NEMI Northern Energy & Mining Inc.

Management's Discussion and Analysis of Financial Position and Results of Operations

The following information, prepared as of December 23, 2008, should be read in conjunction with the unaudited consolidated financial statements of NEMI Northern Energy & Mining Inc. ("NEMI" or the "Company") for the year ended September 30, 2008. All amounts are expressed in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

Forward-looking statements look into the future and provide an opinion as to the effect of certain events and trends on the business. Forward-looking statements may include words such as "plans", "intends", "anticipates", "should", "estimates", "expects", "believes", "indicates", "suggests" and similar expressions.

This MD&A, and in particular the "Outlook" and "Peace River Coal LP" sections, contains forward-looking statements. These forward-looking statements are based on current expectations and various estimates, factors and assumptions and involve known and unknown risks, uncertainties and other factors.

It is important to note that:

- Unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of December 23, 2008.

- Readers are cautioned not to place undue reliance on these statements as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Therefore, the Company cannot provide any assurance that forward-looking statements will materialize.

- The Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

The material assumptions that were applied in making the forward looking statements in this MD&A include the future business prospects of the Peace River Coal Limited Partnership.

For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see "Risks and Uncertainties".

General

NEMI is a mine development company focused on the exploration, development and production of metallurgical coal assets in northeast British Columbia.

On November 29, 2006, NEMI 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 were consolidated into a new entity, Peace River Coal Limited Partnership ("Peace River Coal LP" or "PRC"), owned as to 60% by Anglo, and 20% by each of NEMI and Hillsborough. The assets transferred to PRC by NEMI included the Trend mine and related facilities, and NEMI's 50% interest in the Belcourt Saxon Coal Limited Partnership ("Belcourt Saxon Coal LP").

NEMI's assets as at September 30, 2008 consist of its interest in Peace River Coal LP, and working capital.

Corporate Transactions

NEMI has entered into a number of corporate transactions as detailed below.

In May 2006, NEMI and Western Canadian Coal Corp. ("Western") entered into a definitive agreement relating to a business combination whereby the Company would become a wholly-owned subsidiary of Western (the "Western Transaction"). The agreement provided for the business combination to occur by way of a plan of 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, the Company announced that Western had advised that it was not prepared to complete this agreement on the basis of the existing exchange ratio, that the board of directors of NEMI had determined that an adjustment to the ratio was not in the best interests of the Company's shareholders, and that NEMI had accepted Western's position as a repudiation of the agreement. The Company repaid all amounts due under a trade support credit facility that Western had provided to the Company.

In July 2006, NEMI entered into a non-binding letter of intent with Hillsborough, Anglo, and Itochu Corporation ("Itochu"), whereby the north-eastern British Columbia metallurgical coal assets of the Company, Hillsborough and Anglo would be consolidated into a new entity. Shareholdings in the new entity would be subject to a fair market valuation of each company's metallurgical coal assets. In connection with this letter of intent, the Company entered into a loan agreement with Anglo providing for loans by Anglo to the Company of up to $31.5 million.

On October 13, 2006, NEMI signed a formal asset transfer agreement with Anglo and Hillsborough whereby the Company, Anglo and Hillsborough agreed to combine their respective northeast British Columbia metallurgical coal assets and interests, including the Trend mine and the Company's interest in the Belcourt Saxon Coal LP, into a new limited partnership.

On October 13, 2006, the Company also 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 as it worked to complete the Anglo/Hillsborough 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 10, 2006, the Company signed an agreement with Anglo, Hillsborough and Western pursuant to which Western consented to the transfer of the Company's 50% interest in the Belcourt Saxon Coal LP to the new partnership. In addition, this agreement provided a mechanism to resolve the issue of whether a $3.5 million break fee would be payable by NEMI in connection with the termination of the Western Transaction. NEMI and Western agreed that this issue would be resolved by an independent expert.

On November 29, 2006, the Company successfully closed the asset combination transaction with Anglo and Hillsborough. This transaction resulted in the creation of Peace River Coal LP which is owned 60% by Anglo, and 20% by each of NEMI and Hillsborough. On closing, the Company received a $10 million cash payment. In addition, the Company received as consideration a free cash carry in PRC to December 31, 2007 to a maximum of $18 million. The DIP Loan provided by Anglo during CCAA proceedings was assumed by PRC and all of NEMI's creditors, secured and unsecured, were paid in full, including Itochu and Anglo. Following the closing of this transaction, the Company filed with the Court a closing certificate which resulted in the Company's full emergence from CCAA protection.

In February 2007, NEMI and Western agreed to settle Western's claim for a $3.5 million break fee arising from the failed Plan of Arrangement between the parties. NEMI paid $1.275 million in settlement of the claim.

In May 2007, PRC provided to the partners its detailed operating and development program for 2007. Cash requirements for 2007 under this program and budget, including capital expenditures and working capital to fund operations through the pre-commercial operation phase, totalled $53 million. The Company's share, amounting to $10.6 million, was covered 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.

In October 2007, PRC provided to the partners a 2007 Supplemental Program and Budget for $25 million (NEMI's share was $5 million) and the 2008 Program and Budget for $198 million (NEMI's share was $39.6 million). NEMI elected to fully participate in the 2007 Supplemental Program and Budget ($5 million) which was part of the free cash carry.

In November 2007, PRC presented the partners with the 2008 Program and Budget for $198 million of expenditures. The 2008 Program and Budget did not include revenues generated by PRC operations. 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 Peace River Coal, but they are subject to dilution provisions should they not elect to participate fully. The Company elected to provide funding of $5 million in respect of this budget, and accordingly, the Company's interest in Peace River Coal was diluted on a provisional basis to 12%. The final dilution calculation was to be done at year end and based on actual contributions. In the past, Peace River Coal had used revenues received to reduce the actual amount of contributions required to be funded by the Partners and NEMI expected that the final calculation of interests would result in NEMI having a greater interest in the Partnership than the provisional interest calculation.

However, at the end of October, 2008 Anglo Coal Canada Inc. and Peace River Coal acknowledged an error in the method that the cash calls had been made. As a result, NEMI's interest in the Partnership is approximately 12%. NEMI also received a rectifying distribution of $16 million.

Proposed transaction

On October 21, 2008, the Company and Aviva Corporation ("Aviva") announced that they have 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")

Both the Company and Aviva had agreed to standard exclusivity obligations for 6 months from the date of the Agreement and payment of a $1 million break fee to the other party in the event they are unable to complete the transactions under certain circumstances.

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%. Subsequently, the Company agreed to paythe break fee of $1 million to Aviva.

Peace River Coal LP

The Peace River Coal LP ("PRC") was formed on November 29, 2006 and all of the north-eastern British Columbia metallurgical coal assets of NEMI, Hillsborough and Anglo were combined under one entity. PRC holds substantial metallurgical coal interests both in production start-up and under exploration and development in northeast British Columbia, including the Trend mine, the Roman and Horizon properties, and a 50% interest in the Belcourt Saxon properties. Peace River Coal Inc., indirectly a wholly-owned subsidiary of Anglo American plc, is the general partner and operational manager of PRC, and PRC's production is being marketed by Anglo Coal Marketing Limited.

The Trend mine commenced commercial production as of January 1, 2008.

The coal preparation plant that had been modified in late 2006, including the addition of a fines wash circuit, was commissioned in January 2007. The acquisition and deployment of a leased aluminum train set was completed in June, improving the efficiency with which coal can be transported to the Ridley Terminal port facilities at Prince Rupert. With improvements made over the first six months of 2007, plant operations have enabled targeted throughput capabilities to be achieved. However, the ramp-up of raw coal production has progressed more slowly than planned due to issues related primarily to equipment and labour availability and PRC is working to address these matters. Labour availability is an issue for the overall northeast British Columbia region, which needs to be addressed over the longer term.

Significant risk factors affecting the development of PRC'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 PRC over the coming years will be significant. Accordingly, the Company's investment in PRC is subject to financing and dilution risk.

Under the terms of the limited partnership agreement, the partners are not obliged to fund any cash calls that may be made by the partnership, but they are subject to dilution provisions should they elect not to contribute. Significant risk factors affecting the development of PRC'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.

In May 2007, PRC provided to the partners its detailed operating and development plans for the full 2007 year, including exploration and development work planned for its other coal properties, as well as its strategic plan for the ensuing five years. These plans include a significant capital expenditure requirement in respect of the Trend mine development and working capital needs, including capital improvements to the rail load-out, power line and haul road as well as continued mine development. Significant exploration and development activities are planned for 2007 with respect to the Roman and Horizon properties, with the objective of enabling the commencement of production from these properties in 2009. Cash requirements for PRC for 2007, including capital expenditures and working capital required to fund operations through the pre-commercial production phase, total $53 million. NEMI's 20% share of this amount, being $10.6 million, was funded through its free cash carry.

In November 2007, the partners of PRC approved a 2007 Supplemental Program and Budget for additional expenditures amounting to $25 million. The Company's pro rata share of this cash call was $5 million. The Company elected to contribute its pro rata share which amount was funded by the Company's free cash carry.

The partners of PRC have also approved 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 basisto approximately 12% (the "Provisional Interest"). The Provisional Interest is subject to a final interest calculation for the year. At year end, the Partners' interest in the PRC will be recalculated and based on adjustments made to reflect the actual contributions to the project made in the aggregate and by the individual Partners. The amount and timing of revenues received by the PRC will affect the respective interests of the Partners by reducing the total amount of contribution required. NEMI expects that the amount and timing of revenues received by the PRC from the sale of coal will reduce the amount required to fund the 2008 Program and Budget amount and therefore limit the dilution of NEMI's interest.

On December 24, 2007, the partners of Peace River Coal LP 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 could be covered by the free cash carry.

In the first 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 is $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 Supplemental Programs and Budgets Project with the Company funding $4.45 million.

Selected Annual Information

The table below provides selected financial information for the Company on a consolidated basis for each of the past three years ended September 30. Reporting currency for the Company is the Canadian dollar.

	(Audited)		
	2008	**2007**	**2006**
Total Revenues	$ nil	$ nil	$ nil
Net Earnings (Loss)	$ 3,063,518	$ 2,969,163	$ (4,290,483)
Net Earnings (Loss) Per Share (basic and diluted)	$ 0.05	$ 0.05	$ (0.08)
Total Assets	$ 69,624,440	$ 53,402,438	$ 112,413,689
Working Capital (Deficiency)	$ 22,365,827	$ 9,660,206	$ (36,967,399)
Long-term Debt	$ 9,574,505	$ nil	$ 10,334,406
Investment in PRC	$ 46,708,040	$ 43,625,000	$ nil
Deferred Expenditures – for the year	$ nil	$ 5,467,865	$ 41,911,325
Deferred Expenditures – cumulative	$ nil	$ nil	$ 64,992,898
Dividends declared	$ nil	$ nil	$ nil

The net earnings for the year ended September 30, 2008 includes a $5,000,000 gain on the Company receiving a free cash carry in funding its portion of the PRC 2007 Supplemental Program and Budget of $25 million and $757,000 in equity income from the Company's interest in PRC. The net earnings for the year ended September 30, 2007 includes a gain on asset transfer of $8,457,225 offset by an equity loss of $1,575,000 in relation to the Company's interest in PRC. The net loss for the year ended September 30, 2006 included a non-cash income item of $1,699,196 (2005 - $1,440,000) related to flow through share offerings and tax benefits not previously recognized. The net earnings for fiscal 2008 are net of a non-cash charge of $504,000 for stock-based compensation expense, compared to $5,088 incurred in 2007 and $124,024 in 2006.

In 2007, the decrease in total assets, deferred expenditures and long-term debt, and the increase in investment in PRC and working capital were a result of the transfer of assets and liabilities to PRC. The increase in total assets in 2006 was a result of equity and loan financings completed which also impact the deferred exploration expenditures incurred.

Results of Operations

The Company recorded net earnings of $3,063,518 ($0.05 per share) for the year ended September 30, 2008 as compared to a loss of $2,969,163 ($0.05 per share) reported in fiscal 2007.

The 2008 earnings include a $5,000,000 gain on the Company receiving a free cash carry in funding its portion of the PRC 2007 Supplemental Program and Budget of $25 million and $757,000 in equity income from the Company's interest in PRC. The 2007 earnings include a gain on asset transfer of $8,457,225 offset by an equity loss of $1,575,000 in relation to the Company's interest in PRC.

The 2008 earnings were reduced by $1,018,097 in interest on the convertible debentures. The 2007 earnings were net of a one-time charge of $1,275,000 in respect of the settlement of the break fee dispute between NEMI and Western. The Company also incurred a one-time charge of $293,249 in respect of the settlement of a production bonus. The comparative 2006 loss was offset by an income item of $1,699,196 representing tax benefits not previously recognized in connection with a flow-through share offering.

Expenses for the year decreased to $2,152,652from $1,968,030. Professional fees incurred during the year decreased to $535,591compared to $848,544 in the comparative period. The fiscal 2007 costs include legal and monitor costs associated with the Company's CCAA filing; and legal expense incurred in respect of the Anglo/Hillsborough transaction.

Interest expense for the year on the convertible debentures was $939,812. The 2007 expense was $715,627 as a consequence of the Company's loan agreements with Itochu and Anglo that were paid in full or assumed by PRC in November 2006.

The stock-based compensation expense of $504,000 (2007 - $5,088), represents a non-cash charge incurred in connection with the granting of stock options. The fair value of all stock options granted is recorded as a charge to operations, with a corresponding credit to contributed surplus within shareholders' equity.

Administrative expense was offset by $403,785 (2007 - $378,064) in interest income earned on the Company's surplus cash balance.

Capital Expenditures and Investments

Investing activity during the year ended September 30, 2008 included $9,448,722 in funds contributed to PRC and $25,341 in equipment additions.

During 2007, prior to transferring mining properties to PRC, the Company incurred deferred expenditures of $5.5 million including $5.1 million expended on the Trend property. The 2007 costs included $4.3 million in mine stripping and preproduction costs.

During 2007, the Company also incurred plant and equipment costs of $1.6 million.

NEMI transferred to PRC non-cash assets with a book value of $116.6 million, including its coal properties, coal preparation plant, rail loop and loadout, and mining equipment. Aggregate liabilities of $69.9 million, including $66.1 million owing by NEMI to Anglo and Itochu, were either repaid or assumed by PRC. NEMI received net cash of $9.9 million on closing of this transaction.

As at September 30, 2008, the summarized assets, liabilities and results of operations of PRC are as follows:

(*Millions of dollars)*

Total current assets	$ 59	Total current liabilities	$ 25
Total long term assets	295	Total long term liabilities	6
			31
		Limited partner contributions	340
		Loss for period and deficit	(17)
			323
Total assets	$ 354	Total liabilities and equity	$ 354

Summary of Quarterly Results (unaudited)

Three months ended	Sept 30, 2008	June 30, 2008	Mar. 31, 2008	Dec. 31, 2007	Sept 30, 2007	June 30, 2007	Mar. 31, 2007	Dec. 31, 2006
Total revenues	$nil	$nil	$nil	$nil	$nil	$nil	$nil	$nil
Net earnings (loss)	$(167,597)	$193,617	($1,675,050)	$4,712,548	$7,536,820	($1,012,376)	($412,850)	($3,142,431)
Income (loss)per share (Basic and diluted)	$0.00	$0.00	($0.03)	$0.08	$0.14	($0.02)	($0.01)	($0.06)
Deferred expendi-tures	$nil	$nil	$nil	$nil	$nil	$nil	$nil	$5,467,865
Total assets	$69,624,440	$69,450,187	$66,747,535	$58,095,590	$53,402,438	$46,119,381	$46,815,200	$49,282,095

The loss for the quarter ended March 31, 2008 was primarily due to the Company's share of the loss of PRC of $1.38 million, respectively. The net earnings for the quarter ended December 31, 2007 includes a $5,000,000 gain on the Company receiving a free cash carry in funding its portion of the PRC 2007 Supplemental Program and Budget of $25 million. This gain was partially offset by an equity loss of $167,000 in relation to the Company's interest in PRC. The net earnings for the quarter ended September 30, 2007 included a gain on asset transfer of $8,457,225 offset by an equity loss of $762,000 in relation to the Company's interest in PRC. The net loss for the quarter ended December 31, 2006 included a break fee settlement of $1,275,000.

Financing Activities

The Company issued $12.7 million in unsecured convertible debentures on March 12 and April 1, 2008 for net proceeds of $11.8 million. 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.

In October 2006, in order to afford the Company an opportunity to preserve the going concern value of its assets as it worked to complete the Anglo/Hillsborough transaction, the Company voluntarily sought and obtained protection under the *Companies' Creditors Arrangement Act* ("CCAA") and was authorized to obtain debtor-in-possession financing comprised of a $20 million credit facility to be provided by Anglo, with such facility to be secured by a first-priority charge on the Company's assets.

During the period ended December 31, 2006, the Company received $17.9 million in loans from Anglo, including $12.9 million under the terms of its DIP loan financing. On closing of the Anglo/Hillsborough transaction, all of the loan indebtedness of the Company, including accrued interest, was repaid or assumed directly by PRC.

Liquidity and Capital Resources

The closing of the convertible debenture issue has left NEMI in a strong financial position with $10.7 million in cash at September 30, 2008 and working capital of $10.3 million with the debentures not due until March 2013. The

Company's aggregate operating, investing and financing activities during the year ended September 30, 2008 resulted in a net cash inflow $1 million.

NEMI's 20% interest in PRC was carried to December 31, 2007 for the amount of up to $18 million, of which $15.6 million was utilized by the Company for 2007 Cash Calls. As mentioned above, the partners of PRC have also approved PRC's 2008 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 to approximately 12%.

- Contractual Obligations

As at September 30, 2008, the Company's contractual obligations included:

		Payments Due by Period			
(thousands of dollars)	*Total*	*Less than 1 year*	*1 – 3 years*	*3 - 5 years*	*After 5 years*
Lease agreement for office premises	$281	$56	$114	$111	$nil
Lease agreement for office *(1)*	$604	$237	$367	$nil	$nil
Total Contractual Obligations	$885	$293	$481	$111	$0

(1) NEMI has sublet this office space at cost to Peace River Coal LP.

Transactions with Related Parties

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.

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.

Transactions with related parties are recorded at the exchange amount, being the price agreed between the parties.

Fourth Quarter

During the fourth quarter, the Company recorded a loss of $167,597 ($0.00 per share). Fourth quarter earnings include equity income of $616,000 from the Company's interest in PRC offset by interest on convertible debentures of $348,061 and professional fees of 324,000 associated with the proposed transaction with Aviva. During the quarter, PRC recorded capital contributions of $53 million, the Company's share of which was covered by its free cash carry.

The Company recorded administrative expense of $518,393 during the quarter which were offset by $85,514 in interest income earned on the Company's surplus cash balance.

The Company completed no financings and entered into no new investments during the fourth quarter.

Critical Accounting Estimates

The Company's consolidated financial statements are impacted by the significant accounting policies used, and the estimates and assumptions made, by management during their preparation. The Company's accounting policies are described in Note 2 to the consolidated financial statements. The accounting estimates considered to be significant to the Company include the review of the carrying value of the Company's investment in PRC and the computation of stock-based compensation expense.

Management will review the carrying value attributed to its investment in PRC on at least an annual basis. No write-down was taken during the year. There is a risk however that this investment could be written down in a future period.

The Company uses the fair-value method of accounting for stock-based compensation related to incentive stock options granted, modified or settled. Under this method, compensation cost attributable to all incentive stock options granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. In determining the fair value, the Company makes estimates of the expected volatility of the stock as well as an estimated discount rate. Changes to these estimates could result in the fair value of the stock-based compensation being less than or greater than the amount recorded.

Adoption of new accounting standards

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":

- *Capital Disclosures*

The Company has adopted the provisions of Canadian Institute of Chartered Accountants ("CICA") Handbook 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.

- *Financial Instruments – Disclosures*

The Company has adopted the provisions of CICA Handbook Section 3862, "Financial Instruments – Disclosures", which 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.

- *Financial Instruments – Presentation*

The Company has adopted the provisions of CICA Handbook Section 3863, "Financial Instruments – Presentation", which 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".

Off-Balance Sheet Arrangements

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or with respect to any obligations under a variable interest equity arrangement.

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 the financial instruments approximate their amortized cost value due to their short-term nature.

Cash and cash equivalents include cash and highly liquid investments held in the form of 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.

Outstanding Share Data

Authorized Capital:

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

Issued and outstanding:
57,869,745 common shares as at December 23, 2008

Fully diluted:
72,591,967 common shares as at December 23, 2008

Outstanding options, warrants, and convertible securities as at December 23, 2008:

Type of Security	Number	Exercise Price	Expiry date
Stock options	1,400,000	$0.90	April 1, 2013
Warrants	100,000	$0.90	March 12, 2010
Convertible debentures	13,222,222	$0.90	March 12, 2013
Total dilution	14,722,222		

Risks and Uncertainties

The Company is involved in coal mining operations to the extent of its partnership interest in PRC.

The exploration for and development of coal deposits are highly speculative activities that involve a high degree of financial risk. The risk factors which should be taken into account in assessing the Company's activities include, but are not necessarily limited to, those set out below. These risks are not intended to be presented in any assumed order of priority. Any one or more of these risks could have a material effect on the Company and should be taken into account in assessing the Company's activities.

Exploration, Development and Production Risks: Coal mining operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of PRC depends on its ability to develop and commercially produce coal. There can be no guarantee that the estimates of quantities and qualities of coal disclosed will be available to extract. With all mining operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up to extraction methods tested in pilot conditions. Coal exploration is speculative in nature and there can be no assurance that any coal discovered will result in an increase in the partnership's resource base.

Establishment of a coal reserve and development of a coal mine does not assure a profit on the investment or recovery of costs. In addition, mining hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from a mine. These conditions include delays in obtaining governmental approvals or consents, insufficient transportation capacity or other geological and mechanical conditions. While diligent mine supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Coal exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as environmental hazards and industrial accidents, each of which could result in substantial damage to mines, production facilities, other property and the environment or in personal injury. Coal mining operations are also subject to all the risks typically associated with such operations, including encountering unexpected mining conditions, pit wall slides and pit flooding. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial condition.

Project Development, Expansion Targets and Operational Delays: There can be no assurance that PRC will be able to manage effectively the expansion of its operations or that its current personnel, systems, procedures and controls will be adequate to support its operations. The partnership's open-pit mines are expected to be operated and managed by contractors. Any failure of management to effectively manage growth and development could have a material adverse effect on the business, financial condition and results of operations.

PRC's operational targets are subject to the completion of planned operational goals on time and according to budget, and are dependent on the effective support of personnel, systems, procedures and controls. Any failure of these may result in delays in the achievement of operational targets with a consequent material adverse impact on the business, operations and financial performance of NEMI.

The locations of all PRC's current activities dictate that climatic conditions have an impact on operations and, in particular, severe weather could disrupt the delivery of supplies, equipment and fuel. It is, therefore, possible that exploration and mining activity levels might fluctuate. Unscheduled interruptions in operations due to mechanical or other failures or industrial relations-related issues or problems or issues with the supply of goods or services could have a serious impact on the financial performance of those operations.

Volatility of Coal Prices: The market price of coal is volatile and is affected by numerous factors that are beyond the Company's control. These include international supply and demand, the level of consumer product demand, international economic trends, currency exchange rate fluctuations, the level of interest rates, the rate on inflation, global or regional political events and international events as well as a range of other market forces. Sustained downward movements in coal market prices could render less economic, or uneconomic, some or all of the coal extraction and/or exploration activates to be undertaken by PRC.

Marketability: The marketability of the coal owned by PRC, or which may be acquired or discovered by the partnership, will be affected by numerous factors beyond the control of PRC. These factors include market fluctuations, the proximity and capacity of coal markets and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of coal and environmental protection. The combination of one or more of these factors may result in the Company not receiving an adequate return on invested capital.

Dependence Upon the Steel Industry: Metallurgical coal demand is a function of world wide economic growth and steel production. The steel industry is cyclical in nature and demand is affected by a number of factors including international economic conditions and interest rates. Materials such as aluminum, composites and plastics are substitutes for steel and an increase in their usage could adversely affect the demand for steel, and consequently, the demand for metallurgical coal.

Governmental Regulations and Processing Licenses and Permits: The activities of the Company and of PRC are subject to government approvals, various laws governing prospecting, development, land resumptions, production taxes, labour standards and occupational health, mine safety, toxic substances and other matters, including issues affecting local, First Nations and Aboriginal populations. The activities are also subject to various laws and regulations relating to the protection of the environment. Although the Company believes that these activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of exploration and mining, or more stringent implementation thereof, could have a material adverse impact on business, operations and financial performance. Further, the mining leases, licenses and permits issued in respect of PRC's projects may be subject to conditions which, if not satisfied, may lead to the revocation of such leases or licenses. In the event of revocation, the value of NEMI's investments in such projects may decline.

No Operating History: There can be no assurance that PRC will be able to develop and operate its coal properties profitably, or that its activities will generate positive cash flow.

Significant capital investments will be required to achieve commercial production from PRC's existing projects and from successful exploration efforts. There is no assurance that the Company will be able to raise the required funds to contribute its proportionate partnership share to these activities.

Reserve and Resource Estimates: PRC's reported coal reserves and resources are only estimates. No assurance can be given that the estimated coal reserves and resources will be recovered or that they will be recovered at the rates estimated. Coal reserve and resource estimates are based on limited sampling, and, consequently, are uncertain because the samples may not be representative. Coal reserve and resource estimates may require revision (either up or down) based on actual production experience. Market fluctuations in the price of coal, as well as increased production costs or reduced recovery rates, may render certain coal reserves and resources uneconomic and may ultimately result in a restatement of reserves and/or resources. Moreover, short-term operating factors relating to the coal reserves and resources, such as the need for subsequent development of ore bodies and the processing of new or different ore grades, may adversely affect profitability in any particular accounting period.

Environmental Regulation and Liability: PRC's activities are subject to environmental regulation (including regular environmental impact assessments and permitting) in the jurisdiction in which it operates. Such regulations typically cover a wide variety of matters including, without limitation, prevention of waste, pollution and protection of the environment, labour regulations and worker safety. PRC may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations. Environmental legislation and permitting are likely to evolve in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors and employees.

Uninsured Risks: NEMI, as a participant in mining and exploration activities through its interest in PRC, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. Furthermore, NEMI may incur a liability to third parties (in excess of any insurance coverage) arising from negative environmental impacts or any other damage or injury.

Dependence on Key Personnel: The Company is dependent upon its current executive management team. Although NEMI has entered into contractual arrangements with the aim of securing the services of these personnel on a longer-term basis, the retention of their services cannot be guaranteed. The loss of any key executive or manager may have an adverse effect of the future of the respective business. NEMI competes with numerous other companies for the recruitment and retention of qualified employees and contractors.

Transportation and Equipment Costs: Substantially all of PRC's coal will be exported to port facilities by one rail system for which there are limited alternatives. Additionally, all of PRC's export sales will be loaded through one port facility, for which there are limited cost-effective alternatives. An interruption of rail or port services could significantly limit the ability to operate and to the extent that alternate sources of transportation services are available, it could increase transportation and port costs significantly.

The recent growth in global mining activities has created a demand for mining equipment and related supplies that is currently in excess of supply. As a result, future operations could be adversely affected if PRC or its contractors encounter difficulties obtaining equipment, tires and other supplies on a timely basis. If the operation were unable to secure the necessary mining equipment on a timely basis, expansion activities, construction projects currently underway, production and productivity, and costs could be materially affected.

Currency Risk: The Company expects that PRC's revenues from operations will be received in United States dollars while most of its operating expenses will be incurred in Canadian dollars. Even if PRC takes certain steps to help mitigate foreign currency fluctuations, there is no assurance that these activities or products are or will continue to be effective. Accordingly, the inability of PRC to obtain or to put in place effective hedges could materially increase exposure to fluctuations in the value of the Canadian dollar relative to the US dollar. This could adversely affect the Company's financial position and operating results.

Uncertainty of Title: PRC's coal properties may be subject to First Nations and Aboriginal land claims or government regulations. Although title reviews may be conducted prior to the purchase of coal properties, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat PRC's claim which could result in a reduction or extinguishment of the revenue received by the partnership.

Competition: Significant and increasing competition exists for coal mining opportunities available in British Columbia. Several new coal developers have emerged and are advancing coal projects in British Columbia. No assurances can be made that PRC will be able to compete against such companies with respect to exploration and development, coal production and marketing.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at September 30, 2007 and has concluded, based on its evaluation, that these controls and procedures provide reasonable assurance that material information relating to the Company is made known to management and reported as required.

In conducting this evaluation, management engaged external consultants who considered, among other things, the corporate charters and policies of the Company, including the adoption of NEMI's Disclosure Policy. In connection with this review, it has become apparent that management relies upon certain informal procedures and communications, and upon the "hands-on" knowledge of senior management. Management intends to formalize certain of its procedures, however, some of the consultants' recommendations have become less relevant due to the transfer of a significant component of the Company's undertaking, including the majority of its employees, to PRC. Management will consider recommendations commensurate with the Company's growth.

Management is also responsible for the design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. The Company has a relatively small accounting and administrative department and as such, adequate segregation of duties can become a control issue. Management believes, however, that any control deficiencies in this regard are compensated for by the provision of an adequate level of supervision by senior executives.

As at the date of this report, management is not aware of any change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

It should be noted that while the Officers of the Company, as certified in the Company's Annual Filings and as required under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, have evaluated the effectiveness of disclosure controls and procedures for the year ended September 30, 2008 and have concluded that they are being maintained as designed, they do not expect that the disclosure controls and procedures or internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

Outlook

As at September 30, 2008, NEMI has working capital of $22.4 million and convertible debentures which are not due until March 2013. Management of NEMI intends to investigate and evaluate other business opportunities, including the potential acquisitions with Aviva described previously.

NEMI also owns a 12% partnership interest in Peace River Coal LP, which now owns the Trend mine as well as a number of other coal properties in northeast British Columbia. PRC is being managed and operated by Anglo American plc, which, with its extensive experience in coal mining and marketing, will play a key role in further developing British Columbia's northeast coalfields. PRC achieved commercial production on January 1, 2008.

Other Information

Additional information related to the Company, including its Annual Information Form, is available for viewing on SEDAR at www.sedar.com.