013	$53,000

14. SUBSEQUENT EVENT

Subsequent to September 30, 2008, the Company and Aviva Corporation entered into a merger implementation agreement (“Agreement”) to combine the businesses of the two companies to create a new growth-oriented international coal and energy group (the “Merger”). .

The Merger was expected to be completed by way of an Aviva scheme of arrangement in Australia, with the Company issuing 0.59 shares for each Aviva share held at completion. The merged group would maintain its primary listing on the Toronto Stock Exchange and would apply for a listing on the Australian Securities Exchange and the Botswana Stock Exchange. Existing shareholders of the Company and the former shareholders of Aviva would each hold approximately 50% of the expanded share capital of the merged group at closing on a diluted basis taking into account NEMI’s outstanding convertible debentures.

The Company incurred $324,036 in due diligence costs to September 30, 2008 associated with the Merger. The completion of the Merger was subject to approval from the shareholders of both companies, regulatory authorities in Canada and Australia and the Australian Courts.

The transaction has been cancelled by Aviva due to a material adverse change caused by the Company’s interest in PRC being diluted to 12%. Consequently, the Company will pay a break fee of $1 million to Aviva.