Consolidated Financial Statements of

NEMI NORTHERN ENERGY & MINING INC.

For the year ended September 30, 2009

(Expressed in Canadian Dollars)

AUDITORS' REPORT

To the Shareholders of
NEMI Northern Energy & Mining Inc.

We have audited the consolidated balance sheets of **NEMI Northern Energy & Mining Inc.** ("the Company") as at September 30, 2009 and 2008 and the consolidated statements of operations, comprehensive earnings (loss) 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, 2009 and 2008 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, 2009.

Chartered Accountants

NEMI NORTHERN ENERGY & MINING INC.
Consolidated Balance Sheets

(Incorporated in Alberta)
(Expressed in Canadian dollars)

		As at September 30, 2009		As at September 30, 2008
ASSETS				
CURRENT				
Cash and cash equivalents	$	**17,974,011**	$	10,681,935
Marketable securities (Note 3)		**659,843**		-
Accounts receivable		**1,130,971**		12,131,057
Taxes recoverable		**1,890**		5,927
Prepaid expenses and other		**55,266**		63,357
		19,821,981		22,882,276
INVESTMENT IN PEACE RIVER COAL LP (Note 4)		**46,116,103**		46,708,040
PLANT AND EQUIPMENT (Note 5)		**26,644**		34,124
Total Assets	$	**65,964,728**	$	69,624,440
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities (Note 14a)	$	**699,037**	$	516,449
CONVERTIBLE DEBENTURES (Note 6)		**10,292,424**		9,574,505
Total Liabilities		**10,991,461**		10,090,954
SHAREHOLDERS' EQUITY (Note 7)				
SHARE CAPITAL		**54,188,712**		54,981,872
CONTRIBUTED SURPLUS		**8,587,935**		8,154,103
WARRANTS		**35,289**		35,289
EQUITY PORTION OF CONVERTIBLE DEBENTURES (Note 6)		**1,862,731**		1,862,731
DEFICIT		**(9,701,400)**		(5,500,509)
Total Shareholders' Equity		**54,973,267**		59,533,486
Total Liabilities and Shareholders' Equity	$	**65,964,728**	$	69,624,440

CONTINGENCIES AND COMMITMENTS (Note 14)
SUBSEQUENT EVENTS (Note 15)

ON BEHALF OF THE BOARD

(signed) “Michael Cooney”

(signed) “Lyle Stein”

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

NEMI NORTHERN ENERGY & MINING INC.
Consolidated Statements of Operations, Comprehensive Earnings (Loss) and Deficit
(Expressed in Canadian dollars)

		For the year ended		
		September 30, 2009		September 30, 2008
EXPENSES				
Advertising and public relations	$	**245,451**	$	22,520
Amortization		**7,942**		7,638
Consulting		**78,000**		120,840
Directors' fees		**147,000**		82,000
Insurance		**32,766**		28,648
Office and sundry		**33,183**		48,597
Office rent		**57,066**		70,980
Professional fees		**916,710**		535,591
Regulatory fees		**37,812**		24,848
Stock-based compensation		**19,000**		504,000
Stock transfer fees		**17,193**		13,896
Telecommunications		**12,983**		29,096
Travel and accommodation		**53,479**		136,398
Wages and benefits (Note 14a)		**584,330**		522,359
Workers compensation fees		**5,359**		5,241
Loss before other income (expenses)		**(2,248,274)**		(2,152,652)
Break fee settlement (Note 9)		**(1,000,000)**		-
Foreign exchange gain		**4,890**		3,043
Interest on current debt and bank charges		**(8,459)**		(6,325)
Interest on convertible debentures		**(1,669,919)**		(939,812)
Interest and other income		**168,870**		403,786
Increase in value of marketable securities (Note 3)		**267,001**		-
Loss on disposal of equipment		**-**		(1,521)
Gain on free carry of 2007 capital contributions to Peace River Coal LP		**-**		5,000,000
Share of income of Peace River Coal LP (Note 4)		**285,000**		757,000
NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) FOR THE YEAR		**(4,200,891)**		3,063,518
DEFICIT, BEGINNING OF THE YEAR		**(5,500,509)**		(8,564,027)
DEFICIT, END OF THE YEAR	**$**	**(9,701,400)**	$	(5,500,509)
Net Earnings (loss) per share (Basic and diluted)	**$**	**(0.07)**	$	0.05
Weighted average number of shares outstanding		**57,617,349**		57,124,761

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

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

	For the year ended	
	September 30, 2009	September 30, 2008
CASH FLOWS FROM		
OPERATING ACTIVITIES		
Net earnings (loss) and comprehensive earnings (loss) for the year	$ **(4,200,891)**	$ 3,063,518
Items not affecting cash:		
Amortization	**7,942**	7,638
Gain on free carry of 2007 capital contributions to Peace River Coal LP	**-**	(5,000,000)
Share of income of Peace River Coal LP	**(285,000)**	(757,000)
Increase in value of marketable securities	**(267,001)**	-
Accretion of debenture and deferred financing costs	**717,919**	393,343
Loss on disposal of equipment	**-**	1,521
Stock-based compensation	**19,000**	504,000
	(4,008,031)	(1,786,980)
Net changes in non-cash working capital items		
Accounts receivable	**2,800**	21,227
Taxes recoverable	**4,037**	(3,353)
Prepaid expenses and other	**8,091**	(25,426)
Accounts payable and accrued liabilities	**182,588**	417,160
Net cash used in operating activities	**(3,810,515)**	(1,377,372)
FINANCING ACTIVITIES		
Loan financing	**-**	11,843,981
Repurchased capital stock	**(378,328)**	-
Net cash provided by (used in) financing activities	**(378,328)**	11,843,981
INVESTING ACTIVITIES		
Purchase of marketable securities	**(392,842)**	-
Capital investment in Peace River Coal LP	**(19,668,190)**	(9,448,722)
Capital distribution from Peace River Coal LP	**31,542,413**	-
Acquisition of plant and equipment	**(462)**	(25,341)
Net cash provided by (used in) investing activities	**11,480,919,**	(9,474,063)
INCREASE IN CASH	**7,292,076**	992,546
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	**10,681,935**	9,689,389
CASH AND CASH EQUIVALENTS - END OF THE YEAR	$ **17,974,011**	$ 10,681,935

Comprised of:

	2009	2008
CASH	**$** **455,218**	$ 182,571
CASH EQUIVALENTS	**17,518,793**	10,499,364
CASH AND CASH EQUIVALENTS	$ **17,974,011**	$ 10,681,935

Cash interest expense paid	$ **956,515**	$ 301,998

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

1. NATURE OF OPERATIONS

NEMI Northern Energy & Mining Inc. ("NEMI" or the "Company") was 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 ("PRC" or "Peace River Coal LP") which was initially owned 60% by Anglo, 20% by Hillsborough, and 20% by NEMI. The assets transferred to PRC 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 the interest it holds in PRC, which currently stands at 12.2%.

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.

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 and its subsidiary, Crossroad Ventures Inc.

(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 and capital contributions to, or distributions from, investees increase or decrease the Company's investment. The Company accounts for its investment in PRC using the equity method.

(c) Plant and equipment

Plant and equipment is recorded at cost. Equipment and assets are amortized using the declining balance method, at rates ranging from 20% to 30%.

(d) 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)

(e) Financial instruments and comprehensive income

Financial instruments are classified into one of five categories: held-for-trading, held to- maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value at the date of acquisition. Subsequent measurement and accounting for changes in fair value will depend on the initial classification, as follows:

(i) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings;

(ii) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income (loss); and

(iii) loans and receivables, held-to-maturity investments and other financial liabilities, are measured at amortized cost. The Company designated its cash and cash equivalents and short-term investments as held-for-trading, which are measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. Transaction costs directly attributable to the acquisition or issuance of financial instruments are recognized in net earnings (loss) in the year incurred or amortized, depending upon the nature of the financial instrument.

(f) 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.

(g) 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 PRC, 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.

(h) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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 undiscounted future projected cash flows from related operations. If impairment is deemed to exist, the assets will be written down to their fair value.

(j) 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.

(k) 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.

(l) 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.

(m) Newly adopted accounting policy

EIC-174 Mining Exploration Costs

On March 27, 2009, the EIC issued EIC 174. In this EIC, the Committee reached a consensus that an enterprise that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The EIC is effective for periods ending after the issuance date and the Company has adopted the EIC -174.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Future accounting pronouncements

(1) Goodwill and Intangibles – Section 3064

The CICA issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to the Company's annual and interim financial statements beginning January 1, 2009. The Company does not expect the adoption of this change to have an impact on its consolidated financial statements.

(2) Sections 1582, Business Combinations, 1601, Consolidations and 1602, Non-controlling Interests

In January 2009, the CICA issued these new sections to replace Section 1581, "Business Combinations" and Section 1600, "consolidated Financial Statements." Section 1582 will apply to a transaction in which the acquirer obtains control of one or more business (as defined in the Section). Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. A bargain purchase will result in the recognition of a gain. Acquisition costs will be expensed. Any non-controlling interest will be recognized as a separate component of shareholders' equity and net income will be allocated between the controlling and non-controlling interests. These new standards will apply to fiscal years beginning on or after January 1, 2011. The Company does not believe that these new Sections will have an impact on its financial statements unless the Company enters into a business acquisition subsequent to January 1, 2011.

(3) EIC-173 Credit Risk and the Fair Value of Financial Assets and Liabilities

In January 2009, the emerging Issues Committee ("EIC") issued EIC-173. In this EIC the Committee reached a consensus that in determining the fair value of financial assets and financial liabilities an entity should take into account the credit risk of the entity and the counterparty. The EIC is effective for periods ending after the issuance date. The Company has adopted EIC-173 and there has been no significant impact on the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) 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. The transition will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. While the Company has begun assessing the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. MARKETABLE SECURITIES

During the year ended September 30, 2009 the Company acquired 1,360,500 common shares of Hillsborough Resources Limited for a purchase price of $392,842 representing an average price of $0.29 per share. The market value of the shares at September 30, 2009 was $659,843, resulting in a gain of $267,001 included in Net Earnings (Loss) and Comprehensive Earnings (Loss) for the year then ended.

4. INVESTMENT IN PEACE RIVER COAL LP

PRC was formed pursuant to and is governed by a Limited Partnership Agreement made as of October 16, 2006, and amended as of November 24, 2006. Under the terms of the Limited Partnership Agreement, the partners are not obliged to fully participate in any of the partnership's programs and budgets, but they are subject to dilution provisions should they elect not to fully participate.

The Company accounts for its interest in PRC under the equity method. Upon formation, the net book value of the net assets of PRC was $173 million and the partnership accounts of Anglo, the Company and Hillsborough were credited with the amounts of $103.8 million (60%), $34.6 million (20%) and $34.6 million (20%), respectively, being the fair values of contributed property interests as determined by a formal valuation process and as agreed by the parties. In addition, the Company received as consideration a free cash carry in PRC to December 31, 2007 to a maximum of $18 million.

In May 2007, PRC delivered its 2007 Program and Budget, including capital expenditures and working capital to fund net operating losses through the pre-commercial operation phase, for expenditures amounting to $53 million, of which the Company's 20% share was $10.6 million and was funded by the free cash carry. Hillsborough elected not to participate in either the 2007 Program and Budget or its share of NEMI's carry, and as a result, its interest in the partnership was diluted to 14.1%.

4. INVESTMENT IN PEACE RIVER COAL LP (Continued)

PRC subsequently approved a 2007 Supplemental Program and Budget for expenditures amounting to $25 million, of which the Company's 20% share was $5 million and was also funded by the free cash carry. For the 2007 Programs and Budgets, the Company used $15.6 million of its $18 million free cash carry. PRC audited partners' equity was $236 million as at December 31, 2007.

The 2008 Program and Budget called for expenditures amounting to $198 million, of which the Company's 20% share was $39.6 million. In December 2007, the Company elected to participate in the 2008 Program and Budget in the amount of $5 million, and as a result the Company's interest in PRC was diluted, on a provisional basis, to approximately 12% (the "Provisional Interest"). Under the terms of the Limited Partnership Agreement, a final recalculation of each partners PRC interest is made at the end of each budgetary period to reflect the actual debits, credits, and contributions made during that period.

During the calendar year ended December 31, 2008, PRC approved Supplemental Programs and Budgets for the Trend Transition Project and existing operations for aggregate expenditures amounting to $101 million, of which the Company's share was $12.1 million based on its Provisional Interest. The Company elected to fully fund its share of these Supplemental Programs and Budgets. For the calendar year ended December 31, 2008, the partners of PRC were presented with aggregate Programs and Budgets totaling $299 million, of which the Company elected to fund $17.1 million. Actual cash calls in respect of those Programs and Budgets totaled $289 million, with the Company funding $15.9 million. At year end, PRC recalculated the Company's and Hillsborough's partnership interest resulting in the Company's partnership interest being reduced to 12.0% and the Company receiving a rectifying cash distribution of $16 million in November 2008. PRC audited partners' equity was $359 million as at December 31, 2008.

PRC's 2009 Program and Budget called for expenditures amounting to $225 million, of which the Company's pro rata share was $27 million. In December 2008, the Company elected to fully fund its share of the 2009 Program and Budget. In the first nine months of calendar 2009, PRC made $114.6 million in cash calls in respect of the 2009 Program and Budget, of which the Company's share was $13.9 million. In addition to funding these cash calls, the Company also paid $0.5 million to fund shortfalls created by Hillsborough's failure to fund its proportion of the January 2009 cash call. As a result of these payments and the penalty imposed on Hillsborough for failing to fund its cash call, on a provisional basis, the Company's interest in PRC increased to 12.1%, Anglo's interest increased to 74.5%, and Hillsborough's interest decreased to 13.4%. In the first nine months of calendar 2009, PRC made cash distributions of $104.5 million, of which the Company received $12.7 million. PRC unaudited partners' equity was $355 million as at September 30, 2009.

In September 2009, the Company settled its disputes with Anglo, Hillsborough, and Peace River Coal Inc. regarding its unused 2007 carried interest in PRC and interest on its share of the rectifying distribution. The parties agreed that PRC would pay NEMI $1.1 million and that the parties would release each other from any claims in respect of the Programs and Budgets for any year up to and including December 2008. In addition, Anglo would waive its right as the Limited Partner having the largest limited partnership interest under the parties' Limited Partnership Agreement to require NEMI's limited partnership interest to be converted into a net proceeds royalty interest if it is reduced to 10%, but only for so long as such interest was greater than 8%.

4. INVESTMENT IN PEACE RIVER COAL LP (Continued)

The Company's net investment in PRC is as follows:

	As at September 30, 2009	As at September 30 2008
Balance – beginning of year	$46,708,040	$43,625,000
Capital contributions paid during the year	19,668,190	9,448,722
Capital distribution allocated during the year	(20,545,127)	(12,122,682)
	45,831,103	40,951,040
Gain on free carry of 2007 Supplemental Program and Budget capital contributions	--	5,000,000
Share of income for the year	285,000	757,000
Balance – end of year	$46,116,103	$46,708,040

5. PLANT AND EQUIPMENT

	September 30, 2009		
	Cost	Accumulated Depreciation	Net Book Value
Equipment	$ 28,104	$ 13,516	$ 14,588
Leasehold improvements	16,744	4,688	12,056
	$ 44,848	$ 18,204	$ 26,644

	September 30, 2008		
	Cost	Accumulated Depreciation	Net Book Value
Equipment	$ 27,642	$ 8,588	$ 19,054
Leasehold improvements	16,744	1,674	15,070
	$ 44,386	$ 10,262	$ 34,124

6. CONVERTIBLE DEBENTURES

	Liability Component	Equity Component
Debenture	$ 10,761,830	$ 2,017,116
Deferred financing costs	(469,406)	(154,385)
	$ 10,292,424	$ 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
Accretion of liability component	819,746
Conversion of debentures to common shares	(635,800)
	$10,761,830

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

Interest on convertible debenture	$952,000
Accretion of convertible debenture	530,260
Accretion of deferred finance costs	187,659
Debenture interest	$1,669,919

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

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, 2009 Number of Shares	Sept. 30, 2009 Amount	Sept. 30, 2008 Number of Shares	Sept. 30, 2008 Amount
Beginning of the year	57,869,745	$ 54,981,872	56,954,192	$ 54,217,072
Conversion of debentures	-	-	915,553	764,800
Shares repurchased and cancelled	(721,500)	(685,495)	-	-
Shares repurchased for cancellation	(265,890)	(107,665)	-	-
End of the period	56,882,355	$ 54,188,712	57,869,745	$ 54,981,872

During the year ended September 30, 2009, the Company repurchased 987,390 common shares for $378,328 for cancellation. 721,500 common shares purchased for $270,663 were cancelled during the period and share capital has been reduced by $685,495, based upon the average share issuance price, with the difference of $414,832 recorded as contributed surplus. The balance of 265,890 common shares was cancelled after September 30, 2009.

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, 2009 and September 30, 2008 and the changes for the years then ended are as follows:

	Year Ended Sept. 30, 2009	Weighted average exercise price	Year Ended Sept. 30, 2008	Weighted average exercise price
Beginning of the period	1,400,000	$ 0.90	80,000	$ 1.75
Options granted	250,000	0.41	1,400,000	0.90
Options expired/cancelled	(1,250,000)	0.90	(80,000)	1.75
End of the period	400,000	$ 0.59	1,400,000	$ 0.90
Options exercisable	233,333	$ 0.73	1,400,000	$ 0.90

7. SHAREHOLDERS' EQUITY (continued)

During the year ended September 30, 2009, the Company granted options to acquire 250,000 common shares of the Company at a price of $0.41 per share exercisable at any time until May 27, 2014. Options to acquire 83,333 common shares vested immediately with further tranches of 83,333 vesting on May 28, 2010 and 2011. The fair value of the options was determined to be $67,000 using the Black Scholes model with the following assumptions: risk-free interest rate – 0.50%; expected life - 2 years; expected volatility - 127%; and expected dividends – nil. Stock compensation expense for the year ended September 30, 2009 was $11,000 with the remaining $56,000 expense to be recognized at $8,000 per quarter over the balance of the vesting period.

During the year ended September 30, 2009, the Company cancelled options to acquire 1,250,000 common shares of the Company at a price of $0.90

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 exercisable 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.

(c) Stock options (continued):

Options to acquire Class A shares at September 30, 2009 are as follows:

Number Outstanding	Exercise Price	Expiry Date
150,000	$0.90	April 1, 2013
250,000	0.41	May 27, 2014

The outstanding options have a weighted average remaining contractual life of 4.23 years.

(d) Warrants:

The Company's share purchase warrants and broker warrants outstanding as at September 30, 2009 and 2008 and the changes for the years then ended are as follows:

	Year Ended Sept. 30, 2009		Weighted average exercise price	Year Ended Sept. 30, 2008		Weighted average exercise price
Beginning of the year	100,000	$	0.90	-	$	-
Broker warrants issued	-		-	100,000		0.90
Expired during the year	-	$	-	-		-
End of the year	100,000	$	0.90	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.

7. SHAREHOLDERS' EQUITY (continued)

(c) Contributed surplus:

The changes in contributed surplus are as follows:

	Sept. 30, 2009	Sept. 30, 2008
Contributed surplus – beginning of year	$ 8,154,103	$ 7,650,103
Stock-based compensation	19,000	504,000
Shares cancelled	414,832	-
Contributed surplus – end of year	$ 8,587,935	$ 8,154,103

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, 2009	Sept. 30, 2008
Net earnings (loss) for the year	$ (4,200,891)	$ 3,063,518
Statutory tax rate	30.25%	31.91%
Income taxes at statutory rates	$ (1,270,770)	$ 977,415
Permanent differences	493,108	(664,495)
Income tax rate change	315,927	738,310
Change in valuation allowance	460,693	(831,403)
Other	1,042	(219,827)
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, 2009 and 2008 are as follows:

	Sept. 30, 2009	Sept. 30, 2008
Future income tax assets		
Non-capital losses	$ 1,966,046	$ 1,018,627
Share issue costs	144,846	330,842
Capital assets	55,023	36,123
Canadian exploration and development costs	8,830,813	9,602,646
	10,996,728	10,988,238
Future income tax liabilities		
Other	(145,534)	(170,837)
Partnership interest	(5,825,259)	(6,252,159)
	5,025,935	4,565,242
Less: Valuation allowance	(5,025,935)	(4,565,242)
	$ -	$ -

8. INCOME TAXES (Continued)

The Company has approximately $35,323,000 (2008 - $36,933,000) 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, 2009, the Company has approximately $7,864,000 (2008 - $3,817,000) in losses for tax purposes which expire in between 2010 and 2029.

9. AVIVA CORPORATION

In October 2008, the Company and Aviva Corporation ("Aviva") entered into a merger implementation agreement to combine the businesses of the two companies (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. Upon closing, it was expected that the existing shareholders of the Company would hold approximately 45% and the former shareholders of Aviva would hold approximately 55% of the share capital of the merged group. The completion of the Merger was subject to the approval of the shareholders of both companies, regulatory authorities in Canada and Australia, and the Australian Courts.

In December 2008, Aviva cancelled the transaction, citing a material adverse change in the affairs of the Company caused by the Company's interest in PRC being diluted to 12%. Consequently, the Company paid a break fee of $1 million to Aviva. The Company incurred $324,000 in due diligence costs to September 30, 2008 and a further $360,000 in costs during the six months ended March 31, 2009 associated with the Merger.

10. RELATED PARTY TRANSACTIONS

a) During the year ended September 30, 2009, consulting fees of $78,000 (2008 - $119,000) were charged in respect of services rendered by directors or officers or by companies with common directors or officers. In addition, legal fees totaling $nil (2008 - $4,451) were charged by a legal firm in which a director was a member. 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 and carries a 1% royalty interest (the "Trend Royalty") payable to a former officer of the Company. During the year ended September 30, 2006, the former President and CEO of the Company acquired approximately half of this royalty interest in a private transaction from the former officer of the Company for consideration of $nil. The Trend property was transferred to and the Trend Royalty was assumed by PRC on November 29, 2006. There were no royalties paid or payable to the former President and CEO of the Company by NEMI during the years ended September 30, 2008 and 2009, however, PRC paid royalties of US$993,000 and US$1,143,000, respectively on account of the Trend Royalty.

11. SUPPLEMENTARY CASH FLOW INFORMATION

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

	Year ended Sept. 30, 2009	Year ended Sept. 30, 2008
Free carry of 2007 Supplemental Program and Budget Capital Contributions	-	5,000,000
Conversion of debentures into common shares	-	764,800

12. SEGMENTED INFORMATION

The Company operates in one segment – the acquisition, exploration and development of coal properties, and subsequent production. During the years ended September 30, 2009 and 2008 and as at September 30, 2009, all the operations and assets were in Canada.

13. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES

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

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

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

(a) Credit risk

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

The primary sources of credit risk for the Company arise from the following financial assets: (1) cash and cash equivalents held with major Canadian financial institutions; (2) marketable securities; and (3) amounts receivable. The Company has not had any credit losses in the past, nor does it expect to have any credit losses in the future. At September 30, the Company has no financial assets that are past due or impaired due to credit risk defaults.

13. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES (continued)

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

		September 30, 2009		September 30, 2008
Cash and cash equivalents	**$**	**17,974,011**	$	10,681,935
Marketable securities		**659,843**		-
Accounts receivable		**1,130,971**		12,131,057
	$	**19,764,825**	**$**	22,812,992

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations with respect to financial liabilities as they fall due. The Company's financial liabilities are comprised of accounts and interest payable and accrued liabilities. The Company frequently assesses its liquidity position by reviewing the timing of amounts due and the Company's current cash flow position to meet its obligations. The Company manages its liquidity risk by maintaining sufficient cash and cash equivalents and short-term investment balances to meet its anticipated operational needs.

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

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

		September 30, 2009		September 30, 2008
Accounts payable and accrued liabilities	**$**	**699,037**	$	516,449
	$	**699,037**	**$**	516,449

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

(c) Market risk

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

13. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES (continued)

(d) Foreign exchange risk

The Company operates in Canada only and has minimal transactions in foreign currencies.

(e) Capital disclosure

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

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

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

The components of capital and key ratios as of September 30, 2009 and September 2008 are as follows:

	Sept. 30, 2009	Sept. 30, 2008
Long-term debt	$ 10,292,424	$ 9,574,505
Shareholders' equity	$ 54,973,267	$ 59,533,486
Debt to equity	0.19 : 1	0.16 : 1
Current assets	$ 19,821,981	$ 22,882,276
Current liabilities	$ 699,037	$ 516,449
Working Capital ratio	28 : 1	44 : 1

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

14. CONTINGENCIES AND COMMITMENTS

a) On May 12, 2009, Patrick Devlin ("Devlin"), commenced an action in the Supreme Court of British Columbia against the Company alleging that the Company wrongfully dismissed Devlin from his employment with Company, or alternatively, that the Company's actions constituted a constructive dismissal of Devlin or a repudiation of a contract of employment between the Company and Devlin. Devlin is claiming liquidated damages in the amount of $800,000, or alternatively, damages for wrongful or constructive dismissal and/or breach of contract, special damages, interest and special costs. The Company disputes the allegations made in the action and will take all steps available to it to fully protect its interests and those of its shareholders.

Out of an abundance of caution the Company is reserving $300,000 with respect to Devlin's claim for wrongful dismissal. The Company continues to deny liability and will defend all claims for the benefit of all shareholders.

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

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 PRC.

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

year ending September 30, 2010	$56,000
year ending September 30, 2011	$58,000
year ending September 30, 2012	$58,000
year ending September 30, 2013	$53,000

15. SUBSEQUENT EVENTS

Subsequent to September 30, 2009,

a) Anglo American plc ("Anglo American") announced its intended divesture of certain non-core assets, including its investment in PRC in a manner and on a timetable that will maximize value for Anglo American while protecting PRC's business and the interests of its other shareholders. To that end, PRC has appointed a committee of its shareholders to explore options and to make recommendations to its board of directors.

b) In December 2009, the final recalculation of the PRC partnership interests for the 2009 Program and Budget was performed resulting in the Company's interest in PRC being increased to 12.2%, Anglo's interest being increased to 74.8%, and Hillsborough's interest being decreased to 13.0%

c) The Company repurchased a further 1,906,097 common shares of the Company for $770,000, completing its Normal Course Issuer bid.