

# NEMI Northern Energy & Mining Inc.

## Management's Discussion of Financial Position and Results of Operations ("MD&A") For the three-month period ended, December 31, 2010

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This MD&A has been prepared as of February 14, 2011. It should be read in conjunction with the unaudited interim consolidated financial statements of NEMI Energy & Mining Inc. (the "Company" or "NEMI") for the three month period ended December 31, 2010 as well as the audited consolidated financial statements for the year ended September 30, 2010 and the related management's discussion and analysis (the "Annual MD&A"). The Company's critical accounting estimates, significant accounting policies and risk factors as disclosed in the Annual MD&A have remained substantially unchanged and are still applicable to the Company unless otherwise indicated. All amounts are expressed in Canadian dollars unless otherwise indicated and have been determined in accordance with Canadian generally accepted accounting principles ("CGAAP").

NEMI is a Canadian company originally incorporated under the Business Corporations Act of Alberta. On April 15, 2010, NEMI was continued under the Business Corporations Act of British Columbia.

NEMI holds a 12.184% interest in the Peace River Coal Limited Partnership ("PRC"), which operates the Trend Mine and owns substantial metallurgical coal properties in northeastern British Columbia.

In November 2006, NEMI joined with Anglo Coal Canada Inc. ("Anglo"), an indirectly wholly-owned subsidiary of Anglo American plc ("Anglo American") and Hillsborough Resources Limited ("Hillsborough") to form PRC in order to jointly develop their northeastern coal assets, including the Trend Mine. Currently Anglo holds a 74.825% interest, Hillsborough a 12.991% interest, and NEMI a 12.184% interest in PRC.

PRC is a Canadian producer of high-quality seaborne hard coking coal. PRC has a portfolio of projects that are either in production, in advanced development or are supported by economic and technical studies that, when in full production, would result in PRC being a significant global producer. These projects are located near the town of Tumbler Ridge in northeastern British Columbia, Canada, a region which has been a major producer of high quality hard coking coal since the 1980s.

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 the partners are subject to dilution provisions should they elect not to fully participate. In the past, NEMI has elected to not fully participate in PRC's programs and budgets and its interests were diluted accordingly from an initial 20%. Going forward, NEMI intends to fully participate and maintain its 12.184% interest in the operations of PRC through to its proposed divestiture as it has done over the last two fiscal years ended September 2009 and 2010.

Unless otherwise indicated, all figures quoted herein pertaining to PRC operations will be on the basis of a 100% interest to PRC, not the Company's net 12.184% net interest.

### 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 "Proposed PRC Divestiture", "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 February 14, 2011.
- 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".

### **Summary**

Losses for the three-month period ended December 2010 totaled \$1,406,876 (2009 - \$188,185) representing an increase in losses of \$1,218,691. The increased loss is primarily attributable to two PRC shipments of coal being delayed from December to January due to temporary port difficulties that affected all users of the Ridley Terminal in Prince Rupert. The Company's share in the PRC loss for the current period was \$827,000 compared to a profit of \$336,000 in the comparative period for a year-over-year difference of \$1,163,000. The Company expects to recover these losses in the second quarter ending March 31, 2011.

Since April 2009, pursuant to the terms of Normal Course Issuer Bids as filed in April 2009 and April 2010 respectively, during the quarter ended December 31, 2010, the Company repurchased a total of 1,075,200 of its common shares at a total cost of \$979,172 (2009 - 1,906,097 common shares at a cost of \$770,316).

On January 4, 2011 the Company announced that Andrew Williams had replaced Matthew Kavanagh as Chief Financial Officer.

### **Proposed PRC Divestiture**

In October 2009, Anglo announced that it was restructuring its global portfolio of assets, including the proposed divestiture of its interest in PRC. Subsequently Anglo reached an agreement with NEMI and Hillsborough which will allow a purchaser to acquire up to a 100% interest in PRC. The PRC partners believe that a new owner holding a 100% interest in PRC will be able to more readily realize the full potential of the assets than is possible under the current ownership structure. Anglo American has advised that the PRC divestment process is progressing.

NEMI will require a special meeting of its shareholders to approve the anticipated sale of its PRC interest.

In the event of divestiture, assuming the PRC investment is classified as a "Capital Asset" as defined under the *Income Tax Act, Canada*, a gain on disposal would be taxed as a capital gain for income tax purposes. The cost base for Canadian income tax purposes of the NEMI investment in PRC is approximately \$7.6 million. In addition, the Company has approximately \$37.3 million in tax deductions associated with Canadian resource expenditures which may be carried forward indefinitely and used to reduce taxable income in future years. In addition, the Company has approximately \$10.5 million in losses for tax purposes that expire between 2011 and 2030.

### **Peace River Coal LP**

The Peace River Coal LP ("PRC") was established in November 2006 as a joint venture between the Company, Anglo, and Hillsborough. Peace River Coal Inc. is the general partner and an affiliate of Anglo is the manager of PRC. PRC's production is marketed by Anglo Coal Marketing Limited.

PRC operates the Trend Mine near Tumbler Ridge, British Columbia and holds substantial metallurgical coal assets under exploration and development in northeast British Columbia, including the Roman and Horizon projects, and a 50% interest in the Belcourt Saxon Limited Partnership ("Belsax"). The Trend

Mine, with some 320 employees, is targeting annual sales volume of approximately 1.3 million tonnes per year of hard coking coal at full capacity. 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. ("RTI") port facility.

In all, approximately \$150 million of capital expenditure has been invested in the business from 2007 through December 2010 as PRC transitioned from a contractor to an owner-operated mining operation. PRC now has an improved coal washing plant and road and rail logistics chain. A further \$25 million has been invested in the wash plant upgrade to increase production capacity, wash plant yields and reliability. The first phase was completed within budget and on schedule in May 2010. The second and third phases are currently in progress and are on schedule for commissioning in February 2011.

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. Trend Mine comprised a total resource base of 48.5 million tonnes as at December 31, 2010. Included in the resource base are Proved and Probable Reserves of 20.4 and 2.4 million tonnes respectively. Based on a NI 43-101 statement dated June 2010, Roman Mountain resources comprise a total of 32.0 million tonnes, of which 26.7 million tonnes are Measured and Indicated Resources, and 5.3 million tonnes are Inferred Resources. Further exploration to expand the resource base is currently being carried out. Total coal resources for the PRC properties, including Trend Mine, Roman Mountain and Horizon, all in which PRC holds a 100% interest, are currently estimated to be in excess of 480 million tonnes.

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 has been performed on the Roman Mountain project, which is a brown-fields project immediately adjacent to the Trend Mine. Development of a mine at Roman Mountain could potentially increase overall Run of Mine ("ROM") production to between four and five million tonnes per year. In the first quarter of 2010, PRC submitted an environmental assessment application for the Roman Mountain project to the Environmental Assessment Office of British Columbia. The application is currently in the review period of the assessment process.

With respect to the Horizon property, initial conceptual studies indicate that Horizon would be developed primarily as an underground mine with annual ROM production of approximately 1.7 million tonnes.

A technical study on the Belsax interests was completed in 2008 and a NI 43-101 Technical Report dated March 2009 was jointly filed on SEDAR by NEMI and Western Coal Corporation, which holds the other 50% interest. The report states coal reserves (at 100%) for the Belcourt North and Belcourt South properties contain Proven Reserves of 85.7 million tonnes and Probable Reserves of 0.7 million tonnes included in the coal resource estimate of 166.7 million tonnes of Measured Resources, 4.2 million tonnes of Indicated Resources, and 0.2 million tonnes of Inferred Resources. A Scoping study of the Belsax interests suggested a potential to produce approximately 6 million tonnes per year of metallurgical ROM coal over a 15 year period. Further evaluation work is being conducted.

All resources and reserves are stated as at December 31, 2010 unless otherwise indicated.

PRC's coking coal continues to be very well received by steel mills in Asia, Europe, and South America. Demand for its coal remains very strong supporting further production growth.

### **Results of PRC Operations**

With better mining and plant operations in general, improved coal recovery, combined with the successful implementation of Phase 1 Plant Upgrade in May 2010, production of clean metallurgical coal for the quarter ended December 2010, increased 60% to 240,200 tonnes from 150,290 tonnes in the quarter ended December 2009. However, sales in the quarter ended December 2010 were negatively impacted by temporary port difficulties which affected all users of the RTI terminal during December. As a result, two PRC Panamax sized cargoes (approximately 130,000 tonnes in total) were delayed into the first week of 2011 with a result that PRC's metallurgical coal sales volumes totaling 202,700 tonnes for the quarter

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ended December 2010 were 37,500 tonnes less than production for the period. The second and third phases of the Plant Upgrade project are progressing on schedule and will be commissioned in February 2011. These upgrades are expected to provide an improvement in plant throughput and yield.

**Results of NEMI Operations**

For the three month period ended December 2010, NEMI's operating losses increased by \$1,218,691 to \$1,406,876 or \$0.03 per share from a loss in 2009 of \$188,185 or \$0.00 per share. The major contributor to the 2010 decline was a \$1,163,000 drop in income from the PRC operations from a reported profit of \$336,000 in 2009 to a loss \$827,000 in 2010. This loss was primarily attributable to short term port difficulties at RTI that affected the entire industry, precluding the completion of two full shipments (approximately 130,000 tonnes) during December. These shipments were subsequently made up in the first week of January 2011.

Corporate operating expenses in the three months ended December 2010 totaled \$168,984 (2009 - \$137,523) which included stock-based compensation in 2010 of \$26,000 (2009 - \$8,000). Excluding stock-based compensation, corporate operating expenses for 2010 were \$142,984 (2009 - \$129,523).

Except for a for the fore-mentioned share of the PRC loss, amounts reported in other income and expenses for the current period did not vary appreciably from those reported in the comparative period for the previous year. Administrative expense was offset by \$11,859 (2009 - \$15,407) in interest income earned on the Company's surplus cash balance.

The stock-based compensation expense of \$26,000 (2009 - \$8,000), 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.

**Summary of NEMI's Quarterly Results (unaudited)**

	Quarters ended							
	December 2010	September 2010	June 2010	March 2010	December 2009	September 2009	June 2009	March 31, 2009
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenues	Nil	nil	nil	nil	nil	nil	nil	nil
Net loss	(1,406,876)	(1,084,529)	(744,458)	(970,526)	(188,185)	(1,320,647)	(753,830)	(65,320)
Share of (loss) income of Peace River Coal LP	(827,000)	(138,000)	132,000	(367,000)	(336,000)	(595,000)	(100,000)	1,100,000
Income (loss) per share (basic and diluted)	(0.03)	(0.02)	(0.01)	(0.02)	(0.00)	(0.02)	(0.01)	(0.00)
Investment in Peace River Coal LP	55,986,345	54,924,825	55,819,3360	50,719,795	49,632,982	46,116,103	49,731,302	51,192,510
Total assets	60,454,643	62,965,415	63,612,356	64,307,012	64,893,475	65,964,728	66,694,022	67,991,714

**Financing Activities**

There was no debt or equity financing activity during the three-month periods ended December 2010 and 2009.

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

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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. As at December 31, 2010 the balance of unconverted debentures outstanding amounted to \$11,900,000

In the period since December 31, 2010, a total of 1,256,667 common shares were issued on conversion of \$1,131,000 worth of debentures thereby reducing the balance of outstanding debentures as at February 14, 2011 to \$10,769,000.

**Capital Expenditures and Investments**

Investing activity during the quarter ended December 2010 totaled \$1,888,520 (2009 - \$6,974,480) in funds advanced against cash calls for capital from PRC. For the quarter ended December 31, 2010, PRC made capital distributions totaling \$nil (2009 - \$3,613,601). In September 2010, as permitted under the Limited Partnership Agreement, PRC adopted a set-off approach with regard to cash calls and cash distributions. Accordingly the Company received no capital distributions in the quarter ended December 2010. Assuming a successful disposition of the PRC interests, management does not anticipate that additional funding will be required in order to fund PRC operations and capital requirements.

As at December 31, 2010, the summarized unaudited assets, liabilities and partners' equity of PRC are as follows

(\$000's)					
Assets		\$	Liabilities and Partners' Equity		\$
<b>Current</b>			<b>Current</b>		
Cash		18,312	Accounts payable and accrued liabilities		21,359
Non-cash		60,132	Non-current		12,980
		<b>78,444</b>			<b>34,339</b>
<b>Non-current</b>		<b>403,051</b>	<b>Partners' Equity</b>		<b>447,156</b>
		<b>481,495</b>			<b>481,495</b>

**Normal Course Issuer Bid**

On April 7, 2009 and again on April 15, 2010, 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 (respectively the "2009 NCIB" and the "2010 NCIB"). The maximum number of common shares that may be purchased for cancellation pursuant to each respective NCIB is that number of common shares that represents 5% of the issued and outstanding common shares on the date that the Exchange approved the NCIB. Based on the 54,976,258 common shares outstanding as at April 15, 2010 (2009 - 57,869,745), the maximum number of shares available for purchase and cancellation following the 2010 and 2009 NCIB's was 2,748,812 and 2,893,487 respectively.

As at December 31, 2010, purchases under each respective NCIB were as follows:

	2010 NCIB		2009 NCIB	
	Number of Shares	Cost \$	Number of shares	Cost \$
Total Purchased to the end of December	1,746,178	1,395,807	2,893,487	1,148,644
Less purchased prior to October 1	670,978	416,635	987,390	378,328
Purchased during the three month period ended December	1,075,200	979,172	1,906,097	770,316

As at December 31, 2010, under the provisions of the 2010 NCIB, the Company had re-purchased 1,746,178 shares (2009 - 2,893,487 shares) at a total cost of \$1,395,807 (2009 - \$1,148,644) for an average cost of approximately \$0.80 each (2009 - \$0.40 each). The stated book value of the repurchased shares in the Company's shareholder equity was \$1,665,860 (2009 - \$2,760,397) or approximately \$0.95 per share. Under the provisions of the 2010 NCIB, the excess of the stated book value over the repurchased cost which amounted to \$299,392 (2009 - \$1,690,169) was credited to contributed surplus.

As at December 31, 2010, under the provisions of the 2010 NCIB, the Company was still entitled to purchase another 1,002,634 shares (2009- Nil).

All purchases made pursuant to the 2009 and 2010 NCIB's 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.

On the respective dates of purchase, the Board of Directors of the Company believed that then prevailing market prices of the Common Shares did not fully reflect the value of the Company's business and its future business prospects. As a result, the Board concluded that the purchase of the Common Shares represented an appropriate and desirable use of the Company's funds.

### **Investment in Hillsborough**

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.

During the quarter ended December 31, 2009, Hillsborough completed a statutory arrangement (the "Arrangement") whereby Vitol Anker International B.V. ("Vitol") acquired all the shares of Hillsborough not owned by Vitol at a price of \$0.50 per share. As permitted by the terms of the Arrangement, NEMI filed a notice of dissent and the price at which these shares will ultimately be acquired by Vitol has not yet been determined.

### **Hillsborough Claim**

NEMI issued a letter to Hillsborough Resources Ltd. ("Hillsborough") setting out NEMI's claim for compensation in respect of Hillsborough's failure, under the PRC limited partnership agreement, to provide proper notice of an indirect transfer resulting from Hillsborough's plan of arrangement under which Vitol acquired control of Hillsborough on December 21, 2009. The PRC limited partnership agreement provides for disputes to be resolved by arbitration in British Columbia. As announced by NEMI on June 18, 2010, NEMI commenced arbitration proceedings for its claim for monetary compensation in respect of the acquisition of Hillsborough by Vitol. NEMI's claim against Hillsborough is solely for damages and will not encumber the transfer of the partnership assets or interests. In the interests of the sale process, NEMI has agreed to defer the arbitration until after the sale of PRC.

### **Liquidity and Capital Resources**

As at December 31, 2010, the Company had working capital of \$3,788,700. Currently, management expects that the Company has sufficient funds on hand in order to meet its expected obligations in the period through the anticipated PRC divestiture. Assuming a successful disposition of the PRC interests, management does not anticipate that additional funding will be required in order to fund PRC operations and capital requirements. As permitted under the Limited Partnership Agreement, in September 2010, PRC adopted a set-off approach in relation to distributions and cash calls. Accordingly, in order to facilitate the divestment, any cash distributions to which the limited partners might otherwise be entitled are being retained in PRC until the proposed divestiture transaction is concluded. To this end, as at December 31, 2010 cash holdings retained in PRC totaled \$18.3 million and working capital amounted to \$57.1 million.

### Contractual Obligations

As at December 31, 2010, the Company's contractual obligations included:

	<b>Payments Due by Period (\$000's)</b>				
	<b>Total</b>	<b>Within 1 year</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>More than 5 years</b>
	\$	\$	\$	\$	\$
Lease agreement for office premises	154	58	96	nil	nil
Lease agreement for office (1)	123	123	nil	nil	nil
<b>Total contractual obligations</b>	<b>277</b>	<b>181</b>	<b>96</b>	<b>0</b>	<b>0</b>

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

### Transactions with Related Parties

During the three months ended December 2010, the Company paid consulting fees totaling \$16,000 (2009 - \$19,500) for CFO services to a company owned by the former CFO of the Company.

These transactions were measured by the exchange amount, which is agreed upon by the transacting parties. As at December 31, 2010, accounts payable and accrued liabilities did not include any amounts due to related parties (September 30, 2010 - \$nil). Amounts due on this account; if any are unsecured, non-interest bearing, with no fixed terms of repayment.

### Critical Accounting Estimates

In the preparation of the Company's consolidated financial statements in accordance with CGAAP and Company Accounting Policies, management has relied on the use of estimates and assumptions that have a significant impact in certain values presented in the consolidated financial statements. The Company's accounting policies are described in note 2 to the audited consolidated financial statements for the year ended September 30, 2010. The accounting estimates considered to be significant to the Company include the review of the carrying value of the Company's investment in PRC, the determination of interest accretion and placement expenses on convertible debt and the computation of stock-based compensation expense. Management reviews the carrying value attributed to its investment in PRC on at least an annual basis. No write-down was taken during the period ended December 31, 2010. There is a risk however that this investment could be written down in a future period.

Similarly with respect to the determination of PRC income, expense, assets and liabilities, PRC management has relied on the use of estimates and assumptions in the determination of accounts receivable inventory, sales, cost of sales, depletion and amortization expense, provisions for asset retirement obligations and related accretion expenses in addition to the calculation and determination of resources and reserves upon which PRC relies for purposes of calculating depletion expense and future development plans and related capital expenditure decisions.

### Off-Balance Sheet Arrangements

Neither the Company nor PRC have 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, investment in Hillsborough, 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.

**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 ending 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.

**Outstanding Share Data**

As at February 14, 2011, the Company's authorized, issued, fully paid and voting shares were as follows:

**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 Fully-paid and Outstanding:**

	Number of common shares
Class A Common: Issued and fully-paid	55,136,747
Less: shares held in treasury	(634,000)
<b>Issued, fully paid and outstanding</b>	<b>54,502,747</b>

**Options Outstanding**

Common class A shares, having a weighted average exercise price of \$0.53 each 634,000

**Convertible Debentures**

Maximum number of Class A common shares issuable on conversion  
 \$10,769,000 in convertible debentures, if converted at the  
 holder's option at the rate of \$0.90 per share<sup>1</sup> 11,965,556

<sup>1</sup> Under certain circumstances, the Company may redeem the convertible debentures by issuing shares, in which case, the number of Class A common shares issuable on a conversion of the convertible

debentures will depend on the weighted average trading price of the Company's shares on the Toronto stock Exchange for the 20 day trading period prior to the date fixed for redemption or at maturity.

### **Risks and Uncertainties**

The Company is involved in coal mining operations to the extent of its 12.184% partnership interest in Peace River Coal LP. The exploration for and development of coal deposits are highly speculative activities and are subject to significant risks. The Company's ability to realize its investments in exploration projects is dependent upon a number of factors, including:

**Ability to secure financing:** There can be no assurance of the Company's ability to continue to raise the financing necessary to meet future cash calls required to maintain its current level of interest in the PRC LP or to complete the exploration and development of those projects and the existence of economically recoverable reserves within its projects.

**PRC Dilution Risk:** Under the terms of the PRC 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. In addition, the partners are subject to dilution if they fail to make required cash calls.

**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. 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, labor 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, labor 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 is exported to port facilities by one rail system for which there are limited alternatives. Additionally, all of PRC's export sales are 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 evaluated the effectiveness of the Company's disclosure controls and procedures as at September 30, 2007 and concluded, based on its evaluation, that these controls and procedures provided 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, 2010 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 December 31, 2010, with \$3,788,700 in working capital in the Company along with adequate PRC funds on hand to meet budgeted PRC operating and capital requirements, management is confident that the Company has sufficient liquidity to see the Company through to the anticipated PRC divestiture at which time the Company will be in a position to assess its situation and alternatives for the future.

#### **Other Information**

Additional information related to the Company, including its Annual Information Form, is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).