

NEMI NEEDS NEW BOARD OF DIRECTORS

A brief overview:

- NEMI CEO Pat Devlin has presided over Cambrian Mining plc.'s increasing influence over the NEMI Board. Cambrian's nominees to the Board, together with Devlin, represent 60% of the NEMI Board.
- The 2008 proposed NEMI/Aviva Corporation combination committed NEMI to accepting massive dilution into an inferior asset at irrational prices for NEMI shareholders, while benefiting Aviva Corporation – a company with ties to Cambrian.
- NEMI has twice paid millions of dollars in break fees to companies in or tied to the Cambrian Group.
- The NEMI Board has encouraged a culture of excessive CEO compensation and corporate expenditures, completely out of proportion for NEMI, a company with no operations and two employees.
- The NEMI Board no longer discloses money paid to CEO Devlin under a Royalty Agreement originated by NEMI and subsequently assumed by the Peace River Coal Limited Partnership, the partnership in which NEMI holds a stake. Devlin acquired his interest in the Royalty Agreement while serving as the CEO of NEMI. It is not known if NEMI itself had a chance to purchase the royalty.
- In NEMI's own words from December, "Management of NEMI intends to investigate and evaluate other business opportunities, including the potential acquisitions with Aviva described previously." Be afraid, be very afraid.

To prevent further harm to NEMI shareholders, I ask for your vote to change the NEMI Board.

I will restore a culture of modesty and responsibility to NEMI by drastically cutting expenses rather than pursuing a merger to perhaps justify those expenses. All future corporate actions will have to pass the litmus test of demonstrably increasing intrinsic value at NEMI.

Please read on for a more detailed discussion.

"Michael Cooney"

Dear fellow shareholders:

NEMI's 12% interest in the Peace River Coal Limited Partnership (and current cash holdings) represents a promising investment for shareholders, and over the last two years I have committed a substantial portion of my resources to buy 10% of the outstanding shares. Unfortunately, the NEMI Board of Directors and CEO Pat Devlin have made a series of bad decisions costing NEMI shareholders millions of dollars. The NEMI Board's close ties with Cambrian Mining Plc (Cambrian) suggest these decisions were made in preference to Cambrian's interests, rather than NEMI's. Unquestionably, the NEMI Board has fostered a culture of excessive compensation, outlandish corporate expenses, and other wastes of shareholder money.

NEMI Needs a New Board of Directors

Two NEMI Board members are directors and executives of **Cambrian** and/or Cambrian Group companies. Together with CEO Pat Devlin they control **60%** of the NEMI Board. This fact alone suggests a failure of fiduciary responsibility to ensure a NEMI Board capable of making independent decisions to protect and promote NEMI shareholder interests. This group is now proposing that the vacant sixth board seat be eliminated, cementing control.

The 2008 proposed NEMI/Aviva Corporation combination committed NEMI to **accepting massive dilution into an inferior asset at irrational prices** for NEMI shareholders, while **benefiting Aviva Corporation (Aviva)** - a company with **ties to Cambrian**.

Fortunately, this combination did not occur. Unfortunately, as part of the dissolution of the proposed combination, CEO Devlin agreed to pay a break fee to Aviva of \$1 million when the public record indicates that such a payment was unwarranted. This payment represents a direct transfer of wealth from NEMI shareholders to Aviva Corporation shareholders and indirectly to Cambrian shareholders. Incredibly, NEMI has since said that, "Management of NEMI intends to investigate and evaluate other business opportunities, including the potential acquisitions with Aviva described previously".¹

The NEMI Board has encouraged a **culture of excessive CEO compensation and corporate expenditures** completely out of proportion for NEMI, a company with two employees and no operations. CEO Devlin received cash compensation of \$446,500 in the last fiscal year.

To prevent further harm to the interests of NEMI shareholders, I ask for your vote to change the NEMI Board. I will foster a culture of responsibility and rationality at NEMI by drastically cutting expenses rather than pursuing a merger to perhaps justify those expenses. I will restore the NEMI Board to its role of fiduciary oversight on behalf of shareholders. Any future corporate actions will have to pass the litmus test of demonstrably increasing intrinsic value at NEMI.

NEMI History pre-2007

Pat Devlin was appointed as NEMI CEO in 2004. Shortly thereafter, NEMI changed its focus from developing coal properties to putting its Trend mine into commercial production. NEMI raised money to

¹ Management's Discussion and Analysis prepared as of December 23, 2008.

do so, on the order of \$100 million of equity and debt financing². The Trend mine started operations at the end of 2005. But financial difficulties soon led NEMI to look for merger partners.

In May 2006, Western Canadian Coal Corporation (Western) and NEMI agreed to a business combination whereby NEMI would become a wholly-owned subsidiary of Western. Western also agreed to loan NEMI up to \$15 million. On the eve of NEMI's shareholder vote to approve the deal in July 2006, NEMI announced that Western had asked to adjust the share exchange ratio due to perceived adverse changes at NEMI. The NEMI Board refused, and announced the termination of the agreement on July 10, 2006, with only days to repay the Western loan or face default. NEMI quickly signed a Letter of Intent with Anglo Coal Canada Limited (Anglo Coal)³, Hillsborough Resources Limited, and Itochu Corporation to form the present Peace River Coal Limited Partnership (Peace River)⁴ and announced it on July 11, 2006. As part of the transaction, Anglo Coal loaned NEMI the money to repay Western days later on July 14, 2006. **NEMI contributed essentially all its assets, operations, and employees to Peace River and upon closing the transaction in November 2006, was left with its partnership stake in Peace River, some cash and two employees.**

Cambrian Mining Plc Gains Influence

Cambrian is a London based junior mining financing house⁵ founded in 2002. At the time of the Western/NEMI agreement, Cambrian owned 41% of Western and Cambrian's founder, former CEO and current Executive Chairman John Byrne was also the Executive Chairman of Western, a position he still holds. In addition, Cambrian held 34% of Coal International plc.

On February 22, 2007, **NEMI announced that it paid Western \$1.3 million** to settle the Western claim of a break fee. Yet, by the Management Information Circular dated four days later, **NEMI nominated two individuals to the NEMI Board, John Byrne and W. Durand Eppler⁶ (Cambrian directors), who were closely associated with the Cambrian Group. Devlin and the Cambrian directors constituted 50% of the six member NEMI Board.**

Devlin/Cambrian Take Control

On October 20, 2008, NEMI director Tony Hammond resigned for personal reasons after serving on the NEMI Board for twelve years. Devlin and the Cambrian directors then constituted **60% of the five person NEMI Board and took effective control.**

² \$58 million equity financing and at least \$46 million debt financing according to NEMI's 2007 Annual Information Form

³ The parent company, Anglo American Plc. has been in operation since 1917. Its coal division is the world's sixth largest private sector coal producer and exporter, with operations in South Africa, Australia, South America, and Canada.

⁴ Peace River consolidated the north eastern British Columbian holdings of Anglo Coal, NEMI, and Hillsborough and was initially constituted as a 60/20/20 partnership with Anglo Coal as the managing and majority partner.

⁵ Cambrian's 2003 Annual report.

⁶ W. Durand Eppler is the CEO of Coal International plc which is now part of Cambrian following their merger in 2008.

Proposed Aviva Merger

A day later, CEO Devlin announced the proposed transaction with the Aviva Corporation (Aviva). In this transaction, NEMI would give 70 million shares to Aviva in a merger, resulting in **Aviva shareholders owning 55%** of the combined new company and NEMI shareholders effectively ceding control. Under the agreement, both companies would contribute similar amounts of cash to the new enterprise⁷. NEMI also was contributing its stake in Peace River, a **commercially operating mine with positive cash flow** carried on its balance sheet for **\$55 million**. Aviva was contributing two partially developed coal projects. Aviva is years and many millions of dollars away from positive cash flow on either project. Aviva carried the projects on its balance sheet as **\$8 million** of “deferred exploration and evaluation costs”. Aviva was burning cash at the rate of approximately \$3 million per quarter, much of it on executive compensation. **NEMI would contribute more than twice the book value as Aviva and had far better asset quality, yet would become a minority interest through what Devlin described as a merger of equals.**

The share exchange ratio was derived by using the preceding 30 day average stock prices of the two companies, a chaotic period for stock markets worldwide and a period when stock prices exhibited extreme volatility. The share exchange ratio valued NEMI at \$25 million, 43% of book value and Aviva at \$32 million or 128% of book value. Neither price was rational in my opinion. Although NEMI’s price is even lower now, Aviva has since fared much worse, losing 75%.

In December NEMI announced that the Peace River general partner made an error in making cash calls to the partners. NEMI’s interest in PRCP was reduced to approximately 12%, and NEMI was compensated for the reduction with a \$16 million rectifying distribution.

In response, Aviva terminated the transaction citing the reduction in interest as a material **adverse** change, even though NEMI received the cash payment, a cash payment that more or less equaled NEMI’s entire market capitalization at the time. Aviva claimed, and **NEMI paid the \$1 million break fee**, notwithstanding that:

- NEMI’s prior public disclosures consistently said that its election to only partially fund its share of the Peace River’s 2008 program and budget would result in its interest being provisionally diluted to approximately 12%
- NEMI’s news release on October 21, 2008 said “under the terms of the partnership agreement and due to differing cash contributions of the Peace River partners during the year, a final calculation of ownership interests will be undertaken after year end”
- NEMI was compensated by Peace River with \$16 million cash.

In addition, NEMI may have had its own claim of an adverse change at Aviva relating to its amount of net cash which needed to be in excess of 10 million AUS as a condition to closing.⁸

⁷ As of June 30, 2008 financial statements for both companies, the most recent published statements at the time.

⁸ Aviva’s December 31, 2008 financial statements show net cash of 10.5 million AUS net of the break fee paid by NEMI, a reduction of 10 million AUS in the preceding six months

NEMI continues to entertain a transaction with Aviva saying “Management of NEMI intends to investigate and evaluate other business opportunities, including the potential acquisitions with Aviva described previously”.⁹

Left unexplained during this process was the history of Aviva as a member of the Cambrian Group of companies.¹⁰ While Cambrian’s economic ownership percentage of Aviva may not be hugely significant, it is worthy of disclosure and the role of the Cambrian directors in the transaction is worth examining.

Culture of Excess

NEMI has continued to pay CEO Devlin excessively even as his responsibilities have been reduced after the formation of Peace River. Devlin was paid **\$446,500** in the last fiscal year and has made **over \$445,000 in two of the last three years**. In the same timeframe, NEMI stock has gone from over \$2.00 per share to \$0.25 per share. Yet NEMI **gave Devlin a 20% raise in 2008**. In addition in the fiscal year ended September 30, 2008, NEMI paid \$82,000 in directors' fees; \$120,840 in consulting fees (\$119,000 of which were for services rendered by directors or officers or by companies with common directors and officers); \$136,398 in travel and accommodation; \$70,980 in office rent; and \$324,036 in due diligence costs in connection with the Aviva deal. In the most recent quarter, NEMI paid an additional \$389,000 in professional fees, presumably also related to the Aviva deal. In total NEMI may have spent more than \$1.7 million on the ill-conceived Aviva deal. Illustrating the culture of excess, NEMI has spent, on average, over \$11,000 per month for the past 24 months for travel and accommodation expense. This is \$11,000 per month for a company with two employees.

In addition to excessive compensation and expenses, NEMI granted 1,400,000 options last year; 500,000 of which were to CEO Devlin. The record indicates that these options were granted on April 1, 2008, at a strike price of \$0.90 per share. Securities laws require the insiders to report these grants within 10 days, but Devlin’s and the other insiders' insider reports were not filed until April 23, 2008, a day when NEMI closed at \$1.25. Devlin also filed a report disclosing the sale of 108,000 shares of NEMI a few weeks later on May, 9 2008 netting almost \$100,000 in the difference between the sale price and the exercise price of the new options.

Perhaps more troubling is the matter of the 1% Royalty Interest on the Trend mine. This was the mine that NEMI put into operation in 2005. The Trend property is subject to a 1% royalty interest, and in the fiscal year ended September 30, 2006, two officers of NEMI acquired a percentage of this royalty interest in separate private transactions.¹¹ Who were the officers? What are the details of this transaction? Did the NEMI Board approve these transactions? Were they consulted? Was NEMI approached about buying the royalty? During the fiscal year ended September 30, 2006, NEMI paid \$59,930 to these officers on account of their interest in the royalty. Was this the total amount paid by NEMI on account of this royalty?

⁹ NEMI’s Management Discussion and Analysis prepared December 23, 2008.

¹⁰ Aviva was mentioned in Cambrian’s Annual report as far back as 2005 when a Cambrian subsidiary, Xtract Energy Plc disclosed a 19% stake in Aviva. That stake has been shuffled multiple times between other Cambrian affiliated companies over recent years. As far as I can determine, Xtract Energy now owns 19% of another Cambrian associated company which owns 8% of Aviva.

¹¹ First mentioned in the notes of the NEMI’s Consolidated Financial Statements for the year ended September 30, 2006.

Three months later, NEMI disclosed the identity of the royalty recipients – Pat Devlin was paid \$51,052.¹² Subsequent financial statements go on to say that “There were no royalties paid or payable to these officers by NEMI during the years ended September 30, 2007 and 2008.”¹³, but this statement disguises the real fact - the royalty was transferred to and is now being paid by the Peace River. There is no published information regarding the actual payments made under this royalty, but NEMI reported that the Peace River had \$150 million in revenue in 2008¹⁴ which implies that the 1% royalty amounted to \$1.5 million.

Introducing the New Slate

The facts are clear. Devlin and the Cambrian directors are in control and their interests are not aligned with those of the NEMI shareholders. Their actions and statements make clear it is only a matter of time before NEMI is completely swallowed up by the Cambrian group. Shareholders need to re-establish control by electing the following nominees as a new slate for the NEMI Board.

- **Tony Hammond.** Mr. Hammond, a NEMI Board member for twelve years ending in 2008, has agreed to return to the Board. Tony is a mining engineer with over 40 years of industry experience. In 1987, Tony formed Great Ormes Mines Limited and still acts as its Chairman and Managing Director. In 1994, Tony founded the Ancient Mining research Foundation and serves as its director. In 1996 he became a director and principle of Ddraig Mineral Developments Limited from where he helped create Goldland Mining Inc. and Carpathian Mining Limited. Tony also worked for eighteen years at Anglo American Plc., and continues to have a strong relationship with them. Note that none of the mining entities with which Tony holds director or executive positions has had any interactions with NEMI. Thus he will provide important continuity for NEMI, will offer valuable oversight of Peace River, and will contribute pragmatic and ethical leadership to the Board.
- **Lyle Stein.** Lyle has been in the investment business for over 27 years. Prior to founding investment consulting firm Red Barn Capital Inc. in 2002, Lyle was managing Director at Sceptre Investment Counsel Ltd. where he held various management positions and developed broad industry expertise in areas such as mining, chemicals, transportation, technology, utilities, communications and conglomerates. He has managed top ranked mutual funds as well as being independently rated as Canada’s top-ranked portfolio strategist. Earlier in his career, Lyle was a consultant with the energy-economics firm Foster Associates Inc. He has experience serving on public and private boards.
- **Todd Hooper.** Todd is a partner in the Private Equity Services practice of Kurt Salmon Associates and has more than 20 years of experience in consulting to a range consumer and industrial markets. He has assessed dozens of proposed mergers, developed business unit strategies, directed merger integrations, and helped design new growth platforms. He has

¹² From the executive compensation disclosure in NEMI's Management Information Circular as at February 26, 2007.

¹³ NEMI's Consolidated Financial Statements for the year ended September 30, 2008

¹⁴ NEMI News release of March 3, 2009.

experience in many industries including upstream oil and gas, consumer products, retail, and financial services.

- **Michael Cooney.** I have been in the investment business for over 21 years. I have spent fifteen years as an independent market maker on financial exchanges, both at the Chicago Board Options Exchange and the Pacific Exchange. Over the last seven years, I have managed a series of financial and real estate investments, largely in California. My investment in NEMI is the largest single position in my career and I am extremely bullish on its long term prospects **provided NEMI acts rationally**. I have been independent and self employed for over 20 years, taking no salary, relying solely on my trading and investment profits. I will bring that same spirit of responsibility and independence to the Board of NEMI.

New NEMI Board Goals

- Right size executive compensation and corporate expenses
- Make prudent capital allocation decisions
- Review historic record and correct any oversights
- Grow book value per share, which will ultimately translate into market value for shareholders

We are fortunate that NEMI does not require excessive managerial performance as we have an able operational partner in Anglo Coal. I am reminded of Warren Buffett's statement "that a ham sandwich could run Coca-Cola."¹⁵ Buffett says that this is his favorite type of business, one in which the business economics are so strong that it would thrive even if a ham sandwich ran it. NEMI, in association with a great partner like Anglo Coal, strikes me as a "ham sandwich" type of business. The first imperative for the manager of NEMI should be "Do no harm."

Please support our efforts to restore NEMI by voting your GREEN proxy today.

Sincerely,

"Michael Cooney"

Michael Cooney

¹⁵

The Snowball; Warren Buffett and the Business of Life by Alice Schroeder, p67