MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following management's discussion and analysis ("MD&A") should be read in conjunction with the "Selected Consolidated Financial Information" in Item 6 above and our historical consolidated financial statements and the accompanying notes included elsewhere in this Annual Report on Form 10-K.

In this MD&A, unless otherwise specified, all dollar amounts are expressed in US Dollars ("$").

FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking information, which is based upon the current internal expectations, estimates, projections, assumptions and beliefs of NiMin, as of the date of such statements or information. Words such as "plan," "expect," "project," "intend," "believe," "anticipate," "estimate," "may," "will," "potential," "proposed," and other similar words, or statements that certain events or conditions "may" or "will" occur, are intended to identify forward-looking information. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking information will not occur. Such forward-looking information in this MD&A speaks only as of the date of this Annual Report.

Although NiMin believes that the expectations reflected in the forward-looking information are reasonable, there can be no assurance that such expectations will prove to be correct. NiMin cannot guarantee future results, levels of activity, performance or achievements.

Statements made in this MD&A regarding the payment of additional liquidating distributions and of the timing of the dissolution are forward-looking statements. Such forward-looking statements are subject to a number of risks and uncertainties, and there can be no assurance that the expectations reflected in those statements will be realized or achieved. Such risks and uncertainties include, without limitation, possible contingent liabilities and other obligations arising from the sale of the Company's properties and previous operation of its business; and risks associated with the liquidation and dissolution of the Company, including, without limitation, settlement of the Company's liabilities and the actual timing of the liquidating distributions and dissolution.

The Board will need to make provision for the satisfaction of all of the Company's known and unknown liabilities, which could substantially delay or limit the Company's ability to make distribution in full to Shareholders.

Amounts available for the final distribution to Shareholders will depend on the amount the Board of NiMin determines are appropriate to be transferred to the Liquidating Trust, as defined herein, in accordance with Delaware law, and the consideration received by NiMin for the sale of the beneficial ownership interests in the Liquidating Trust.

BOE Presentation

Barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet of natural gas ("mcf"): one barrel of oil ("bbl") is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Overview

NiMin Energy Corp. ("NiMin", "we" or the "Company") was an oil and gas company engaged in the acquisition, development and production of oil and gas properties in the United States until June 30, 2012, when we ceased to have oil and gas operations.

The annual and special meeting (the "Special Meeting") of holders of Common Shares ("Shareholders") was held on June 26, 2012. At the Special Meeting, in addition to annual items of business, Shareholders were asked to consider and vote on, among other things, special resolutions approving the proposed sale of all or substantially all of the Company's assets (the "Sale of Assets") including those

assets held by NiMin's wholly-owned subsidiary, Legacy pursuant to purchase and sale agreements with respect to its Wyoming based oil and gas assets (“Wyoming Assets”) and California based oil and gas assets (“California Assets”).

At the Special Meeting, the Shareholders were also asked to consider and vote on the voluntary liquidation and dissolution of the Company pursuant to the laws of the *Business Corporations Act* (Alberta) (the "Winding Up") and the distribution to Shareholders of the net proceeds of the Sale of Assets (less the settlement of obligations of Legacy), and cash on hand, as part of such liquidation and dissolution after satisfaction of all liabilities of the Company, by way of a reduction of the stated capital of the Common Shares.

Both the Sale of Assets and the Winding Up were approved by the Shareholders at the Special Meeting. In order for the Company to complete the Winding Up, the appropriate corporate steps were required to be taken for the dissolution and liquidation of Legacy which dissolution was filed in Delaware on September 17, 2012. Pursuant to the approval of the Sale of Assets, Legacy proceeded with the sale of the Wyoming Assets and the California Assets all as more particularly described below.

On June 28, 2012, Legacy completed its previously announced sale of its Wyoming Assets to BreitBurn Operating L.P., a wholly-owned subsidiary of BreitBurn Energy Partners L.P. (“BreitBurn”), for total cash consideration of approximately $93 million, being the original purchase price of approximately $98 million less, approximately $5 million adjusted to account for preliminary purchase price adjustments. On August 30, 2012, Legacy completed its final settlement with BreitBurn and received approximately $2.3 million based on the final purchase price adjustments.

On June 29, 2012, Legacy completed its previously announced sale of its California Assets to Southern San Joaquin Production, LLC for total cash consideration of approximately $26 million, being the original purchase price of approximately $27 million, less approximately $1 million adjusted to account for preliminary purchase price adjustments. Pursuant to the terms of the purchase and sale agreement, $3 million of the $26 million purchase price paid on closing was deposited with an escrow agent until December 28, 2012 in connection with various indemnities contained therein. On August 30, 2012, Legacy completed its final settlement with Southern San Joaquin Production LLC and received $347,938 based on the final purchase price adjustments. On December 28, 2012, the $3 million was released to NiMin from the escrow account.

The Winding Up and the dissolution and liquidation of Legacy contemplates the orderly disposition of the assets, the orderly discharge of all outstanding liabilities, including all outstanding debt, and after the establishment of appropriate reserves, the distribution of cash to Shareholders in installments.

On September 24, 2012, the Board declared an initial distribution to Shareholders of $1.01 per Common Share in connection with the Winding Up. The distribution was made as a return of capital to Shareholders of record at the close of business on October 9, 2012, and the stated capital of the Company was reduced accordingly. The distribution of $70,532,740 was paid on October 22, 2012.

Upon completion of the disposition of all remaining assets of Legacy and the settlement of all liabilities of the Company and Legacy, the Company intends to distribute the net proceeds of the liquidation and dissolution of both Legacy and the Company to Shareholders in one final distribution on a future date which has not yet been determined.

On October 10, 2012, Nimin voluntarily delisted the Common Shares from the TSX after the close of trading on October 22, 2012, and its listing was transferred to the NEX, a separate board of the TSX Venture Exchange ("NEX"), effective as of opening of the market on October 23, 2012. From October 23, 2012 and onwards, the Common Shares will trade on the NEX under the symbol "NNN.H".

As a result of the Shareholders’ approval of the Winding Up, the liquidation basis of accounting was adopted effective June 30, 2012. This basis of accounting is considered appropriate when, among other things, liquidation of a company is imminent and the net realizable values of assets are reasonably determinable. Under this basis of accounting, assets are valued at their net realizable values and liabilities are stated at their estimated settlement amounts. Further, all costs of liquidation are accrued as of December 31, 2012. Financial information presented as of and subsequent to June 30, 2012, includes a Consolidated Statement of Net Assets and a Consolidated Statement of Changes in Net Assets in Liquidation, as required under the liquidation basis of accounting. Financial information included for periods ending prior to June 30, 2012, is presented under the going concern basis of accounting. Therefore, financial information presented as of and for the six months ended December 31, 2012, is not comparable to financial information presented for prior periods.

RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations ----

Period from January 1, 2012 to December 31, 2012 and for the years ended December 31, 2011 and 2010.

Crude oil and natural gas sales

Given that the sale of Wyoming Assets and California Assets closed on June 28, 2012 and June 29, 2012, respectively, the associated revenues are included in revenues and expenses for the period ended June 30, 2012. However, the purchase and sale agreements provide adjustments to the purchase price be made related to revenues and operating expenses for the period of April 1, 2012 through the closing date of the sale of the properties. As such, the purchase price of the sale of the properties in June 2012 was adjusted for revenues and operating expenses for the period of April 1 through closing date of the sale of the properties.

For the six months ended June 30, 2012, we recorded gross revenues of $13.78 million. Given the Sale of Assets during the second quarter of 2012, the Company did not have any oil and gas revenues during the six months ended December 31, 2012.

For the year ended December 31, 2011, we recorded gross revenues of $30.95 million, as compared to $18.75 million for the year ended December 31, 2010. Oil sales as a percentage of total revenue during the year ended December 31, 2011 as compared to the same period in 2010 increased from 93% to 98%. Oil volumes increased by 35% to 960 barrels of oil per day ("Bopd") and the price received increased by 28% to $86.44 during the year ended December 31, 2011, as compared to the same period in 2010. Natural gas sales as a percentage of total revenue during the year ended December 31, 2011, as compared to the same period in 2010 decreased from 7% to 2%. Natural gas volumes decreased by 45% to 439 thousand cubic feet of natural gas per day ("Mcf/d") and the price received decreased by 10% to $4.09 during the year ended December 31, 2011 as compared to the same period in 2010. The increase in gross revenues for the year ended December 31, 2011, as compared to the same period during 2010, was mainly due to successful drilling and work-overs in Wyoming.

Crude Oil Derivative Contracts

Commodity price risk was the risk that the future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for crude oil and natural gas are impacted by world economic events that dictate the levels of supply and demand.

In January of 2010, the Company entered into a derivative financial contract for 7,500 barrels of WTI crude oil production per month at a fixed rate of $85.10 per barrel until December 2012.

On December 20, 2010, we agreed to economically hedge the future sales of 125 barrels of NYMEX WTI crude oil per day at a fixed price of $90.40 starting January 1, 2011, for a period of 12 months and 250 barrels of NYMEX WTI crude oil per day at a fixed price of $90.40 starting January 1, 2012, for a period of 12 months.

On November 11, 2011, we entered into a swap contract to minimize the variability in cash flows due to price movements in crude oil. We agreed to economically hedge the future sales of 100 barrels of NYMEX WTI crude oil per day at a fixed price of $96.75 starting January 1, 2012, for a period of 12 months.

We do not designate our derivative financial instruments as hedging instruments for accounting purposes and, as a result, we recognize the current change in a derivative's fair value in earnings. On December 31, 2011, we recognized $976,929 as a derivative liability on crude oil derivative contracts.

For the year ended December 31, 2011, the change in derivative contracts included a realized loss of $1.12 million and an unrealized gain of $365,109. For the year ended December 31, 2010, the change in derivative contracts included a realized gain of $501,255 and an unrealized loss of $1.21 million.

During the second quarter of 2012, the Company terminated and settled all derivative contracts as of May 17, 2012, and at December 31, 2012, did not carry derivative contracts on the balance sheet.

For the six months ended June 30, 2012, the Company's change in derivative contracts included a realized gain of $189,507.

Royalties

California

The Company paid a crude oil production fee consisting of 100% of the first 635.10 barrels of crude oil produced per month which commenced in 2008 and declined at a rate of 5.5% each year.

For the six months ended June 30, 2012, we recorded royalties in California in the amount of $1.31 million.

For the year ended December 31, 2011, we recorded royalties in California in the amount of $2.19 million as compared to $1.68 million for the same period in 2010. The increase in royalties for the year ended December 31, 2011 was mainly due to higher realized commodity prices.

Louisiana

Royalties related to Louisiana production varied by property. Effective December 1, 2011, the Company sold all of its producing interest in Louisiana and no royalties were recorded for the six months ended June 30, 2012.

For the year ended December 31, 2011, we recorded $842,900 in royalties representing an average rate of 29.56%, as compared to $870,564 representing an average rate of 26.88% for the year ended December 31, 2010. The increase in royalties was mainly due to higher realized commodity prices.

Wyoming

For the six months ended June 30, 2012, we recorded $1.47 million in royalties in Wyoming representing an average rate of 16.12%.

For the year ended December 31, 2011, we recorded $3.62 million in royalties in Wyoming representing an average rate of 17.67%, as compared to $2.12 million or 20.51% for the same period in 2010. The increase in royalties was mainly due to higher realized commodity prices and quantities produced.

Operating Costs

For the six months ended June 30, 2012, we incurred operating costs in the amount of $4.26 million and $996,327 in severance taxes.

For the year ended December 31, 2011, we incurred operating costs in the amount of $11.57 million, as compared to $9.12 million for the same period in 2010. During the year ended December 31, 2011, we incurred increased operating costs as compared to the same period in 2010 mainly due to: (i) higher production volumes in 2011; (ii) higher severance taxes paid in 2011 resulting from a 65% increase in oil and gas revenues for the year ended December 31, 2011; (iii) workovers performed in Wyoming during the year ended December 31, 2011; (iv) temporary production equipment rentals and contract labor expense; and (v) costs associated with the Krotz Springs Field and its maintenance due to the south Louisiana flooding.

Operating costs included severance taxes paid in Louisiana and Wyoming. There was no severance tax in the state of California. Severance taxes in Louisiana consist of 12.5% on gross oil sales and $0.164 per Mcf of gas sales. For the year ended December 31, 2011, we recorded $2.36 million in severance taxes, as compared to $1.32 million for the same period in 2010. The increase in severance taxes was mainly due to higher production volumes and commodity prices.

General and Administrative Expenses ("G&A")

For the six months ended June 30, 2012, we recorded G&A expense, excluding stock based compensation ("SBC"), of $3.75 million.

For the year ended December 31, 2011, we recorded G&A expense, excluding SBC of $5.29 million, as compared to $5.17 million for the same period in 2010. This increase during the year ended December 31, 2011 was due to higher accounting and personnel expense, as compared to the same period in 2010.

Following the approval of the Winding Up, all outstanding unvested options became automatically vested and the Company recognized the remaining grant date fair value of approximately $1.7 million in the current period.

For the six months ended June 30, 2012, we recorded SBC in the amount of $2.29 million.

For the year ended December 31, 2011, we recorded SBC in the amount of $2.61 million, as compared to $2.72 million for the same period in 2010. The decrease in SBC for the year ended December 31, 2011 as compared to the previous year was due to the forfeiture of options during 2011.

For the six months ended June 30, 2012, we recorded liquidation related expenses of $7.54 million primarily related to accrued professional fees, and severance and payroll related payments.

Depreciation, Depletion, Amortization and Accretion Expense ("DD&A")

We followed the full-cost method of accounting and all costs included in proved properties and all future development costs along with our total proved reserves determine the period's depletion cost.

For the six months ended June 30, 2012, we recorded DD&A in the amount of $1.70 million.

For the year ended December 31, 2011, we recorded DD&A in the amount of $3.51 million, as compared to $3.19 million for the same period in 2010. The decrease in the DD&A rate per boe for the year ended December 31, 2011, was due to an increase in our proved reserves at December 31, 2011 (15,923 thousand boe ("Mboe") in 2011, as compared to 13,717 Mboe in 2010).

Change in Fair Value of Warrants and Options

The exercise price of certain warrants was denominated in Canadian dollars, which was not the functional currency of the Company. As a result, these warrants were classified as a liability on the balance sheet and recorded at their fair value at the end of each period and the change in fair value recognized in earnings.

During the year ended December 31, 2012, none of the issued warrants were exercised, and due to the pending liquidation, the Company valued the warrants based on the expected cash distribution to Shareholders as this represents management's best estimate of the value of the underlying equity instruments as of December 31, 2012. As the warrants have an exercise price greater than the expected cash distribution to Shareholders, the value of the warrants were determined to approximate zero. As a result, a gain of $235,134 was recognized in earnings during the six months ended June 30, 2012. As a result of the approval of the Winding Up in July 2012, 2,188,970 of unexercised warrants were terminated, leaving 96,930 warrants outstanding related to Krescent Energy Partners LLC.

During the year ended December 31, 2011, 5,354,800 warrants were exercised. At December 31, 2011, the fair value of the warrant liability was $235,134, with a gain of $1.06 million recognized in earnings during the year ended December 31, 2011. At December 31, 2010, the fair value of the outstanding warrants was $5.63 million, with a gain of $1.67 million recognized in earnings during the year ended December 31, 2010.

The exercise price of 2.70 million stock options relating to former employees that transitioned to a consulting role was denominated in Canadian dollars, which was not the functional currency of the Company (which was the U.S. dollar). As a result, the applicable 2.20 million vested options were classified as a liability on the balance sheet and recorded at their fair value at the end of each period with the change in fair value recognized in earnings. Following the approval of the Winding Up, all outstanding unvested options became automatically vested and the Company recognized the remaining grant date fair value of approximately $1.7 million in the current period.

As a result of the approval of the Winding Up of the Company, the Company valued the stock options based on the expected cash distribution to Shareholders as this represents management's best estimate of the valuation of the underlying equity instruments as of June 30, 2012. As the stock options at June 30, 2012, had an exercise price greater than the expected cash distribution to Shareholders, the value of the stock options were determined to approximate zero. Further, a gain of $296,519 was recognized in earnings during the six months ended June 30, 2012. In addition, all stock options were terminated in July 2012.

Interest Income and Expense

For the six months ended June 30, 2012, we recorded interest expense of $6.44 million ($3.49 million non-cash) related to the Senior Loan.

For the year ended December 31, 2011, we recorded interest expense of $5.41 million ($906,569 non-cash) related to the Senior Loan as compared to $7.11 million ($3.46 million non-cash) for the same period in 2010 related to: (i) the Short-term Loan (ii) and the Senior Loan. The amortization of debt issuance cost related to the Short-term Loan and Senior Loan was included in interest expense.

As part of the Winding Up, on June 28, 2012, the Company prepaid the entire amount of the Senior Loan and as a result, a prepayment penalty of 2% representing $707,705 was applied in addition to the accrued interest of $1,118,853 and principal of $36,000,000. The remaining unamortized debt issuance cost of $3.23 million related to the Senior Loan was included in current period interest expense.

For the six months ended June 30, 2012, we recorded interest income in the amount of $10,673.

For the year ended December 31, 2011, we recorded interest income in the amount of $44,595 as compared to $54,070 for the same period in 2010. Lower interest income for the years ended December 31, 2011 and 2010 was due to a reduction in average interest-bearing cash balances and lower interest rates.

Income Tax

In October 2012, the Company paid $1.80 million, for Federal U.S. and California purposes, relating to taxable gains resulting from the sale of its oil and gas properties in 2012. The Federal U.S. taxable income for regular income tax purposes was fully reduced by net operating loss carryforwards of $63,362,738. The Company's deferred tax assets were previously subject to full valuation allowance.

Foreign Currency Exchange

Our foreign exchange expense was derived from our cash balances denominated in Canadian dollars. For the six months ended June 30, 2012, we recorded a foreign exchange loss of $438.

For the year ended December 31, 2011, we recorded a foreign exchange loss of $26,101 as compared to $6,617 for the same period in 2010.

Liquidity and Capital Resources

The Winding Up and the dissolution and liquidation of Legacy contemplates the orderly disposition of the assets, the orderly discharge of all outstanding liabilities, including all outstanding debt, and after the establishment of appropriate reserves, the distribution of cash to Shareholders in installments.

Upon completion of the disposition of all remaining assets of Legacy and the settlement of all liabilities of the Company and Legacy, the Company will distribute the net proceeds of the liquidation and dissolution of both Legacy and the Company to Shareholders remaining. NiMin's wholly-owned subsidiary, Legacy Energy, Inc., a Delaware company, dissolved in accordance with the laws of Delaware on September 17, 2012.

As mentioned above, the Board declared an initial distribution to Shareholders of $1.01 per Common Share in connection with the Winding Up of NiMin. The distribution was made as a return of capital to Shareholders of record at the close of business on October 9, 2012, and the stated capital of the Company was reduced accordingly. The distribution was paid on October 22, 2012.

The amount and timing of any subsequent distributions to Shareholders will depend on a number of factors, several of which cannot be determined at this time, including the ultimate amount of our known, unknown, and contingent liabilities. As a result, the amount of cash remaining following completion of our liquidation and dissolution could vary from our current estimates.

Financial information presented as of and subsequent to June 30, 2012, includes a Consolidated Statement of Net Assets and a Consolidated Statement of Changes in Net Assets in Liquidation, as required under the liquidation basis of accounting. Overall net assets in liquidation decreased from $77,914,536 at June 30, 2012 to $7,836,918 at December 31, 2012. The decrease was primarily related to a cash distribution to Shareholders of $70,532,740, changes in liquidation accruals related to professional fees and payroll of $1,192,227 and asset retirement obligations of $163,850. Furthermore, an increase in net assets was related to a tax adjustment of $1,019,447 and changes to accrued liabilities of $982,589. The remaining change in net assets related to investment income, adjustments to assets, costs incurred, and adjustments to other liquidation accruals during the six month period.

Research and development, patents and licenses, etc.

In December, 2010, the U.S. Patent and Trademark Office issued a patent to NiMin for its CMD process for enhanced oil recovery. Our patent covers the process of the injection of oxygen and water as foam to create carbon dioxide ("CO_2") and steam in the reservoir through wet combustion. Assets relating to the CMD technology were written down to the net realizable value of $0 within general and administrative expenses on June 30, 2012.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements during the six months ended June 30, 2012, and the year ended December 31, 2011, except for the office lease obligations which were outstanding during those respective periods.

Critical Accounting Policies, Estimates and Liquidation Form of Accounting

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company adopted the liquidation basis of accounting effective June 30, 2012. This basis of accounting is considered appropriate when, among other things, liquidation of a company is imminent and the net realizable values of assets are reasonably determinable. Under this basis of accounting, assets are valued at their net realizable values and liabilities are stated at their estimated settlement amounts. The Company will continue to incur operating costs from December 31, 2012, through the liquidation of the Company. On a regular basis, we evaluate our assumptions, judgments and estimates that can have a significant impact on our reported net assets in liquidation based on the most recent information available to us, and when necessary make changes accordingly. Actual costs and income may differ from our estimates, which might reduce net assets available in liquidation to be distributed to Shareholders.

In preparing financial statements, we make informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period.

The amounts recorded for depletion and depreciation of property and equipment, the accretion expense associated with the asset retirement obligation and the cost recovery assessments for property and equipment were based on estimates of proved reserves, production and discount rates, oil and natural gas prices, future costs and other relevant assumptions. The amount recorded for the unrealized gain or loss on financial instruments was based on estimates of future commodity prices and volatility. The recognition of

amounts in relation to stock-based compensation requires estimates related to valuation of stock options at the time of issuance or modification. Future taxes require estimates as to the realization of future tax assets and the timing of reversal of tax assets and liabilities. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements from changes in such estimates in future years could be significant.

On an ongoing basis, we review estimates, including those related to the impairment of long-lived assets, contingencies and income taxes. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

Pre-Liquidation Accounting Policies

Crude Oil and Natural Gas Properties

We accounted for our crude oil and natural gas producing activities under the full-cost method of accounting. Accordingly, all costs incurred in the acquisition, exploration, and development of proved crude oil and natural gas properties, including the costs of abandoned properties, dry holes, geological and geophysical costs, and annual lease rentals, were capitalized. All general corporate costs were expensed as incurred. Sales or other dispositions of crude oil and natural gas properties were accounted for as adjustments to capitalized costs with no gain or loss recorded unless such sale would alter the relationship between pool cost and reserves.

Depletion and Depreciation

Depletion of crude oil and natural gas properties was computed under the unit-of-production method where by the ratio of production to proved reserves, after royalties, determined the proportion of depletable costs to be expensed in each period. Costs associated with unevaluated properties were excluded from the full-cost pool until a determination was made whether proved reserves can be attributable to the related properties. Unevaluated properties were evaluated at least annually to determine whether the costs incurred should have been classified to the full-cost pool and thereby subject to amortization. A significant reduction in our proved reserves may have resulted in an accelerated depletion rate.

Reserves were determined by an independent reserves engineering firm. Volumes were converted to equivalent units using the ratio of one barrel of oil to six thousand cubic feet of natural gas.

Depreciation of equipment was provided for on a straight-line basis over the useful life (5 to 10 years) of the asset.

Impairment of oil and gas properties

We performed a full-cost ceiling test on proved crude oil and natural gas properties in which the capitalized costs were not allowed to exceed their related estimated future net revenues of proved reserves discounted at 10%, net of tax considerations. Costs associated with unevaluated properties were excluded from the full-cost pool until a determination was made whether proved reserves can be attributable to the related properties. Unevaluated properties were evaluated at least annually to determine whether the costs incurred should have been classified to the full-cost pool and thereby subject to amortization. A significant reduction in our proved reserves may have resulted in a full cost ceiling limitation.

Equipment was reviewed for impairment whenever events or changes in circumstances indicate such impairment may have occurred. An impairment was recognized when the estimated undiscounted future net cash flows of an asset was less than its carrying value. If an impairment occurred, the carrying value of the impaired asset was reduced to fair value.

Asset Retirement Obligations

We recognized a liability for the present value of all legal obligations associated with the retirement of tangible, long-lived assets and capitalized an equal amount as a cost of the asset. The cost associated with the abandonment obligation was included in the computation of depreciation, depletion, amortization and accretion. The liability accreted until we settle the obligation. We used a credit-adjusted risk-free interest rate in its calculation of asset retirement obligations (“ARO”).

Revisions to the original estimated liability would have resulted in an increase or decrease to the ARO liability and related capitalized costs. Actual costs incurred upon settlement of the asset retirement obligation were charged against the obligation to the extent of the liability recorded.

Estimates for future abandonment and reclamation costs were based on historical costs to abandon and reclaim similar sites, taking current costs into consideration. The liability was based on our net interest in the respective sites.

Income Tax

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in enacted tax rates is recognized in income in the period that includes the enactment date.

We do not have any unrecognized tax benefits other than those for which a valuation allowance has been provided thereon. Our policy is that we recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. We did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor were any tax-related interest expense recognized during 2012, 2011 or 2010.

Commodity and Derivative Instruments

Derivative instruments were recognized as either assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value of derivative instruments depended on their intended use and resulting hedge designation. For derivative instruments designated as hedges, the changes in fair value were recorded in the balance sheet as a component of accumulated other comprehensive income (loss). Changes in the fair value of derivative instruments not designated as hedges were recorded as a gain or loss on derivative contracts in the consolidated statements of operations. We did not designate its derivative financial instruments as hedging instruments and, as a result, recognized the change in a derivative's fair value currently in earnings.

Fair value measurements

We categorized our assets and liabilities that were measured at fair value, based on the priority of the inputs to the valuation techniques. The three levels of the fair value measurement hierarchy were as follows:

Level 1: Unadjusted quoted prices in active markets that were accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that were not active, or inputs which were observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Measured based on prices or valuation models that required inputs that were both significant to the fair value measurement and less observable for objective sources (i.e. supported by little or no market activity).

Financial assets and liabilities were classified based on the lowest level of input that was significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement required judgment, which may affected the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels. The Company considered active markets as those in which transactions for the assets or liabilities occur in sufficient frequency and volume to provide pricing information on an ongoing basis. For assets and liabilities carried at fair value, the Company measured fair value under the following levels:

Financial Instrument	**Level**
Cash and cash equivalents	Level 1
Restricted investments	Level 1
Long-term debt	Level 2
Commodity derivative	Level 2
Warrants and options	Level 3

Stock-Based Compensation

We measured and recognized compensation expense for all share-based payment awards, including employee stock options, based on estimated fair values. The value of the portion of the award that was ultimately expected to vest was recognized as an expense on a straight-line basis over the requisite vesting period. We estimated the fair value of stock option awards on the date of grant using an option-pricing model. We used the Black-Scholes Model as its method of valuation for share-based awards. Our determination of fair value of share-based payment awards on the date of grant using the Black-Scholes Model was affected by NiMin's stock price, as well as assumptions regarding a number of subjective variables. These variables included, but are not limited to, our expectation of NiMin's stock price volatility over the term of the awards, as well as actual and projected exercise and forfeiture activity. The fair value of options granted to consultants, to the extent unvested due to required services not having been fully performed, was determined on subsequent reporting dates.

Foreign Currency Transactions

The consolidated financial statements are presented and measured in U.S. dollars, as substantially all of our operations are located in the United States of America. Transactions and balances using Canadian dollars are expressed in U.S. dollars whereby monetary assets and liabilities are expressed at the period end exchange rate, non-monetary assets and liabilities are expressed at historical exchange rates, and revenue and expenses are expressed at the average exchange rate for the period. Foreign exchange gains and losses are included in the consolidated statements of operations.