

NEMI Northern Energy & Mining Inc.

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

The following information, prepared as of December 21, 2009, should be read in conjunction with the audited consolidated financial statements of NEMI Northern Energy & Mining Inc. ("NEMI" or the "Company") for the year ended September 30, 2009. 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 Limited Partnership" 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 21, 2009.
- 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 Canadian company incorporated under the Business Corporations Act of Alberta and extra-provincially registered under the Business Corporations Act of British Columbia.

The Company's principal asset is the interest it holds in the Peace River Coal Limited Partnership ("Peace River Coal LP" or "PRC"), which currently stands at 12.2%.

Prior to 2006, the NEMI was a mine development company focused on exploration, development and production of metallurgical coal assets in northeast British Columbia.

Peace River Coal LP

The Peace River Coal LP was established in November 2006 as a joint venture between the Company, Hillsborough Resources Limited (“Hillsborough”) and Anglo Coal Canada Limited (“Anglo”), indirectly a wholly-owned subsidiary of Anglo American plc (“Anglo American”). Anglo is the general partner and operational manager of PRC. PRC's production is being marketed by Anglo Coal Marketing Limited.

PRC operates the Trend Metallurgical Coal mine near Tumbler Ridge, British Columbia and holds substantial metallurgical coal assets under exploration and development in northeast British Columbia, including the Roman and Horizon properties, and a 50% interest in the Belcourt Saxon properties. The Trend Mine, with some 320 employees, currently has an annual production capacity of one million tonnes per year of hard coking coal with significant growth potential. PRC's metallurgical coal, which is exported to steel mills around the world, is currently railed to Prince Rupert, British Columbia where it is loaded into ocean going vessels at the Ridley Terminals Inc. port facility.

PRC was formed pursuant to and is governed by a Limited Partnership Agreement made as of October 16, 2006, as amended 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. Currently NEMI holds a 12.2% interest, Anglo a 74.8% interest and Hillsborough a 13.0% interest in PRC.

Commercial operations at the Trend Mine commenced in January 2008, with total calendar year production of 772,000 tonnes. Steady growth towards the one million tonne per annum production target is on track with various capital projects completed and others nearing completion.

- An 18 month, \$104 million capitalization program to acquire and operate a mining equipment fleet was completed in December 2009.
- A new haul road linking the coal preparation plant to the rail load-out facility has been completed, reducing haul distances and costs for clean coal.
- A second train set was leased to improve rolling stock availability.
- Construction on the raw coal rotary breaker and coal preparation plant feed system has been completed in December 2009, improving the plant's throughput rate.

In all, approximately \$150 million of capital expenditure has been invested into the business over the last two years as PRC has transitioned away from a contractor based mining operation. PRC now has an improved coal washing plant and road and rail logistics chain. A further \$25 million will be invested in the Wash Plant upgrade, where the first phase is already underway.

Major drilling programs were completed on PRC's properties over the last two years which have increased the coal reserves at the Trend Mine and extended the resources at Roman Mountain. Total coal resources for the PRC properties, including Trend Mine, Roman Mountain and Horizon, all in which PRC holds a 100% interest, are currently estimated to be in excess of 300 million tonnes.

In addition to capital improvements and resource extensions at the Trend Mine, PRC is conducting development work on its other properties. A pre-feasibility study is progressing on the Roman Mountain project, which is adjacent to the Trend Mine. Development of a mine at Roman Mountain is expected to increase overall production to approximately 4 million tonnes per year. PRC intends to submit the Roman Mountain project to the Environmental Assessment Office of British Columbia for an Environmental Assessment approval early in 2010. With respect to the Horizon property, initial studies indicate that Horizon would be developed primarily as an underground mine with annual production of approximately 2 million tonnes.

With respect to the Belcourt Saxon Coal Limited Partnership, in which PRC holds a 50% interest, in 2008 a project study was completed and a NI 43-101 Technical Report was filed on SEDAR by the Company and by Western Coal Corporation, which holds the other 50% interest. The report states coal reserves for the Belcourt North and

Belcourt South properties comprising of 85.7 million tonnes Proven Reserves and 0.7 million tonnes of Probable Reserves included in the Coal resource estimate of 167.7 million tonnes of Measured Resources, 4.3 million tonnes of Indicated Resources, and 0.2 million tonnes of Inferred resources. The project has the potential to produce approximately 4 million tonnes per year of metallurgical coal product for 15 years. Further evaluation work is being conducted.

With the current positive outlook for metallurgical coal markets, the management team of PRC is developing production targets, expansion plans and other actions to ensure that the production is maximized while considering future development needs.

Cancelled transaction

On October 21, 2008, the Company and Aviva Corporation ("Aviva") announced that they have entered into a merger implementation agreement to combine the businesses of the two companies. The transaction was 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 pay the break fee of \$1 million to Aviva.

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)		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total Revenues	\$ nil	\$ nil	\$ nil
Net Earnings (Loss)	\$ (4,200,891)	\$ 3,063,518	\$ 2,969,163
Net Earnings (Loss) Per Share (basic and diluted)	\$ (0.07)	\$ 0.05	\$ 0.05
Total Assets	\$ 65,964,728	\$ 69,624,440	\$ 53,402,438
Working Capital (Deficiency)	\$ 19,122,944	\$ 22,365,827	\$ 9,660,206
Long-term Debt	\$ 10,292,424	\$ 9,574,505	\$ nil
Investment in PRC	\$ 46,116,103	\$ 46,708,040	\$ 43,625,000
Deferred Expenditures – for the year	\$ nil	\$ nil	\$ 5,467,865
Deferred Expenditures – cumulative	\$ nil	\$ nil	\$ nil
Dividends declared	\$ nil	\$ nil	\$ nil

The loss for the year ended September 30, 2009 includes the \$1 million dollar break fee paid to Aviva and \$1.7 million (\$0.96 million in cash) in interest expense on the convertible debentures. 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.

Results of Operations

The Company recorded a loss of \$4,200,891 (\$0.07 per share) for the year ended September 30, 2009 as compared to earnings of \$3,063,518 (\$0.05 per share) reported in fiscal 2008.

The 2009 loss includes a \$1,000,000 break fee paid when the Aviva transaction was cancelled and \$285,000 in equity income from the Company's interest in PRC. 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 2009 and 2008 earnings were reduced by \$1,669,919 and \$939,812, respectively, in interest on the convertible debentures of which \$956,516 and \$301,998, respectively were paid in cash.

Expenses for the year increased from \$2,152,652 to \$2,248,274, a significant portion of which should be non-recurring. In the current year, the Company incurred significant expenses in connection with the failed merger with Aviva Corporation, including professional fees of approximately \$360,000 (which is in addition to the \$324,000 in merger related fees incurred prior to September 30, 2008), as well as in connection with the contested election of directors at the Company's Annual General Meeting held on March 30, 2009, which resulted in the recording of professional/legal fees of approximately \$227,000 and proxy solicitation expenses of approximately \$234,000. Overall, professional fees increased to \$916,710 during the current year compared to \$535,591 in the prior year, and advertising and shareholder relations expense increased to \$245,451 as compared to \$22,520 in 2008.

The stock-based compensation expense of \$19,000 (2008 - \$504,000), 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 \$168,870 (2008 - \$403,785) in interest income earned on the Company's surplus cash balance.

Capital Expenditures and Investments

Investing activity during the year ended September 30, 2009 included \$19,668,190 in funds contributed to PRC and \$462 in equipment additions. The Company received \$31,542,413 in cash distributions from PRC during the year.

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 2008, prior to transferring mining properties to PRC, the Company incurred deferred expenditures of \$5.5 million.

As at September 30, 2009, the summarized unaudited assets, liabilities and partners' equity of PRC are as follows:

(Millions of dollars)

Total current assets	\$ 27	Total current liabilities	\$ 26
Total long term assets	377	Total long term liabilities	<u>12</u>
			<u>38</u>
		Limited partner equity	355
Total assets	\$ 394	Total liabilities and equity	\$ 394

Summary of NEMI's Quarterly Results (unaudited)

Three months ended	Sept 30, 2009	June 30, 2009	Mar. 31, 2009	Dec. 31, 2008	Sept 30, 2008	June 30, 2008	Mar. 31, 2008	Dec. 31, 2007
Total revenues	\$nil							
Net earnings (loss)	\$(1,320,647)	\$(753,830)	\$(65,320)	\$(2,061,094)	\$(167,597)	\$193,617	\$(1,675,050)	\$4,712,548
Income (loss) per share (Basic and diluted)	(\$0.02)	(\$0.01)	(\$0.00)	(\$0.03)	\$0.00	\$0.00	(\$0.03)	\$0.08
Deferred expenditures	\$nil							
Total assets	\$65,964,728	\$66,694,022	\$67,991,714	\$67,369,056	\$69,624,440	\$69,450,187	\$66,747,535	\$58,095,590

The loss for the quarter ended December 31, 2008 included a \$1 million break fee payment and \$358,000 in transaction costs associated with the cancelled Aviva transaction. 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. The net earnings for the quarter ended December 31, 2007 includes a \$5,000,000 gain on the Company receiving 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.

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.

Normal Course Issuer Bid

On April 7, 2009, the Company announced its intention to make a Normal Course Issuer Bid ("NCIB") to buy back its common shares through the facilities of the TSX.

The maximum number of common shares that may be purchased for cancellation pursuant to the NCIB is that number of common shares that represents 5% of the issued and outstanding common shares on the date that the Exchange approves the NCIB. Based on the 57,869,745 common shares outstanding as at April 1, 2009, the maximum number of shares available for purchase and cancellation was 2,893,487. Purchases under the NCIB were permitted to commence on April 13, 2009 and during the year ended September 30, 2009, the Company used \$378,328 to acquire 987,390 securities with an average price of \$0.38 per share. The stated value of these shares in the Company's shareholders' equity was \$938,116, or approximately \$0.95 per share. The difference between the cost to repurchase and the stated value of \$559,788 was allocated as an increase to contributed surplus.

All purchases made pursuant to the NCIB were made in accordance with the rules of the TSX and at the market price of the common shares at the time of the acquisition. NEMI made no purchases of common shares other than open market purchases.

Subsequent to September 30, 2009, the Company completed its NCIB, purchasing a further 1,906,097 shares for \$770,347 for an average price of \$0.40 per share.

Purchase of Hillsborough shares

During the year ended September 30, 2009 the Company acquired 1,360,500 common shares of Hillsborough for a purchase price of \$392,842 representing an average price of \$0.29 per share. The shares were purchased for investment purposes.

Subsequent to the Company's purchase, Hillsborough entered into an arrangement with Vitol Anker International B.V. ("Vitol") with respect to a proposed arrangement under which Vitol will acquire all the outstanding Hillsborough shares not owned by Vitol. The Company has filed a notice of dissent with respect to the proposed arrangement.

Liquidity and Capital Resources

The closing of the convertible debenture issue in 2008 has left NEMI in a strong financial position with \$18 million in cash and working capital of \$19.1 million at September 30, 2009 with the debentures not due until March 2013. The Company's aggregate operating, investing and financing activities during the year resulted in a net cash inflow in the amount of \$7.3 million.

Contractual Obligations

As at September 30, 2009, the Company's contractual obligations included:

(thousands of dollars)	Payments Due by Period				
	Total	Less than 1 year	1 – 3 years	3 - 5 years	After 5 years
Lease agreement for office premises	\$225	\$56	\$169	\$nil	\$nil
Lease agreement for office (1)	\$367	244	\$123	\$nil	\$nil
Total Contractual Obligations	\$592	\$300	\$292	\$0	\$0

(1) NEMI has sublet this office space at cost to PRC.

Transactions with Related Parties

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.

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.

Fourth Quarter

During the fourth quarter, the Company recorded a loss of \$1,320,647 (\$0.02 per share). The fourth quarter loss included an equity loss of \$595,000 from the Company's interest in PRC and interest on convertible debentures of \$420,911.

The Company recorded administrative expense of \$553,584 during the quarter which was offset by \$23,630 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

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.

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, marketable securities, 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:

55,189,855 common shares as at December 21, 2009

Fully diluted:

68,412,077 common shares as at December 21, 2009

Outstanding options, warrants, and convertible securities as at December 21, 2009:

Type of Security	Number	Exercise Price	Expiry date
Stock options	150,000	\$0.90	April 1, 2013
	250,000	\$0.41	May 27, 2014
Warrants	100,000	\$0.90	March 12, 2010
Convertible debentures	<u>13,222,222</u>	\$0.90	March 12, 2013
Total dilution	<u>13,722,222</u>		

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 activities 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 worldwide 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, 2009 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

NEMI owns a 12.2% partnership interest in PRC, which owns the Trend mine as well as a number of other coal properties in northeast British Columbia. PRC is managed and operated by Anglo American. In October 2009, Anglo American announced that it was restructuring its global portfolio of assets, including the divestiture of its interest in PRC. The divestment of Anglo American's interest in PRC will be undertaken in a manner and on a timetable that will maximize value for Anglo American while protecting the PRC 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.

With the global recovery gathering pace, the metallurgical coal market is looking increasingly positive in 2010, and PRC will benefit from expected higher coal prices going forward. There are reports that recent spot coking coal prices have exceeded \$160 per tonne as compared with the 2009 benchmark contract price of \$129 per tonne.

The partners of PRC have been presented with PRC's 2010 Program and Budget for expenditures amounting to \$152 million, the Company's pro rata share of which is \$18.6 million. The Company intends to elect to participate and contribute fully to the 2010 Program and Budget.

As at September 30, 2009, NEMI has working capital of \$19.1 million and convertible debentures which are not due until March 2013. Management of NEMI intends to investigate and evaluate other business opportunities, including the possible divestment of its own interest in PRC on the same terms and timetable as that of Anglo American.

Other Information

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