

# NEMI Northern Energy & Mining Inc.

## Management's Discussion and Analysis of Financial Position and Results of Operations ("MD&A")

For the three and nine-months ended, June 30, 2011

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This MD&A has been prepared as of August 12, 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 and nine-month periods ended June 30, 2011 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 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's principal business asset is a 12.184% interest in the Peace River Coal Limited Partnership ("PRC"), which owns and operates the Trend Mine and owns other 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 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.

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 August 12, 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 of Operational Highlights**

Income for the three-month period ended June 30, 2011 totaled \$1,234,827 (\$0.02 per share) compared to a loss of \$744,458 (\$0.01 per share) in the prior year. Losses for the nine-month period ended June 30, 2011 totaled \$1,775,682 (\$0.03 per share) compared to a loss of \$1,903,169 (\$0.05 per share) in the prior year. The earnings improvement in the most recent three-month period was attributable to PRC operations which accounted for a \$1,819,000 profit in the quarter ended June 30, 2011 substantially reducing year to date losses from PRC operations down to \$13,000 for the nine months ended June 30, 2011 (2010 profits of \$132,000 and \$101,000 for the three and nine-month periods respectively) to result in PRC profit increases over prior year three month period of \$1,687,000. For the nine months year to date, profit from PRC operations declined \$114,000 compared to that of the prior year. As anticipated at the end of the quarter ended March 2011, operations in the third quarter ended June 2011 improved significantly as the newly installed wash plant operated at or above designed capacity, the operation experienced milder weather conditions, and mine, rail and shipping operations experienced minimal operational breakdowns compared to the prior quarter when the scheduled plant shutdown to install upgrades and frozen equipment due to abnormal and extended extreme cold weather combined to negatively impact PRC operations.

Pursuant to the terms of Normal Course Issuer Bids ("NCIB") as filed in April 2010 and April 2009 respectively, during the nine-month periods ended June 30, 2011 and 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). The Company has not completed any repurchases under the NCIB it filed with effect from May 26, 2011.

During the quarter ended March 31, 2011, holders of \$1,451,000 worth of 8% convertible debentures exercised their conversion privileges in exchange for a total of 1,612,221 common shares at a price of \$0.90 each.

On January 4, 2011, the Company announced that Andrew Williams had replaced Matthew Kavanagh as Chief Financial Officer. At the annual meeting of shareholders held on March 31, 2011, Barry A. Shaw Jr. was elected as a director following Tony Hammond's decision not to stand for re-election.

On May 24, 2011, Anglo indicated to NEMI that it would not be proceeding with the proposed sale of PRC following a review of its interests.

### **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 allowed for a purchaser to acquire up to a 100% interest in PRC. On May 24, 2011, Anglo advised the Company, that following an internal review, it had decided to retain and grow PRC as a core asset. Although the NEMI/Anglo agreement remains in effect until September 30, 2011, Anglo has since reaffirmed its commitment to the PRC interests and the parties are currently reviewing future plans. All parties remain committed to an objective to more readily realize the full potential of the assets.

## **Peace River Coal LP**

PRC was established in November 2006 as a joint venture between the Company, Anglo, and Hillsborough. The PRC manager is Peace River Coal Inc., who is also the general partner and an affiliate of Anglo, 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"). 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 was 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 were commissioned within budget during February and the first half of March 2011. Since commissioning in the second half of March 2011, hourly feed rates have met or exceeded design capacity of approximately 280 tonnes per hour up from an average 220 tonnes per hour.

## **Exploration and Development Plans**

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.

The Roman Mountain feasibility study is currently focusing on an integrated Trend – Roman mine plan with the objective of achieving 5 million tonnes per year ROM production and approximately 3.5 million tonnes per annum per year clean hard coking coal. Further drilling work commenced in August, which will both improve confidence levels of the Roman Mountain reserves and provide logical extensions to the Roman Mountain coal resources.

The Roman Environmental Application, submitted in February 2010, remains suspended, at PRC's request, to allow detailed evaluation of water quality mitigation measures, particularly with respect to selenium concentrations. It is anticipated that the suspension will be lifted in Q4 2011. With the emerging issue of Selenium, PRC is evaluating various water treatment options to remove selenium from mine water discharged into adjacent creeks. Three pilot water treatment plants, utilizing reverse osmosis and biological reactor technology, will operate from August through November 2011.

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

**NEMI Energy & Mining Inc.**  
**Management's Discussion and Analysis of Financial Position and Results of Operations (continued)**  
**For the three and nine-months ended June 30, 2011**

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

The following table and discussion pertains to the operations of PRC on a 100% basis as opposed to the Company's 12.184% interest. Also for purposes of this discussion, all references to dollars are in terms of Canadian dollars unless otherwise expressly disclosed. The following analysis generally excludes comparison with the prior year operations because management assesses performance on the basis of the mine plan and related projections and budgets which are prepared on a calendar year basis, based on the currently prevailing market environment rather than on the basis of achievements in the prior year.

#### Selected Quarterly PRC Operating Data

	Unit of measure	June 2011	March 2011	December 2010	September 2010	June 2010	March 2010	December 2009	September 2009
<b>INVESTMENT</b>									
Working capital	C\$000's	65,797	46,240	56,346	45,334	51,169	11,132	2,227	3,979
Non-current assets	C\$000's	400,853	405,630	403,951	408,759	408,049	405,625	407,080	407,146
Retirement obligations	C\$000's	(14,018)	(13,280)	(12,974)	(15,196)	(14,710)	(14,209)	(13,707)	(13,858)
Net equity <sup>1</sup>	C\$000's	452,631	438,591	447,324	438,897	444,508	402,548	395,600	397,266
<b>REVENUES</b>									
Sales	C\$000's	71,350	55,364	41,675	31,278	40,319	36,730	20,523	64,974
Tonnes sold	tonnes	248,250	267,011	202,733	167,827	193,424	216,230	125,404	360,281
Average sales price per tonne	C\$/tonne	287	207	205	186	208	169	164	180
<b>CAPITAL EXPENDITURES</b>									
Exploration and pre-feasibility	C\$000's	175	94	1,125	1,082	628	363	1,448	1,606
Equipment and development	C\$000's	1,813	6,296	8,055	3,785	7,172	1,756	13,664	14,024
<b>PRODUCTION</b>									
Production	tonnes	306,698	108,396	240,218	226,435	206,731	194,654	149,870	164,904
Port side inventory	tonnes	68,640	3,689	129,816	80,499	83,077	64,383	94,867	26,946
<b>Share of PRC Income (Loss) Reported by NEMI<sup>1</sup></b>									
	C\$000's	1,819	(1,005)	(827)	(138)	132	(367)	336	(184)

1. Note: The share of income reported by NEMI is not equal to the 12.184% of the income reported by PRC because accounting policies applied by NEMI in the determination are not consistent with those of PRC, accordingly income figures reported by PRC would not be meaningful. Similarly, the reported carrying value of NEMI's investment in PRC will be equal to 12.1284% of the PRC net Equity presented above

### -PRC Sales

PRC coal is marketed by Anglo in conjunction with their worldwide sales effort.

In the quarter ended March 2011, the average selling price per tonne approached \$210. In the quarter ended June 2011 average selling prices have approached \$290. Selling prices for the next quarter are expected to stay in the \$300 range. In the quarter ended March 2011, PRC shipped 267,000 tonnes compared with shipments of 248,000 tonnes in the quarter ended June 2011. PRC expects to sell approximately 300,000 tonnes in the quarter ending September 2011. Results for the calendar year ending December 2011 will ultimately depend on contracted sales prices, PRC's ability to maintain production levels in the face of developing a new mining phase, the timely arrival of new mining equipment, prevailing US\$ exchange rates and the announced closure of Ridley Terminals for three weeks in November and December 2011 to upgrade train dumping equipment.

**-PRC Production**

In the quarter ended June 2011, PRC experienced a significant operating improvement with the completion of the third and final phase of the processing plant upgrades and more favorable weather conditions. Production for the quarter ended June 2011 totaled 307,000 tonnes compared with 108,000 in the quarter ended March 2011.

**-PRC Financial Results**

Completion of the processing plant combined with higher selling prices in the quarter ended June 2011 were the two main factors that resulted in PRC achieving net operating income before taxes on the order of \$14 million compared with total losses before income taxes in the quarters ended December 2010 and March 2011 exceeding \$14.3 million. As contractual sales prices are quoted in US dollars per tonne, operating profits in the quarter ended June 2011 have been adversely affected to the extent of approximately \$3 per tonne for each change of 10 basis points in the prevailing US\$ exchange rate by the rising Canadian dollar.

**-PRC Capital Expenditures and Liquidity**

As at June 30, 2011, PRC working capital amounted to \$65.8 million including cash of \$37.3 million. Approved authorities for expenditure on capital projects outstanding as at June 30, 2011 amounted to approximately \$40 million. Subsequent to the quarter end, the PRC Board approved \$46 million of capital expenditure for additional mining equipment, to be spent through 2011 and the first quarter of 2012. PRC expects that that these expenditures will be funded from future cash flows.

**NEMI Corporate Operations**

Since the formation of PRC in November 2006 when the Company acquired its PRC limited partnership interest and ceased operations as an active coal exploration company, NEMI's operations have been in transition to the point where operations now consist of managing the investment in PRC and administrative management of the corporate entity. As such management has largely focused on ensuring that the Company has sufficient resources to meet PRC cash calls, addressing legacy issues carried over from historical operations prior to November 2006, and corporate administration. Over that time management has sought to minimize corporate operating expenses and protect Company assets as it sought to conserve financial resources and increase shareholder value.

As such, the Company maintains a small corporate office in Vancouver. The management complement consists of a full-time CEO, a part-time office assistant along with a contracted CFO who is retained on a per diem basis. In addition, accounting services are provided by an outside accounting service with whom the CFO is associated. The corporate operating cost structure is comparatively simple and consists principally of remuneration and benefits paid to the management complement, professional fees that cover legal and audit costs, expenditures required to sustain the Company's status as reporting publicly listed entity, office expenses and fees paid to outside directors that include their out-of-pocket expenses. The following discussion of the results of corporate operations for the three and nine-month periods ended June 30, 2011 are presented below in this context. The PRC operations are discussed elsewhere in this MD&A.

**Results of Corporate Operations - Three Months Ended June 30, 2011**

For the three-month period ended June 30, 2011, corporate operating expenses totaled \$229,591 (2010 - \$471,940). In the current year, remuneration and benefits declined from \$205,142 to \$47,913. Remuneration and benefits in the current year are generally lower following a management team restructuring that occurred at the end of December 2010, in addition, the prior year expenses included a \$150,000 executive bonus provision. The current expense is consistent with previous disclosure that going forward, under the current cost structure, excluding bonuses, management expects that remuneration and benefits expense will be in the order of \$50,000 per quarter. In the quarter ended June 30, 2011, professional fees consisting of legal and audit expenses amounted to \$52,818 compared to \$165,707 in the prior year. Prior year expenses included legal costs pertaining to legacy employee

settlements as well cost incurred in connection with the claim against Hillsborough. Current year professional fee expenses are attributable to accruals for annual estimated audit and legal fees as well costs incurred to finalize legacy employee termination settlements and other legal costs related to PRC partnership matters. Going forward, at this time, management expects that although legal expense will generally trend downwards, legal expenses can be expected to fluctuate depending on prevailing business issues. The decline in office expense from \$42,60 in the three months ended 2010 to \$24,358 for the three-month period ended June 2011 is consistent with management's effort to hold administrative costs down.

In the current period the Company recognized Stock based compensation of \$57,000 (2010 - \$26,000) on options that vest during the period.

In addition to the administrative expenses as discussed above, the only other major operating expense that the Company can be expected to incur on a recurring basis is interest expense on the convertible debentures that includes amortization of deferred placement charges and accretion of the equity portion of the loan which for the last eight quarters has remained in the \$410,000 range. In the current quarter, this expense declined to \$363,844 as a result of the debt reduction that arose on the conversion of \$1,451,000 worth of debentures in the quarter ended March 31, 2011. Going forward, given the current level of debt, quarterly interest charges including amortization of deferred placement charges and accretion of the equity portion of the loan can be expected to decline to approximately \$364,000.

**Results of Corporate Operations - Nine Months Ended June 30, 2011**

For the nine-month period ended June 30, 2011, corporate operating expenses totaled \$619,386 (2010 - \$812,124). In the current year, remuneration and benefits declined \$164,717 from \$348,558 to \$183,841. This decline is consistent with that experienced in the quarter ended June, 2011. In the nine months ended June 30, 2011, professional fees consisting of legal and audit expenses amounted to \$161,583 compared to \$216,867 in the prior year. Declines in professional fee expenses for the nine months ended June 30, 2011 were offset because they include a provision for accrued audit fees that were not accrued over the course of the year in the prior year. Audit fees for the current year are now accrued at \$20,000 per quarter compared to \$12,939 recorded in the first nine months of the prior year. The decline in office expense from \$129,860 in the nine months ended 2010 to \$106,940 for the period ended June 2011 is consistent with management's effort to hold administrative costs down.

In addition to the administrative expenses as discussed above, the only other major operating expense that the Company can be expected to incur on a recurring basis is interest expense on the convertible debentures that includes amortization of deferred placement charges and accretion of the equity portion of the loan which for the nine-month periods in the prior two years has remained in the order of \$1,250,000. In the current nine month period, this expense declined to \$1,168,035 as a result of the debt reduction that arose on the conversion of \$1,451,000 worth of debentures during the quarter ended March 31, 2011. Going forward, given the current level of debt, annual interest charges including amortization of deferred placement charges and accretion of the equity portion of the loan can be expected to decline to approximately \$1.500 million compared to the \$1.670 million recorded for the year ended September 2010. With the conversion of \$1,451,000 worth of debentures, the cash requirement to meet the bi-annual interest payment will decline by approximately \$58,000.

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

	June 2009	March 2011	December 2010	September 2010	June 2010	March 2010	December 2009	September 2009
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenues	nil	nil	nil	nil	nil	nil	nil	nil
Net income (loss)	1,234,827	(1,536,634)	(1,406,876)	(1,084,529)	(744,458)	(970,526)	(188,185)	(1,320,647)
Share of (loss) income of Peace River Coal LP	1,819,000	(1,005,000)	(827,000)	(138,000)	132,000	(367,000)	336,000	(595,000)

**NEMI Energy & Mining Inc.**  
**Management's Discussion and Analysis of Financial Position and Results of Operations (continued)**  
**For the three and nine-months ended June 30, 2011**

	June 2009	March 2011	December 2010	September 2010	June 2010	March 2010	December 2009	September 2009
Income (loss) per share (basic)	0.02	(0.03)	(0.03)	(0.02)	(0.01)	(0.02)	(0.00)	(0.02)
Investment in Peace River Coal LP	56,800,345	54,981,345	55,986,345	54,924,825	55,819,3360	50,719,795	49,632,982	46,116,103
Total assets	60,204,221	58,936,420	60,454,643	62,965,415	63,612,356	64,307,012	64,893,475	65,964,728

### Financing Activities

In the nine-month period ended June 30, 2011, financing activities that involved the receipt or payment of a cash consideration amounted to \$43,667 received on the exercise of options on 83,334 shares at a weighted average price of \$0.52 each. In addition, during the three months ended December 2010, the Company paid \$979,172 for the purchase of 1,075,200 common shares that were either canceled and returned to treasury or held in reserve against outstanding stock options.

In the period April 1, 2008 until December 31, 2010 the Company had convertible debentures outstanding of \$11.8 million. During the quarter ended March 31, 2011, the balance of unconverted debentures outstanding declined to \$10,449,000 following conversion of \$1,451,000 worth of debentures in consideration for 1,612,221 common shares at the conversion price of \$0.90 per share. 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 since June 30th, 2008. The debentures mature on March 12, 2013 and are convertible at the holder's option 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.

### Capital Expenditures and Investments

There was no investing activity during the quarter ended June 30, 2011. For the three months ended June 30, 2010 net cash advanced to PRC amounted to \$4,967,541 net of \$3,232,291 received from PRC). For the nine months ended June 30, 2011, net cash advanced to PRC totaled \$1,888,520 with no cash receipts from PRC. For the nine months ended June 30, 2010 net cash advanced to PRC amounted to \$9,602,333 net of \$9,473,719 received from PRC. 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 period since that time. Management does not anticipate that additional funding will be required in order to fund PRC operations and capital requirements for the duration of the 2011 PRC program and budget.

At this time, other than in connection with the carrying value of the PRC investment and its right to pursue a Normal Course Issuer Bid (as announced on May 20, 2011) for a one year period commencing May 26, 2011, the Company has no plans or commitments to make any additional capital expenditures or investments.

### Normal Course Issuer Bids

On May 26, 2011, the Company announced that it has renewed its Normal Course Issuer Bid ("NCIB") which allows the Company to acquire up to 2,747,081 or approximately 5% of its Class A common shares on the open market at the prevailing market price as permitted under the rules of the TSX.

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 (the "2010 NCIB") for a period of one year until April 15, 2011. 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, the maximum number of shares available for purchase and cancellation at anytime over one-year period following the 2010 NCIB issue date was 2,748,812.

At expiration on April 15, 2011, purchases under the 2010 NCIB were as follows:

	<b>Number of Shares</b>	<b>Cost</b>
		\$
Total Purchased until expiration on April 15, 2011	1,746,178	1,395,807
Less purchased prior to October 1	670,978	416,635
Purchased during the nine month period ended June 30, 2011	1,075,200	979,172

As at June 30, 2011, under the provisions of the 2010 NCIB, the Company had re-purchased 1,746,178 shares at a total cost of \$1,395,807 for an average cost of approximately \$0.80 each. The stated book value of the repurchased shares in the Company's shareholder equity was \$1,665,860 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 a total of \$299,392 was credited to contributed surplus.

All purchases made pursuant to the 2010 NCIBs were made in accordance with the rules of the TSX 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 for an average cost of \$0.29 per share. The shares were purchased for investment purposes.

On December 21, 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 setting out NEMI's claim for compensation in respect of Hillsborough's failure to provide proper notice of an indirect transfer resulting from the Arrangement as required under the provisions of the PRC limited partnership agreement. 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 had agreed to defer the arbitration until after the sale of PRC. The arbitration claim against Hillsborough remains in suspension.

### **Liquidity and Capital Resources**

As at June 30, 2011, the Company had working capital of \$3,039,643. Management expects that the Company has sufficient funds on hand in order to meet its expected obligations in the period through the next twelve months. 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 as initially proposed, any cash distributions to which the limited partners might otherwise be entitled were and continue to be retained in PRC. To this end, as at June 30, 2011 cash holdings retained in PRC totaled \$37.376 million and working capital amounted to \$65.797 million. Management believes that the surplus funds currently retained in PRC will be sufficient to meet anticipated future PRC operations and capital requirements through the end of the current 2011 PRC program and budget.

### Contractual Obligations

As at March 31, 2011, the Company's contractual obligations included:

	Payments Due by Period (\$000's)				
	Total	Within 1 year	1 - 3 years	3 - 5 years	More than 5 years
	\$	\$	\$	\$	\$
Lease agreement for office premises	131	58	73	nil	nil
Lease agreement for office <sup>(1)</sup>	32	32	nil	nil	nil
<b>Total contractual obligations</b>	<b>163</b>	<b>90</b>	<b>73</b>	<b>nil</b>	<b>nil</b>

<sup>(1)</sup> NEMI has sublet this office space at cost to PRC.

### Transactions with Related Parties

For the three and nine-month periods ended June 30, 2011, remuneration and benefits included fees the Company paid for CFO and non-audit accounting services totaling \$12,740 (2010 - \$19,500) and \$38,720 (2010 - \$58,000) paid to companies owned by the former CFO or in which the current CFO has significant influence.

These transactions were measured by the exchange amount, which is agreed upon by the transacting parties. As at June 30, 2011, accounts payable and accrued liabilities include \$14,583 due to related parties (September 30, 2010 - \$nil). Amounts due on these accounts, if any, are unsecured, non-interest bearing, and have 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 June 30, 2011. 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.

**International Financial Reporting Standards ("IFRS")**

In 2008, the Canadian Accounting Standards Board confirmed that publicly listed companies will be required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption may be permitted, however it will require exemptive relief on a case by case basis from the Canadian Securities Administrators. The Company expects its first consolidated financial statements presented in accordance with IFRS to be for the three-month period ending December 31, 2011, which includes presentation of its comparative results for fiscal 2011 under IFRS. In order to prepare for the changeover to IFRS, the Company has developed an IFRS conversion plan comprised of three phases:

PHASE	DESCRIPTION AND STATUS
<p><b>PRELIMINARY PLANNING AND SCOPING</b></p>	<p>This phase involved development of the IFRS conversion plan and has been completed. The IFRS conversion plan includes consideration of the impacts of IFRS on the Company's consolidated financial statements, internal control over financial reporting, information systems and business activities such as compensation metrics, and personnel and training requirements.</p> <p>Based on Management's review of IFRS and current Company processes, minimal impact is expected on information systems and compensation metrics.</p> <p>The IFRS conversion plan includes a high level impact assessment of IFRS effective in 2010, as relevant to the Company. This initial assessment identified stock-based compensation, convertible debentures and the investment in Peace River Coal LP as potential matters high or medium priority to the Company, based on a number of factors. The International Accounting Standards Board has activities currently underway which may, or will, change the standards effective upon the Company's adoption of IFRS, and therefore may impact this initial high level assessment. The Company will assess any such change as a component of its Detailed Impact Assessment phase and update its IFRS conversion plan as appropriate. No significant changes were made to the IFRS conversion plan to date in 2011.</p>
<p><b>DETAILED IMPACT ASSESSMENT</b></p>	<p>This phase involves detailed review of IFRS relevant to the Company and identification of all differences between existing Canadian GAAP and IFRS that will result in accounting and/or disclosure differences in the Company's consolidated financial statements, along with quantification of impact on key line items and disclosures. The phase requires conclusive identification, evaluation and selection of accounting policies necessary for the Company's conversion to IFRS and evaluation of the impact on outstanding operational elements. The Company will work with the auditors to complete this assessment over the three months ending December 2011.</p>

<b>IMPLEMENTATION</b>	<p>This phase will embed the required changes for conversion to IFRS into the underlying financial close and reporting process and business processes. This will include finalization and approval of accounting policy changes, collection of financial information necessary to prepare IFRS compliant consolidated financial statements, implementation of additional internal controls, and preparation and approval of completed IFRS consolidated financial statements. The IFRS changeover is expected to impact the presentation and/or valuations of balances and transactions in the Company's quarterly and annual consolidated financial statements and related notes effective October 1, 2010. This requirement contemplates that prior year comparative information provided in the 2012 interim financial statements will be presented on an IFRS basis.</p> <p>The Company will be preparing a preliminary balance sheet as at October 1, 2010 using IFRS accounting policies which will be submitted to the auditors for preliminary comment. At the present time, the Company has not identified any significant adjustments to the balance sheet on conversion to IFRS from Canadian GAAP. In completing this work, the Company has evaluated significant areas of potential impact including, stock-based compensation, convertible debt and the Investment in Peace River Coal LP.</p> <p>By the end of December 2012, the Company expects to have comparative draft 2011 financial information for presentation in the 2012 first and second quarter unaudited interim financial statements that are compliant with IFRS. Thereafter the Company will draft IFRS compliant note disclosures to accompany those financial statements that will serve as a basis for preparing IFRS compliant unaudited interim financial statements for the quarter ending December 2011 that must be filed by not later than 75 days after December 31, 2011.</p> <p>The Company's management and audit committee have sufficient training and experience to assess the IFRS conversion impacts discussed above and have reviewed the IFRS accounting policy selection documentation.</p>
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**Outstanding Share Data**

As at August 12, 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	55,492,301
Less: shares held in treasury	(550,666)
<b>Issued, fully paid and outstanding</b>	<b>54,941,635</b>

**Options Outstanding**

Common class A shares, having a weighted average exercise price of \$0.70 each	834,000
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### **Convertible Debentures**

Maximum number of Class A common shares issuable on conversion  
of \$10,449,000 in convertible debentures, if converted at the  
holder's option at the rate of \$0.90 per share<sup>1</sup> 11,610,000

<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 PRC 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.

**Economic viability:** There can be no assurance that PRC will be able to develop and operate its coal properties on a sustainably profitable basis, 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 June, 2011, with \$3,039,643 in working capital 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 meet operational requirements over the next 12 months. The PRC partners are now reviewing and assessing future plans. The status of future plans notwithstanding, with the upgraded wash plant now in full operations and stronger coal prices, PRC operations have become more economically viable. These improvements can be expected to have a positive impact on PRC profitability going forward.

**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).