

NEMI Northern Energy & Mining Inc.

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

The following information, prepared as of February 12, 2008, 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 December 31, 2007, as well as the audited consolidated financial statements for the year ended September 30, 2007, and the related management's discussion and analysis (the "Annual MD&A"). 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 February 12, 2008.
- 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 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"), 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 February 12, 2008 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 which is owned 60% by Anglo, and 20% by each of NEMI and Hillsborough. On closing, the Company 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 during the first quarter 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 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 over the first six months of 2007, 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 the full 2007 year, 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 are planned for 2007 with respect to the Roman and Horizon properties, with the objective of enabling the commencement of production from these properties in 2009. Cash requirements for PRC for 2007, including capital expenditures and working capital required to fund operations through the pre-commercial production phase, total \$53 million. NEMI's 20% share of this amount, being \$10.6 million, was funded through its free cash carry.

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 was \$5 million. The Company elected to contribute its pro rata share which amount will be funded by the Company's free cash carry.

Under the terms of the limited partnership agreement, the partners are not obliged to fund any cash calls that may be made by the partnership, but they are subject to dilution provisions should they elect not to contribute. 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. Trend was expected to become operating cash-flow positive sometime during 2007, but it is also 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.

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% subject to a final interest calculation for the year. At year end, the Partners' interest in the PRC will be recalculated and based on adjustments made to reflect the actual contributions to the project made in the aggregate and by the individual Partners. The amount and timing of revenues received by the PRC will affect the respective interests of the Partners by reducing the total amount of contribution required. NEMI expects that the amount and timing of revenues received by the PRC from the sale of coal will reduce the amount required to fund the 2008 Program and Budget amount and therefore limit the dilution of NEMI's interest.

On December 24, 2007, the partners of Peace River Coal LP were presented with a cash call to fund \$14.1 million of the 2008 Program and Budget for expenditures, with the Company's pro rata share being \$1.7 million. The Company has taken the position that any cash calls until December 31, 2007 could be covered by the free cash carry. The Company did fund the \$1.7 million, in addition to \$506,183 of the funding deficiency of Hillsborough, but maintains it should not have had to and is seeking arbitration as to whether the amount was covered by the free cash carry.

In January 2008, the partners of Peace River Coal LP were presented with, and paid, a cash call to fund \$19.7 million of the 2008 Program and Budget for expenditures, with the Company's pro rata share being \$2.4 million.

Results of Operations

The Company recorded income of \$4,712,548 (\$0.08 per share) for the first quarter ended December 31, 2007 as compared to a loss of \$3,142,431 (\$0.06 per share) reported in the same quarter of 2006.

The 2007 income is attributed to the Company's free cash carry of its requirement to fund 20% of the 2007 Supplemental Program and Budget of \$25 million, which resulted in a gain of \$5 million. The 2006 loss included a one-time charge of \$1,275,000 in respect of the settlement of the break fee dispute between NEMI and Western.

The Company's interest in PRC is being accounted for using the equity method. As of February 12, 2008, PRC has not finalized its financial statements for the year ended December 31, 2007. Consequently, the results for the period ended December 31, 2007 include \$167,000 as NEMI's estimated share of the loss of PRC based upon preliminary numbers of PRC available as of that date.

Pursuant to the Anglo/Hillsborough agreement, on November 29, 2006, NEMI transferred substantially all of its business to Peace River Coal LP, 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 2006 results include costs associated with the management of the Trend mine for October and November and are considerably higher than the costs in 2007.

Expenses for the quarter decreased to \$228,778 from \$1,186,366. Variances include professional fees which decreased from \$632,315 to \$8,130. The 2006 legal fees included legal and monitor costs associated with the Company's CCAA filing and legal expense incurred in respect of the Anglo/Hillsborough transaction. Wages and benefits decreased from \$245,360 to \$82,762. During October and November 2006, NEMI's payroll had increased to 45 personnel including 31 at the minesite and 14 in the corporate office whereas, after the reorganization and transfer of assets, NEMI currently has only two employees.

Interest expense and bank charges decreased from \$706,388 in 2006 to \$1,226 in 2007. The 2006 expense was high 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, in

connection with the Anglo/Hillsborough transaction, these loans and accrued interest were paid in full or assumed by Peace River Coal LP, with the consequence that NEMI has no outstanding loans payable or interest expense in 2007.

Administrative expense was offset by \$109,709 (2005 - \$34,209) in interest income earned on the Company's surplus cash balance.

Capital Expenditures and Investments

There were no expenditures on plant and equipment in 2007 (2006:\$1,545,082) and the investing activity in the three months ended December 31, 2007 was comprised of the \$2,240,126 contributed to the Capital of PRC.

During the three months ended December 31, 2006, prior to transferring mining properties to PRC, the Company incurred deferred expenditures of \$5.5 million including \$5.1 million expended on the Trend property. The 2007 costs included \$4.3 million in mine stripping and preproduction costs.

In 2006, 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 December 31, 2007 is \$167.4 million, of which NEMI's 20% share is \$33.5 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.

As of February 12, 2008, PRC has not finalized its financial statements for the year ended December 31, 2007. The summarized assets, liabilities and results of operations of PRC as at September 30, 2007 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	Dec. 31, 2007	Sept 30, 2007	June 30, 2007	Mar. 31, 2007	Dec. 31, 2006	Sept 30, 2006	June 30, 2006	Mar. 31, 2006
Total revenues	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil
Net earnings (loss)	\$4,712,548	\$7,536,820	(\$1,012,376)	(\$412,850)	(\$3,142,431)	(\$904,994)	(\$2,208,026)	(\$354,587)
Income (loss) per share (Basic and diluted)	\$0.08	\$0.14	(\$0.02)	(\$0.01)	(\$0.06)	(\$0.02)	(\$0.04)	(\$0.01)
Deferred expenditures	\$nil	\$nil	\$nil	\$nil	\$5,467,865	\$18,799,429	\$7,630,985	\$12,227,274
Total assets	\$58,095,590	\$53,402,438	\$46,119,381	\$46,815,200	\$49,282,095	\$112,413,689	\$93,186,145	\$84,838,162

The net earnings for the quarter ended December 31, 2007 includes a \$5,000,000 gain on the Company receiving a free cash carry in funding its portion of the PRC 2007 Supplemental Program and Budget of \$25 million. This gain was partially offset by an equity loss of \$167,000 in relation to the Company's interest in PRC. 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 fee 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

There were no financing activities during the three months ended December 31, 2007.

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 period ended December 31, 2006, 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.

Liquidity and Capital Resources

The closing of the Anglo/Hillsborough transaction dramatically improved NEMI's financial position. As at December 31, 2007, NEMI has working capital of \$7.3 million, and no long-term debt. The Company's aggregate operating, investing and financing activities during the three month period resulted in a net cash inflow in the amount of \$2.4 million.

NEMI's 20% interest in PRC is carried to December 31, 2007 for the amount of up to \$18 million, of which \$15.6 million had been utilized by the Company for 2007 Cash Calls. As mentioned above, the partners of PRC have also approved PRC's 2008 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%.

- Contractual Obligations

As at December 31, 2007, the Company's contractual obligations included:

(thousands of dollars)	<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	\$27	\$27	\$nil	\$nil	\$nil
Lease agreement for office ⁽¹⁾	\$777	\$232	\$483	\$62	\$nil
Total Contractual Obligations	\$804	\$259	\$483	\$62	\$nil

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

Transactions with Related Parties

During the three months ended December 31, 2007, consulting fees of \$65,000 (2006 - \$32,000) were charged in respect of services rendered by directors or by companies with common directors or officers. In addition, legal fees totalling \$4,551 (2006 - \$6,560) were charged by a legal firm in which a director is a partner. Included in accounts payable and accrued liabilities related to these services at December 31, 2007 was \$5,300 (September 30, 2007 - \$8,097) payable to related parties. Transactions with related parties are recorded at the exchange amount, being the price agreed between the parties.

Critical Accounting Estimates

The Company's critical accounting estimates are as described in the Annual MD&A and include the review of the carrying values of coal properties and deferred exploration expenditures, the estimate of asset retirement obligations, and the estimate of stock-based compensation expense.

The Company has a 20% interest in Peace River Coal LP. Management reviews the carrying value of this investment on at least an annual basis. No write-down was taken during the current or previous periods, however, there is a risk that this investment could be written down in a future quarter.

Recent Accounting Pronouncements

There are no recent accounting pronouncements impacting the current period's financial statements, except as disclosed in the Annual MD&A.

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 and accrued liabilities. 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 these financial instruments approximate their carrying values, unless otherwise noted.

Cash and cash equivalents include cash and highly liquid investments held in the form of high quality commercial paper. 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 February 12, 2008

Fully diluted:

57,014,192 common shares as at February 12, 2008

Outstanding options, warrants, and convertible securities as at February 12, 2008:

<u>Type of Security</u>	<u>Number</u>	<u>Exercise Price</u>	<u>Expiry date</u>
Stock options	60,000	\$1.75	April 3, 2008

Risks and Uncertainties

The Company is involved in coal mining operations to the extent of its 20% 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

As at December 31, 2007, NEMI is in strong financial position with working capital of \$7.3 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 PRC, which now owns the Trend mine as well as a number of other coal properties in northeast British Columbia. Under the terms of the asset combination transaction, NEMI has received a free carry to December 31, 2007 of up to \$18 million in respect of this investment, \$15.6 million of which was utilized in respect of PRC cash calls for fiscal 2007.

PRC is being managed and operated by Anglo American 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.

Other Information

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