

NEMI Northern Energy & Mining Inc.

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

The following information, prepared as of December 21, 2007, should be read in conjunction with the audited consolidated financial statements of NEMI Northern Energy & Mining Inc. ("NEMI" or the "Company") for the year ended September 30, 2007. All amounts are expressed in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

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

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

It is important to note that:

- Unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of December 21, 2007.
- 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.
- Subject to applicable laws, the Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

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

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

General

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

On November 29, 2006, NEMI concluded an agreement with Hillsborough Resources Limited ("Hillsborough") and Anglo Coal Canada Limited ("Anglo"), indirectly a wholly-owned subsidiary of Anglo American plc, wherein the north-eastern British Columbia metallurgical coal assets of the Company, Hillsborough and Anglo were consolidated into a new entity, Peace River Coal Limited Partnership ("Peace River Coal LP" or "PRC"), initially owned as to 60% by Anglo, and 20% by each of NEMI and Hillsborough. The assets transferred to PRC by NEMI included the Trend mine and related facilities, and NEMI's 50% interest in the Belcourt Saxon Coal Limited Partnership ("Belcourt Saxon Coal LP").

NEMI's assets as at December 21, 2007 consist of its interest in Peace River Coal LP, and working capital.

Corporate Transactions

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

In May 2006, NEMI and Western Canadian Coal Corp. (“Western”) entered into a definitive agreement relating to a business combination whereby the Company would become a wholly-owned subsidiary of Western (the “Western Transaction”). The agreement provided for the business combination to occur by way of a plan of arrangement to be approved at a special meeting of the Company’s shareholders. Under the terms of the agreement, and subject to certain conditions, Western agreed to issue one Western common share for every 1.8 common shares of the Company. Under the agreement, Western would be entitled to a break fee of \$3.5 million in certain circumstances.

In July 2006, the Company announced that Western had advised that it was not prepared to complete this agreement on the basis of the existing exchange ratio, that the board of directors of NEMI had determined that an adjustment to the ratio was not in the best interests of the Company’s shareholders, and that NEMI had accepted Western’s position as a repudiation of the agreement. The Company repaid all amounts due under a trade support credit facility that Western had provided to the Company.

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

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

On October 13, 2006, the Company also voluntarily sought and obtained protection under the *Companies’ Creditors Arrangement Act* (“CCAA”) pursuant to an Order of the Supreme Court of British Columbia (the “Court”). The purpose of obtaining the Order was to afford the Company an opportunity to preserve the going concern value of its assets as it worked to complete the Anglo/Hillsborough transaction. Under the Order, the Company was authorized to obtain debtor-in-possession financing comprised of a \$20 million credit facility to be provided by Anglo (the “DIP Loan”). The DIP Loan was secured by a first-priority charge on the Company’s assets.

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

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

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

In May 2007, PRC provided to the partners its detailed operating and development program for 2007. Cash requirements for 2007 under this program and budget, including capital expenditures and working capital to fund operations through the pre-commercial operation phase, totalled \$53 million. The Company's share, amounting to \$10.6 million, was covered by the free cash carry received pursuant to the Transaction. Hillsborough elected not to participate in either the 2007 program and budget or its share of NEMI's carry, allowing its interest in the partnership to be diluted.

In October 2007, PRC provided to the partners a 2007 Supplemental Program and Budget for \$25 million (NEMI's share was \$5 million) and the 2008 Program and Budget for \$198 million (NEMI's share was \$39.6 million). NEMI has elected to fully participate in the 2007 Supplemental Program and Budget (\$5 million) which will be part of the free cash carry. NEMI also elected to participate in the 2008 Program and Budget to the extent of a further \$5 million which was less than its full pro rata amount. Consequently, it is expected that NEMI's interest in PRC will be diluted to approximately 12%.

Peace River Coal LP

The Peace River Coal LP ("PRC") was formed on November 29, 2006 and all of the north-eastern British Columbia metallurgical coal assets of NEMI, Hillsborough and Anglo were combined under one entity. NEMI owns a 20% interest in PRC. PRC holds substantial metallurgical coal interests both in production start-up and under exploration and development in northeast British Columbia, including the Trend mine, the Roman and Horizon properties, and a 50% interest in the Belcourt Saxon properties. Peace River Coal Inc., indirectly a wholly-owned subsidiary of Anglo American plc, is the general partner and operational manager of PRC, and PRC's production is being marketed by Anglo Coal Marketing Limited.

The Trend mine is currently in the pre-commercial production phase, ramping up pit operations to commercial production levels and undertaking market introduction initiatives to develop a long-term customer base. PRC is therefore capitalizing most expenditures, net of sales proceeds, as mine development costs. This pre-commercial production phase is expected to be completed by the beginning of 2008.

The coal preparation plant that had been modified in late 2006, including the addition of a fines wash circuit, was commissioned in January 2007. The first shipment for the Japanese market was successfully loaded during March. Further sales of trial cargos of metallurgical coal to Europe and the Asia Pacific markets resulted in sales proceeds to PRC of \$32.4 million to September 30, 2007.

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

Significant risk factors affecting the development of PRC's properties include the determination of coal resource to support mine operations; the successful execution of mine plans; the long term strength of metallurgical coal markets; and the ability to secure permits should commercial production from properties be demonstrated to be feasible. It is expected that the capital requirements to develop the various properties now held within PRC over the coming years will be significant. Accordingly, the Company's investment in PRC is subject to financing and dilution risk.

In May 2007, PRC provided to the partners its detailed operating and development plans for 2007, including exploration and development work planned for its other coal properties, as well as its strategic plan for the ensuing five years. These plans include a significant capital expenditure requirement in respect of the Trend mine development and working capital needs, including capital improvements to the rail load-out, power line and haul road as well as continued mine development. Significant exploration and development activities were also included in the plan for the Roman property. The 2007 budgeted expenditures, including capital expenditures and working capital required to fund operations through the pre-commercial production phase, totalled \$53 million. The

Company's share, amounting to \$10.6 million, was covered by NEMI's free cash carry received pursuant to the Transaction.

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

The partners of PRC have also approved PRC's 2008 Program and Budget for expenditures amounting to \$198 million, the Company's pro rata share of which is \$39.6 million. Under the terms of the limited partnership agreement, the partners are not obliged to fully participate in any program and budget that may be proposed by the partnership, but they are subject to dilution provisions should they not elect to participate fully. The Company has elected to provide funding of \$5 million in respect of this budget, and accordingly, it is expected that the Company's interest in PRC will be diluted to approximately 12%.

Selected Annual Information

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

	(Audited)		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total Revenues	\$ nil	\$ nil	\$ nil
Net Earnings (Loss)	\$ 2,969,163	\$ (4,290,483)	\$ (3,414,390)
Net Earnings (Loss) Per Share (basic and diluted)	\$ 0.05	\$ (0.08)	\$ (0.08)
Total Assets	\$ 53,402,438	\$ 112,413,689	\$ 65,023,580
Working Capital (Deficiency)	\$ 9,660,206	\$ (36,967,399)	\$ 20,811,678
Long-term Debt	\$ nil	\$ 10,334,406	\$ 10,000,000
Investment in PRC	\$ 43,625,000	\$ nil	\$ nil
Deferred Expenditures – for the year	\$ 5,467,865	\$ 41,911,325	\$ 19,895,062
Deferred Expenditures – cumulative	\$ nil	\$ 64,992,898	\$ 23,081,573
Dividends declared	\$ nil	\$ nil	\$ nil

The net earnings for the year ended September 30, 2007 includes a gain on asset transfer of \$8,457,225 offset by an equity loss of \$1,575,000 in relation to the Company's interest in PRC. The net loss for the year ended September 30, 2006 included a non-cash income item of \$1,699,196 (2005 - \$1,440,000) related to flow through share offerings and tax benefits not previously recognized. The net loss for fiscal 2005 also included a non-cash charge of \$3,464,671 for stock-based compensation expense, compared to \$5,088 incurred in 2007 and \$124,024 in 2006.

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

Results of Operations

The Company recorded net earnings of \$2,969,163 (\$0.05 per share) for the year ended September 30, 2007 as compared to a loss of \$4,290,483 (\$0.08 per share) reported in fiscal 2006.

The 2007 earnings include a gain on asset transfer of \$8,457,225 offset by an equity loss of \$1,575,000 in relation to the Company's interest in PRC. During the fourth quarter, PRC recorded capital contributions of \$53 million, the Company's share of which was covered by its free cash carry.

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

On November 29, 2006, NEMI transferred substantially all of its business to PRC, including its interest in the Trend mine and related facilities, its operating and related agreements, the majority of its employees, and its interest in the Belcourt Saxon Coal LP. Accordingly, the 2007 results include costs associated with the management of the Trend mine for the months of October and November of 2006.

The Company operated its coarse wash plant on a limited basis, however, NEMI never achieved commercial production. Consequently, all preproduction costs were recorded as deferred expenditures and included in the depletion base, and pre-commercial revenues were netted against the deferred expenditures. This determination was made with reference to such factors as productive capacity and product marketability.

The Company's interest in PRC is being accounted for using the equity method, whereby the Company has included in its 2007 results its 20% share of the loss of PRC. The results for the year ended September 30, 2007 include NEMI's share of the loss of PRC amounting to \$1,575,000. The Trend mine continues to be in the pre-commercial production phase and PRC is therefore capitalizing the majority of its expenditures as mine development costs. Commercial production for the Trend mine is targeted for the beginning of 2008.

Upon the formation of PRC, the partnership accounts of Anglo, Hillsborough and NEMI were credited with the amounts of \$103.8 million, \$34.6 million and \$34.6 million, respectively, being the fair values of contributed property interests as determined by a formal valuation process and as agreed by the parties. In May 2007, PRC provided to the partners its detailed operating and development program for 2007. Cash requirements under the 2007 Program and Budget, including capital expenditures and working capital to fund net operating losses through the pre-commercial operation phase, totalled \$53 million. The Company's share, amounting to \$10.6 million, was funded by NEMI's free cash carry. Taking into account the 2007 cash call, NEMI's 20% interest in PRC, prior to considering results of operations, was \$45.2 million, and NEMI recognized a gain on transfer of its assets to PRC amounting to \$8,457,225.

Expenses for the year decreased to \$1,968,030 from \$4,462,762. The transfer of operations resulted in significant declines in wages and benefits which decreased from \$1,162,161 to \$478,740 and management fees payable to senior staff which decreased from \$315,050 to \$13,950. During October and November, NEMI's payroll had increased to 45 personnel including 31 at the minesite and 14 in the corporate office. In general, the charges related to the minesite personnel were charged to preproduction and included in deferred expenditures. After the reorganization and transfer of assets, NEMI currently has two employees. Commensurate with the decreasing activity level, the 2007 results also reflect significant decreases in advertising and public relations, insurance expense, office and sundry, office rent, regulatory fees, and travel and accommodation.

Professional fees incurred during the year were \$848,544 (2006 - \$1,051,229). The fiscal 2007 costs include legal and monitor costs associated with the Company's CCAA filing; and legal expense incurred in respect of the Anglo/Hillsborough transaction. The 2006 comparative costs included costs in respect of a number of regulatory and contractual issues, including costs associated with the Arrangement entered into with Western.

Interest expense for the year was \$715,627 (2006 - \$1,778,981) as a consequence of the Company's loan agreements with Itochu and Anglo. Itochu had advanced \$20 million to the Company, with such advances bearing interest at a rate of six-months LIBOR for Canadian dollars plus 2.5% per annum. Anglo had advanced \$46.1 million to the Company, including \$12.9 million in DIP loan funding, with such loans bearing interest at a floating rate of LIBOR for Canadian dollars plus 2.5% per annum. On November 29, 2006, these loans and accrued interest were paid in full or assumed by PRC, with the consequence that NEMI currently has no outstanding loans payable.

The comparative 2006 loss included stock-based compensation expense of \$124,024 (2007 - \$5,088), representing non-cash charges incurred in connection with the granting of stock options. The fair value of all stock options granted is recorded as a charge to operations, with a corresponding credit to contributed surplus within shareholders' equity.

Administrative expense was offset by \$378,064 (2006 - \$346,773) in interest income earned on the Company's surplus cash balance.

Capital Expenditures and Investments

During the year, prior to transferring mining properties to PRC, the Company incurred deferred expenditures of \$5.5 million (2006 - \$51.2 million), including \$5.1 million (2006 - \$45.5 million) expended on the Trend property. The 2007 costs included \$4.3 million in mine stripping and preproduction costs.

During the year, the Company also incurred plant and equipment costs of \$1.6 million (2006 - \$18.9 million). The 2007 costs include costs associated with the fines circuit for the coal preparation plant.

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

The Company's investment in PRC is being accounted for using the equity method. The net book value of the net assets of PRC as at September 30, 2007 is \$218.1 million, of which NEMI's 20% share is \$43.6 million. In addition, NEMI has a free carry to December 31, 2007 of up to \$18 million in respect of its interest in PRC, of which \$10.6 million was utilized in respect of a PRC cash call during the year, and an additional \$5 million is expected to be utilized pursuant to PRC's 2007 Supplemental Budget.

As at September 30, 2007, the summarized assets, liabilities and results of operations of PRC are as follows:

(Thousands of dollars)

Total current assets	\$ 9,778	Total current liabilities	\$ 10,825
Total long term assets	244,728	Total long term liabilities	<u>25,556</u>
			<u>36,381</u>
		Limited partner contributions	226,000
		Loss for period and deficit	<u>(7,875)</u>
			<u>218,125</u>
Total assets	\$ 254,506	Total liabilities and equity	\$ 254,506

Summary of Quarterly Results (unaudited)

Three months ended	Sept. 30, 2007	June 30, 2007	Mar. 31, 2007	Dec. 31, 2006	Sept 30, 2006	June 30, 2006	Mar. 31, 2006	Dec. 31, 2005
Total revenues	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil
Net earnings (loss)	\$7,536,820	(\$1,012,376)	(\$412,850)	(\$3,142,431)	(\$904,994)	(\$2,208,026)	(\$354,587)	(\$822,876)
Net loss per share (Basic and diluted)	\$0.14	(\$0.02)	(\$0.01)	(\$0.06)	(\$0.02)	(\$0.04)	(\$0.01)	(\$0.02)
Deferred expenditures	\$nil	\$nil	\$nil	\$5,467,865	\$18,799,429	\$7,630,985	\$12,227,274	\$12,542,677
Total assets	\$53,402,438	\$46,119,381	\$46,815,200	\$49,282,095	\$112,413,689	\$93,186,145	\$84,838,162	\$84,031,240

The net earnings for the quarter ended September 30, 2007 included a gain on asset transfer of \$8,457,225 offset by an equity loss of \$762,000 in relation to the Company's interest in PRC. The net loss for the quarter ended December 31, 2006 included a break fee settlement of \$1,275,000. The net loss for the quarter ended September 30, 2006 was net of a non-cash income item of \$607,196 (March 31, 2006 - \$1,092,000) related to a flow-through share offering and tax benefits not previously recognized. Deferred expenditures for the quarter ended June 30, 2006 were net of pre-commercial revenue of \$11,064,017.

Financing Activities

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

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

During the comparative year ended September 30, 2006, the Company completed a number of private placements, issuing in aggregate 7.4 million shares for net proceeds of \$9.4 million. A further \$0.6 million was raised on the exercise of 0.7 million options and warrants. The Company also received the final tranche of \$10 million under its \$20 million loan agreement with Itochu; and \$28.2 million from Anglo under a loan agreement which provided for loans of us to \$31.5 million. The Company also received \$13 million under the terms of a trade support facility with Western; these amounts were repaid in full during fiscal 2006.

Liquidity and Capital Resources

The closing of the Anglo/Hillsborough transaction has dramatically improved NEMI's financial position. As at September 30, 2007, NEMI has working capital of \$9.7 million, and no long-term debt.

The Company's aggregate operating, investing and financing activities during the year resulted in a net cash inflow in the amount of \$7.5 million. The completion of the Anglo/Hillsborough transaction resulted in the elimination of debts owing to Anglo and Itochu amounting to \$66.1 million, and the Company has successfully emerged from CCAA protection. NEMI is currently well-financed to pursue a strategy of reviewing and acquiring new mineral properties.

NEMI's 20% interest in PRC is carried to December 31, 2007 for the amount of up to \$18 million, of which \$10.6 million had been realized to September 30, 2007, and a further \$5.0 million, representing NEMI's share of PRC's 2007 Supplemental budget, is expected to be realized prior to December 31, 2007. For 2008 and beyond, however, it is expected that capital requirements to develop the various properties now held within PRC will be significant, and, accordingly, the Company's investment in PRC is subject to financing and dilution risk. The partners of PRC have been presented with PRC's 2008 Program and Budget for expenditures amounting to \$198 million, the Company's pro rata share of which is \$39.6 million. The Company has elected to provide funding of \$5 million in respect of this budget, and accordingly, it is expected that the Company's interest in PRC will be diluted to approximately 12%. In deciding whether or not to raise additional funding to increase its commitment, management of the Company determined that the amount of dilution existing shareholders would suffer would be greater than the amount of dilution that occurs as a result of electing to contribute a smaller amount to the 2008 Program and Budget.

- Contractual Obligations

As at September 30, 2007, the Company's contractual obligations included:

<i>(thousands of dollars)</i>	<i>Payments Due by Period</i>				
	<i>Total</i>	<i>Less than 1 year</i>	<i>1 – 3 years</i>	<i>3 - 5 years</i>	<i>After 5 years</i>
Lease agreement for office premises	\$36	\$36	\$nil	\$nil	\$nil
Lease agreement for office (1)	\$835	\$231	\$481	\$123	\$nil
Total Contractual Obligations	\$871	\$267	\$481	\$123	\$nil

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

Transactions with Related Parties

During the year ended September 30, 2007, consulting fees of \$78,000 (2006 - \$93,600) and management fees totaling \$nil (2006 - \$282,000), including \$nil (2006 - \$76,250) included in deferred expenditures, were charged in respect of services rendered by directors or by companies with common directors or officers. In addition, legal fees totaling \$15,392 (2006 - \$192,566), including \$nil (2006 - \$20,000) in respect of share issue costs, were charged by a legal firm in which a director was a partner. Included in accounts payable and accrued liabilities at September 30, 2007 was \$8,097 (2006 - \$7,247) payable to related parties. Transactions with related parties are recorded at the exchange amount, being the price agreed between the parties.

The Trend Property was acquired in an agreement with a former officer of the Company and carries a 1% royalty interest. During the year ended September 30, 2006, two of the Company's officers each acquired a percentage of this royalty interest in private transactions. The Trend property was transferred to Peace River Coal LP on November 29, 2006. During the year ended September 30, 2007, royalties paid or payable to these officers by NEMI amounted to \$nil (2006 - \$59,930).

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

Fourth Quarter

During the fourth quarter, the Company recorded net earnings of \$7,536,820 (\$0.13 per share). Fourth quarter earnings include a gain recognized on the transfer of assets to PRC in the amount of \$8,457,225 offset by an equity loss of \$762,000. During the quarter, PRC recorded capital contributions of \$53 million, the Company's share of which was covered by its free cash carry.

Discretionary expenditures were kept to a minimum during the quarter and the Company recorded administrative expense of \$239,924. Expenses were offset by \$113,048 in interest income earned on the Company's surplus cash balance.

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

Critical Accounting Estimates

The Company's consolidated financial statements are impacted by the significant accounting policies used, and the estimates and assumptions made, by management during their preparation. The Company's accounting policies are described in Notes 2 and 3 to the consolidated financial statements. The accounting estimates considered to be significant to the Company include the review of the carrying value of the Company's investment in PRC and the carrying value of coal properties and deferred exploration expenditures, the estimate of asset retirement obligations, and the computation of stock-based compensation expense.

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

Management similarly reviews the carrying values of its coal properties on at least an annual basis to determine whether an impairment in value should be recognized. For the year ended September 30, 2006, there were no write-downs in respect of the values attributed to coal properties and deferred exploration expenditures. This determination in 2006 took into account the value attributed to the Company's assets in the context of the Anglo/Hillsborough transaction. During 2007, the Company transferred its coal properties to PRC.

The Company had recorded asset retirement costs and obligations amounting to \$1.8 million as at September 30, 2006 in respect of the development of its Trend Small Mine Project. These costs were based on estimates included in mine closure and remediation plans and were based on engineering studies of the work that is required by environmental laws, the timing of cash flows and the credit-adjusted risk-free rate or rates on which the estimated cash flows have been discounted. The asset retirement obligation was recorded as a liability at fair value, assuming a credit adjusted risk-free discount rate of 5% and an inflation factor of 2.5%. The amount of the liability was subject to re-measurement during each reporting period. During 2007, the Company's asset retirement obligations related to the Trend property were assumed by PRC.

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

Changes in Accounting Policies including Initial Adoption

The Company adopted the following accounting policies during the year.

- Investment in Peace River Coal LP

The Company follows the equity method of accounting for its investments in which it owns 50% or less and over which it exercises significant influence. Under this method, the Company includes in its net earnings or loss its share of the net earnings or losses of the associated investees. The Company accounts for its investment in Peace River Coal LP using the equity method.

Adoption of new accounting standards

On October 1, 2006, the Company adopted two new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"); Section 3855, "Financial instruments – recognition and measurement", and Section 1530, "Comprehensive income". These standards were adopted on a prospective basis and as such, prior periods have not been restated:

- Financial instruments – recognition and measurement

The Company has adopted the provisions of Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3855 for financial instruments. Section 3855 requires that all financial assets, except those classified as held to maturity, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at cost. The adoption of this policy had no material impact on opening deficit.

- Comprehensive income

The Company has adopted the provisions of CICA Handbook Section 1530 for comprehensive income. Comprehensive income is the change in the Company’s net assets that results from transactions, events and circumstances from sources other than the Company’s shareholders and includes items that would not normally be included in the statement of operations such as unrealized gains or losses on available-for-sale investments. The adoption of this policy had no material impact on opening deficit. For the year ended September 30, 2007, the Company did not have other comprehensive income or loss, therefore comprehensive loss for the year was equal to the loss for the year.

The Company has also adopted Section 3861, “Financial Instrument – Disclosure and Presentation”, and Section 3251, “Equity”.

Off-Balance Sheet Arrangements

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

Financial Instruments

The Company’s financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. It is management’s opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of the financial instruments approximate their amortized cost value due to their short-term nature.

Cash and cash equivalents include cash and highly liquid investments held in the form of bankers’ acceptances. These investments are stated at cost plus accrued value, which approximates market value. Investments of cash are of sufficient quality and diversity to ensure a high probability of liquidity at the accrued value, at such times as needed to meet financial obligations. Furthermore, the investment terms are less than three months at the time of acquisition.

Outstanding Share Data

Authorized Capital:

- Unlimited number of Class A no par value voting common shares
- Unlimited number of Class B no par value non-voting common shares
- Unlimited number of Class C no par value non-voting common shares
- Unlimited number of Class D no par value non-voting, non-cumulative redeemable and retractable preferred shares

Issued and outstanding:

56,954,192 common shares as at December 21, 2007

Fully diluted:

57,004,192 common shares as at December 21, 2007

Outstanding options, warrants, and convertible securities as at December 21, 2007:

Type of Security	Number	Exercise Price	Expiry date
Stock options	20,000	\$1.75	January 10, 2008
Stock options	<u>30,000</u>	\$1.75	April 3, 2008
Total dilution	<u><u>50,000</u></u>		

Risks and Uncertainties

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

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

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

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

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

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

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

The locations of all PRC's current activities dictate that climatic conditions have an impact on operations and, in particular, severe weather could disrupt the delivery of supplies, equipment and fuel. It is, therefore, possible that exploration and mining activity levels might fluctuate. Unscheduled interruptions in operations due to mechanical

or other failures or industrial relations-related issues or problems or issues with the supply of goods or services could have a serious impact on the financial performance of those operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Disclosure Controls and Procedures and Internal Control over Financial Reporting

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

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

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

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

It should be noted that while the Officers of the Company, as certified in the Company's Annual Filings and as required under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, have evaluated the effectiveness of disclosure controls and procedures for the year ended September 30, 2007 and have concluded that they are being maintained as designed, they do not expect that the disclosure controls and procedures or internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

Outlook

As at September 30, 2007, NEMI has working capital of \$9.7 million and no long-term debt. Management of NEMI intends to investigate and evaluate other business opportunities, including potential acquisitions of mineral assets.

NEMI also owns a 20% partnership interest in Peace River Coal LP, which now owns the Trend mine as well as a number of other coal properties in northeast British Columbia. PRC is being managed and operated by Anglo American plc, which, with its extensive experience in coal mining and marketing, will play a key role in further developing British Columbia's northeast coalfields. PRC is ramping up its operations, and expects to achieve commercial levels of production during the first quarter of 2008. PRC will also be carrying out field studies and making permitting applications for its other properties.

The partners of PRC have been presented with PRC's 2008 Program and Budget for expenditures amounting to \$198 million, the Company's pro rata share of which is \$39.6 million. The Company has elected to provide funding of \$5 million in respect of this budget, and accordingly, it is expected that the Company's interest in PRC will be diluted to approximately 12%.

Other Information

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