NEMI Northern Energy & Mining Inc.

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

The following information, prepared as of August 12, 2010, should be read in conjunction with the unaudited consolidated financial statements of NEMI Northern Energy & Mining Inc. ("NEMI" or the "Company") for the three months ended June 30, 2010 as well as the audited consolidated financial statements and the related management's discussion and analysis (the "Annual MD&A") for the year ended September 30, 2009. 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 Limited Partnership" sections, contains forward-looking statements. These forward-looking statements are based on current expectations and various estimates, factors and assumptions and involve known and unknown risks, uncertainties and other factors.

It is important to note that:

- Unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of August 12, 2010.

- Readers are cautioned not to place undue reliance on these statements as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Therefore, the Company cannot provide any assurance that forward-looking statements will materialize.

- The Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

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

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

General

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

The Company's principal asset is the interest it holds in the Peace River Coal Limited Partnership ("Peace River Coal LP" or "PRC"), which currently stands at 12.2%.

Prior to 2006, the NEMI was a mine development company focused on exploration, development and production of metallurgical coal assets in northeast British Columbia.

Peace River Coal LP

The Peace River Coal LP was established in November 2006 as a joint venture between the Company, Hillsborough Resources Limited (“Hillsborough”) and Anglo Coal Canada Limited (“Anglo”), indirectly a wholly-owned subsidiary of Anglo American plc ("Anglo American"). Anglo is the general partner and operational manager of PRC. PRC's production is being marketed by Anglo Coal Marketing Limited.

PRC was formed pursuant to and is governed by a Limited Partnership Agreement made as of October 16, 2006, as amended November 24, 2006. Under the terms of the Limited Partnership Agreement, the partners are not obliged to fully participate in any of the partnership's programs and budgets, but they are subject to dilution provisions should they elect not to fully participate. Currently NEMI holds a 12.2% interest, Anglo a 74.8% interest and Hillsborough a 13.0% interest in PRC.

PRC operates the Trend Mine near Tumbler Ridge, British Columbia and holds substantial metallurgical coal assets under exploration and development in northeast British Columbia, including the Roman and Horizon properties, and a 50% interest in the Belcourt Saxon properties. The Trend Mine, with some 320 employees, is targeting annual sales volume of approximately 1.5 million tonnes per year of hard coking coal at full capacity. PRC's metallurgical coal, which is exported to steel mills around the world, is currently railed to Prince Rupert, British Columbia where it is loaded into ocean going vessels at the Ridley Terminals Inc. port facility.

Commercial operations at the Trend Mine commenced in January 2008. PRC sold 0.7 million tonnes of metallurgical coal in calendar year 2009, up 14% on 2008. In 2010, clean metallurgical coal production, at 0.4 million tonnes, was 21% higher compared with the first six months of 2009. Further growth in production is envisioned in the second half of 2010 and 2011 with various capital projects completed and others in progress.

- An 18 month, $104 million capitalization program to acquire and operate a mining equipment fleet was completed in December 2009.
- A new haul road linking the coal preparation plant to the rail load-out facility has been completed, reducing haul distances and costs for clean coal.
- A second train set was leased to improve rolling stock availability.
- Construction on the Run of Mine (ROM) coal rotary breaker and coal preparation plant feed system was completed in December 2009, improving the plant’s throughput rate.
- Construction of a new heavy and light vehicle workshop was completed in December 2009

In all, approximately $150 million of capital expenditure has been invested into the business from 2007 through 2009 as PRC transitioned away from contractor to owner-operated mining operations. PRC now has an improved coal washing plant and road and rail logistics chain. A further $25 million is being invested in the wash plant upgrade to increase production capacity, wash plant yields and reliability. The first phase was completed within budget and on schedule in May 2010. The second phase and third phases have commenced and are expected to be commissioned in the first quarter of 2011.

Major drilling programs were completed on PRC’s properties over the last two years which have increased the coal reserves at the Trend Mine and extended the resources at Roman Mountain. Trend Mine comprised a total resource base of 51.6 million tonnes as at December 2009. Included in the resource base are Proved and Probable Reserves of 20.6 and 2.5 million tonnes respectively. Roman Mountain resources, based on a NI 43-101 dated June 2010, comprise a total of 34.0 million tonnes, of which 26.7 million tonnes are Measured and Indicated Resources, and 5.3 million tonnes are Inferred Resources. Further exploration to expand the resource base is currently being carried out. Total coal resources for the PRC properties, including Trend Mine, Roman Mountain and Horizon, all in which PRC holds a 100% interest, are currently estimated to be in excess of 480 million tonnes.

In addition to capital improvements and resource extensions at the Trend Mine, PRC is conducting development work on its other properties.

A pre-feasibility study has been performed on the Roman Mountain project, which is adjacent to the Trend Mine. Development of a mine at Roman Mountain is expected to increase overall ROM production to four to five million tonnes per year. In February 2010, PRC submitted an environmental assessment application for the Roman Mountain project to the Environmental Assessment Office of British Columbia. The application is currently in the review period of the assessment process, and an answer is expected by January 2011.

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

With respect to the Belcourt Saxon Coal Limited Partnership, in which PRC holds a 50% interest, a technical study was completed in 2008 and a NI 43-101 Technical Report dated March 2009 was filed on SEDAR by NEMI and by Western Coal Corporation, which holds the other 50% interest. The report states coal reserves (at 100%) for the Belcourt North and Belcourt South properties comprising 85.7 million tonnes Proven Reserves and 0.7 million tonnes of Probable Reserves included in the coal resource estimate (at 100%) of 166.7 million tonnes of Measured Resources, 4.2 million tonnes of Indicated Resources, and 0.2 million tonnes of Inferred Resources. The project has the potential to produce approximately 4 million tonnes per year of metallurgical coal product for 15 years. Further evaluation work is being conducted.

All resources and reserves are stated as at December 31, 2009, unless otherwise indicated.

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

Results of Operations

- Nine Month Results

The Company recorded a loss of $1,903,169 ($0.03 per share) for the nine months ended June 30, 2010 (the "Current Period") as compared to a loss of $2,880,244 ($0.05 per share) reported in the same period of 2009 (the "Comparative Period").

Expenses for the Current Period decreased to $812,124 as compared to $1,698,488 in the Comparative Period as a significant portion of the expenses in the Comparative period were non-recurring. In the Comparative Period, the Company incurred significant expenses in connection with the failed merger with Aviva Corporation, including professional fees of approximately $360,000 (which is in addition to the $324,000 in professional fees incurred prior to September 30, 2008), as well as in connection with the contested election of directors at the Company's Annual General Meeting held on March 30, 2009, which resulted in the recording of professional/legal fees of approximately $227,000 and proxy solicitation expenses of approximately $234,000. Overall, professional fees decreased to $228,303 during the Current Period compared to $836,193 in the Comparative Period, and advertising and shareholder relations expense decreased from $243,415 in the Comparative Period to $932 in the Current Period. Wages and benefits increased to $285,744 in the current Period from $231,998 in the Comparative Period as the Board of Directors approved, in the current quarter, a one-time retention bonus of $150,000 for the President upon signing a two year employment contract. The bonus is payable from time to time upon exercise of incentive stock options and in an amount equal to the option exercise price.

In the Comparative Period, an additional non-recurring charge of $1,000,000 was recorded as a result of the break fee paid to Aviva.

During the Current Period, the Company also incurred $1,249,006 in interest on the convertible debentures as compared to $1,249,008 in the Comparative Period. Interest and other income, as a result of its surplus cash balance, decreased to $39,712 as compared to $145,240 in the Comparative Period, owing to the ongoing deployment of cash and cash equivalents in operations and investment in the PRC, and a general decrease in interest rates during the Current Period.

In the Current Period, the Company also recorded income of $101,000 as its estimated share of income from the Peace River Coal LP (which interest is being accounted for using the equity method), as compared to income of $880,000 during the Comparative Period.

- Third Quarter Results

During the third quarter (the "Current Quarter"), the Company recorded a loss of $744,458 ($0.01 per share), compared to a loss of $753,830 ($0.01 per share) reported for the third quarter of 2009 (the "Comparative Quarter").

Expenses for the Current Quarter increased to $471,939 from $284,131 in the Comparative Quarter. The largest increase was wages and benefits which increased to $186,211 from $38,340 in the Comparative Quarter due to the retention bonus declared as mentioned above. Professional fees increased to $173,623 from $134,570 in the Comparative Quarter.

In the Current Quarter, the Company incurred $416,335 in interest on the convertible debentures, as compared to $416,336 in the Comparative Quarter. Interest and other income was $11,128 as compared to $10,510 in the Comparative Quarter.

In the Current Quarter, the Company recorded income of $132,000 as a result of its interest in the Peace River Coal, as opposed to a loss of $100,000 in the Comparative Quarter.

Capital Expenditures and Investments

Investing activity during the nine months ended June 30, 2010 was comprised of $19,075,952 (2009-$13,686,621) in funds contributed to PRC and $9,473,719 (2009-$23,666,041) in distributions received from PRC.

Summary of NEMI's Quarterly Results (unaudited)

Three months ended	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009	Sept 30, 2009	June 30, 2009	Mar. 31, 2009	Dec. 31, 2008	Sept 30, 2008
Total revenues	$nil	$nil	$nil	$nil	$nil	$nil	$nil	$nil
Net earnings (loss)	$(744,458)	$(970,526)	$(188,185)	$(1,320,647)	($753,830)	($65,320)	($2,061,094)	($167,597)
Income (loss) per share (Basic and diluted)	($0.01)	($0.02)	($0.00)	($0.02)	($0.01)	($0.00)	($0.03)	$0.00
Deferred expenditures	$nil	$nil	$nil	$nil	$nil	$nil	$nil	$nil
Total assets	$63,612,356	$64,307,012	$64,893,475	$65,964,728	$66,694,022	$67,991,714	$67,369,056	$69,624,440

The loss for the quarter ended December 31, 2008 included a $1 million break fee payment and $358,000 in transaction costs associated with the cancelled Aviva transaction.

Financing Activities

There were no financing activities during the three months ended June 30, 2010 or 2009.

The Company issued $12.7 million in unsecured convertible debentures on March 12 and April 1, 2008 for net proceeds of $11.8 million. The Debentures are unsecured and bear interest at a rate of 8% per annum, payable semi-annually in arrears, on June 30th and December 31st each year commencing June 30th, 2008. The Debentures mature on March 12, 2013 and are convertible into common shares of the Company at any time up until maturity at a conversion price of $0.90 per share. After March 12, 2010, the Company has the right, under certain circumstances, to redeem the debentures in whole or in part. In addition, the Company has the right to repay the principal amount of the Debentures in common shares at a price equal to 95% of the weighted average trading price of the Company's shares on the Toronto Stock Exchange for the 20 trading day period ending 5 trading days prior to the date fixed for redemption or at maturity.

Normal Course Issuer Bid

On April 7, 2009, the Company announced its intention to make a Normal Course Issuer Bid ("NCIB") to buy back its common shares through the facilities of the TSX. The maximum number of common shares that may be purchased for cancellation pursuant to the NCIB is that number of common shares that represents 5% of the issued and outstanding common shares on the date that the Exchange approves the NCIB. Based on the 57,869,745 common shares outstanding as at April 1, 2009, the maximum number of shares available for purchase and cancellation was 2,893,487.

Purchases under the NCIB were permitted to commence on April 13, 2009 and during the nine months ended December 31, 2009, the Company used $1,148,675 to acquire 2,893,487 shares with an average price of $0.40 per share. The stated value of these shares in the Company's shareholder equity was $2,749,093, or approximately $0.95 per share. The difference between the cost to repurchase and the stated value of $1,600,447 was allocated as an increase to contributed surplus.

All purchases made pursuant to the NCIB were made in accordance with the rules of the TSX and at the market price of the common shares at the time of the acquisition. NEMI made no purchases of common shares other than open market purchases.

On April 15, 2010, the Company announced its intention to make a Normal Course Issuer Bid ("NCIB") to buy back its common shares through the facilities of the TSX. The maximum number of common shares that may be purchased for cancellation pursuant to the NCIB is that number of common shares that represents 5% of the issued and outstanding common shares on the date that the Exchange approves the NCIB. Based on the 54,976,258 common shares outstanding as at April 12, 2010, the maximum number of shares available for purchase and cancellation is 2,748,812. Purchases under the NCIB were permitted to commence April 19, 2010 and will expire April 18, 2011. During the period ended June 30, 2010, the Company used $179,421 to acquire 295,400 shares with an average price of $0.61 per share. Subsequent to June 30, 2010, the Company purchased an additional 316,000 shares for $191,297 for an average price per share of $0.61.

The Board of Directors of the Company believes that the current market price of the Common Shares may not fully reflect the value of the Company's business and its future business prospects. As a result, the Board has concluded that the purchase of the Common Shares may represent an appropriate and desirable use of the Company's funds and further enhance market stability.

Purchase of Hillsborough shares

During the year ended September 30, 2009 the Company acquired 1,360,500 common shares of Hillsborough for a purchase price of $392,842 representing an average price of $0.29 per share. The shares were purchased for investment purposes.

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

Hillsborough Claim

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

Liquidity and Capital Resources

The closing of the convertible debenture issue in 2008 has left NEMI in a strong financial position with $7 million in cash and working capital of $7.2 million at June 30, 2010 with the debentures not due until March 2013. The Company's aggregate operating, investing and financing activities during the quarter resulted in a net cash outflow in the amount of $5.8 million.

Due to the timing of cash contributions to and distributions from PRC, the Company has contributed $6.5 million more than it has received from PRC under the 2010 Program and Budget for the six months ended June 30, 2010. However, it is expected that the 2010 Program and Budget will be cash flow neutral by calendar year end.

Contractual Obligations

As at June 30, 2010, the Company's contractual obligations included:

	Payments Due by Period				
(thousands of dollars)	Total	Less than 1 year	1 – 3 years	3 - 5 years	After 5 years
Lease agreement for office premises	$197	$28	$169	$nil	$nil
Lease agreement for office (1)	$245	$122	$123	$nil	$nil
Total Contractual Obligations	$442	$150	$292	$0	$0

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

Transactions with Related Parties

During the three month and nine month periods ended June 30, 2010, consulting fees of $19,500 and $58,500, respectively (2009 - $19,500 and $58,500) were charged in respect of services rendered by a company owned by the CFO.

The Trend Property was acquired in an agreement with and carries a 1% royalty interest (the "Trend Royalty") payable to a former officer of the Company. During the year ended September 30, 2006, the former President and CEO of the Company acquired approximately half of this royalty interest in a private transaction from the former officer of the Company for consideration of $nil. The Trend property was transferred to and the Trend Royalty was assumed by PRC on November 29, 2006. There were no royalties directly paid or payable to the former President and CEO of the Company by NEMI subsequent to the formation of PRC, however, PRC paid royalties of US$993,000 and US$1,143,000 during the years ended September 30, 2008 and 2009, respectively on account of the Trend Royalty.

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 Note 2 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 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.

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.

Adoption of new accounting standards

EIC-174 Mining Exploration Costs

On March 27, 2009, the EIC issued EIC 174. In this EIC, the Committee reached a consensus that an enterprise that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The EIC is effective for periods ending after the issuance date and the Company has adopted the EIC -174.

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, marketable securities, 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:
54,696,858 common shares as at June 30, 2010

Fully diluted:
68,703,080 common shares as at June 30, 2010

Outstanding options, warrants, and convertible securities as at July 22, 2010:

Type of Security	Number	Exercise Price	Expiry date
Stock options	150,000	$0.90	April 1, 2013
	234,000	$0.41	May 27, 2014
	275,000	$0.60	Sept 15, 2015
	125,000	$0.60	Sept 15, 2016
Convertible debentures	13,222,222	$0.90	March 12, 2013
Total dilution	14,006,222		

Risks and Uncertainties

The Company is involved in coal mining operations to the extent of its 12.2% partnership interest in Peace River Coal LP. The exploration for and development of coal deposits are highly speculative activities and are subject to significant risks. The Company's ability to realize its investments in exploration projects is dependent upon a number of factors, including its ability to continue to raise the financing necessary to complete the exploration and development of those projects and the existence of economically recoverable reserves within its projects. The Company's operations are subject to a number of risk factors as detailed in the Annual MD&A.

Internal Control over Financial Reporting

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.

Outlook

NEMI owns a 12.2% partnership interest in PRC, which owns the Trend mine as well as a number of other coal properties in northeast British Columbia. PRC is managed and operated by Anglo American.

In October 2009, Anglo American announced that it was restructuring its global portfolio of assets, including the divestiture of its interest in PRC. Subsequently Anglo American reached an agreement with NEMI and Hillsborough which will allow a purchaser to acquire up to a 100% interest in PRC. The PRC partners believe that a new owner being able to control 100% of PRC will allow the full potential of the assets to be realised more expeditiously and more fully than under the current ownership structure.

The PRC sales process is currently underway and Anglo American has advised that it has recently received first round bids and the process is now progressing to the second round.

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

Other Information

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