FORBES COAL

FORBES & MANHATTAN COAL CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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for the three months ended May 31, 2012 and 2011

(presented in Canadian dollars)

UNAUDITED

FORBES & MANHATTAN COAL CORP.
Consolidated Statements of Financial Position
As at,
(Unaudited)
(Presented in Canadian dollars)

	Notes		May 31, 2012		February 29, 2012
ASSETS					
Current					
Cash		$	8,113,781	$	9,481,078
Restricted cash			1,863,990		1,984,890
Accounts and other receivables			11,086,154		12,920,590
Inventories	8		4,480,598		3,443,691
Prepaid expenses			130,815		95,613
			25,675,338		27,925,862
Property, plant and equipment	9		74,318,423		81,956,437
Intangibles	10		4,932,872		5,414,498
Goodwill	11		16,107,609		17,506,375
Other assets	12		6,158,049		6,958,321
Long-term prepaid expenses			549,022		463,033
Deferred income taxes			438,696		326,754
		$	128,180,009	$	140,551,280
LIABILITIES					
Current					
Accounts payable and accrued liabilities	13,19	$	9,010,986	$	9,233,830
Other financial liabilities	14		3,393,998		3,896,001
Asset retirement obligations	15		967,686		1,053,845
Loans payable	19		27,463		27,749
			13,400,133		14,211,425
Other financial liabilities	14		18,389,352		20,030,702
Asset retirement obligations	15		1,845,294		1,981,829
Deferred income taxes			12,556,998		14,312,877
			46,191,777		50,536,833
SHAREHOLDERS' EQUITY					
Issued capital			98,792,926		98,792,926
Share-based payment reserves	17		10,168,024		11,208,323
Deficit			(15,051,047)		(14,519,284)
Currency translation reserve			(12,560,683)		(6,106,530)
Equity attributable to the owners of the Company			81,349,220		89,375,435
Non-controlling interest			639,012		639,012
			81,988,232		90,014,447
		$	128,180,009	$	140,551,280

Commitments and contingencies 1, 20
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APPROVED ON BEHALF OF THE BOARD:

Signed *"Stephan Theron"*, Director   Signed *"David Stein"*, Director

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

FORBES & MANHATTAN COAL CORP.
Consolidated Statements of Operations and Comprehensive Income (Loss)
(Unaudited)
(Presented in Canadian Dollars)

	Notes	For the three months ended May 31, 2012	May 31, 2011
REVENUE		$ 20,800,194	$ 19,607,959
COST OF SALES			
Operating expenses		16,180,952	12,494,708
Amortization and depletion		2,806,780	2,927,693
Stock based compensation	17	-	223,000
		18,987,732	15,645,401
Gross profit		1,812,462	3,962,558
EXPENSES			
Consulting and professional fees	19	755,530	772,200
General and administration	19	1,447,825	761,550
Stock based compensation	17	18,266	1,616,750
Mineral properties investigation costs		7,084	-
		2,228,705	3,150,500
Net income (loss) before other items		(416,243)	812,058
OTHER ITEMS			
Other income		42,449	236,169
Business combination transaction costs		-	(18,534)
Accretion		-	(537,259)
Interest (expense)	7	(582,278)	(311,571)
Foreign exchange gain (loss)		12,458	(307,938)
Unrealized (loss) on marked-to-market securities		(368,303)	-
NET (LOSS) before income tax		(1,311,917)	(127,075)
Income and other tax expense		(278,411)	(877,558)
NET (LOSS) for the period		(1,590,328)	(1,004,633)
Other comprehensive loss items			
Unrealized (loss) gain on foreign currency translation		(6,454,153)	1,015,803
COMPREHENSIVE (LOSS) INCOME for the period		$ (8,044,481)	$ 11,170
Net (loss) per share - basic and diluted		(0.05)	(0.03)
Headline earnings per share - basic and diluted		(0.05)	(0.03)
Weighted average number:			
of common shares outstanding-basic		34,865,717	34,839,636
of common shares outstanding-diluted		34,865,717	34,839,636

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

FORBES & MANHATTAN COAL CORP.
Consolidated Statements of Cash Flows
(Unaudited)
(Presented in Canadian Dollars)

	For the three months ended	
	May 31, 2012	May 31, 2011
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net (loss) for the period	$ (1,590,328)	$ (1,004,633)
Adjustments:		
Amortization and depletion	2,806,780	2,927,693
Fair value adjustment on financial assets	(10,192)	(50,048)
Deferred income taxes	(504,997)	(29,903)
Accretion	26,708	564,257
Unrealized foreign exchange (gain) loss	(302)	216,378
Unrealized gain on marked-to-market securities	368,303	-
Stock based compensation	18,266	1,839,750
	1,114,238	4,463,494
Net change in non-cash working capital	208,758	110,124
	1,322,996	4,573,618
INVESTING ACTIVITIES		
Long-term prepaid expenses	(112,097)	-
Additions to property, plant and equipment	(1,953,139)	(1,673,681)
Additional contribution to endowment policy	(244,471)	(310,972)
Restricted cash	(13,020)	(50,000)
	(2,322,727)	(2,034,653)
FINANCING ACTIVITIES		
Change in accounts payable attributable to share issue costs	-	292,482
Shares issued for cash	-	5,460,000
Share issue costs	-	(632,427)
Other financial liabilities	(34,074)	(3,152,731)
	(34,074)	1,967,324
Effect of exchange rate change on cash	(333,492)	23,931
CHANGE IN CASH	(1,033,805)	4,506,289
CASH, beginning of the period	9,481,078	15,252,651
CASH, end of the period	$ 8,113,781	$ 19,782,871
SUPPLEMENTAL INFORMATION		
Interest (expense)	$ (582,278)	$ (311,571)
Income and other taxes received (paid)	$ 416,673	$ 29,903

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

FORBES & MANHATTAN COAL CORP.
Consolidated Statements of Changes in Equity
(Unaudited)
(Presented in Canadian dollars)

	Number of shares issued	Issued capital	Share-based payment reserves			Deficit	Currency translation reserve	Shareholders' equity
			Warrant reserve	Option reserve	BEE option reserve			
Balance as at February 28, 2011	**33,665,717**	**$ 93,672,871**	**$ 2,149,853**	**$ 6,263,430**	**$ -**	**$ (17,434,614)**	**$ (535,198)**	**$ 84,116,342**
Shares issued on public offering	1,200,000	5,120,055	-	-	-	-	-	5,120,055
Stock-based compensation	-	-	-	1,839,750	-	-	-	1,839,750
Other comprehensive income for the three months ended May 31, 2011	-	-	-	-	-	-	1,015,803	1,015,803
Net loss for the three month ended May 31, 2011	-	-	-	-	-	(1,004,633)	-	(1,004,633)
Balance as at May 31, 2011	**34,865,717**	**$ 98,792,926**	**$ 2,149,853**	**$ 8,103,180**	**$ -**	**$ (18,439,247)**	**$ 480,605**	**$ 91,087,317**
Shares issued on public offering	-	-	-	-	-	-	-	-
Stock-based compensation	-	-	-	746,005	-	-	-	746,005
Stock options expired	-	-	-	(1,036,244)	-	1,036,244	-	-
Settlement of BEE option	-	-	-	-	1,245,529	(287,012)	-	958,517
Dividends declared to BEE partners	-	-	-	-	-	(123,849)	-	(123,849)
Other comprehensive loss for the period ended February 29, 2012	-	-	-	-	-	-	(6,587,135)	(6,587,135)
Net income for the period ended February 29, 2012	-	-	-	-	-	3,294,580	-	3,294,580
Balance as at February 29, 2012	**34,865,717**	**$ 98,792,926**	**$ 2,149,853**	**$ 7,812,941**	**$ 1,245,529**	**$ (14,519,284)**	**$ (6,106,530)**	**$ 89,375,435**
Stock-based compensation	-	-	-	18,266	-	-	-	18,266
Stock options expired	-	-	-	(65,512)	-	65,512	-	-
Broker warrants expired	-	-	(993,053)	-	-	993,053	-	-
Other comprehensive loss for the three months ended May 31, 2012	-	-	-	-	-	-	(6,454,153)	(6,454,153)
Net loss for the three month ended May 31, 2012	-	-	-	-	-	(1,590,328)	-	(1,590,328)
Balance as at May 31, 2012	**34,865,717**	**$ 98,792,926**	**$ 1,156,800**	**$ 7,765,695**	**$ 1,245,529**	**$ (15,051,047)**	**$ (12,560,683)**	**$ 81,349,220**

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

1) NATURE OF OPERATIONS

Forbes & Manhattan Coal Corp. (individually, or collectively with its subsidiaries, as applicable, "Forbes Coal" or the "Company") is a coal mining company. Forbes Coal is the continuing combined entity following a September 2010 transaction between Forbes & Manhattan (Coal) Inc. and Nyah Resources Corp. ("Nyah") whereby Nyah, a public company listed on the Toronto Venture Exchange ("TSX-V"), acquired all of the outstanding shares of the Company in exchange for common shares of Nyah (the "Transaction"). The Transaction was accounted for as a purchase of assets with Forbes & Manhattan (Coal) Inc. as the acquirer and Nyah as the acquiree. As such, these consolidated financial statements are a continuation of the consolidated financial statements of Forbes & Manhattan (Coal) Inc. Following the Transaction, the combined company is now known as Forbes & Manhattan Coal Corp. and is listed on the TSX and Johannesburg Stock Exchange ("JSE"). The Company's head office is located at 65 Queen Street West, Suite 815, Toronto, Ontario, Canada. These consolidated financial statements were approved and authorized for issue by the Board of Directors on July 12, 2012.

Forbes & Manhattan (Coal) Inc. was incorporated on November 12, 2009. In July 2010, Forbes & Manhattan (Coal) Inc. completed an agreement to acquire Forbes Coal (Pty) Ltd. (formerly known as Slater Coal (Pty) Ltd.) ("Forbes Coal Dundee"), a South African company, and its interest in its coal mines in South Africa ("Forbes Coal Dundee Properties"). The Forbes Coal Dundee Properties comprise the operating Magdalena bituminous mine (the "Magdalena Property") and the Aviemore anthracite mine (the "Aviemore Property"). Forbes Coal Dundee is engaged in open-pit and underground coal mining.

Forbes Coal Dundee indirectly holds a 70% interest in the Forbes Coal Dundee Properties through its 70% interest in Zinoju Coal (Pty) Ltd. ("Zinoju") which holds all of the mineral rights and prospecting permits with respect to the Forbes Coal Dundee Properties. The remaining 30% interest in Zinoju Coal (Pty) Ltd. is held by the South African Black Economic Empowerment ("BEE") partners. BEE is a statutory initiative on behalf of the South African government, enacted to increase access by historically disadvantaged South Africans ("HDSA") to the South African economy by increasing HDSA ownership in South African enterprises.

The Company changed its year-end from December 31 to February 28, effective for the year ending February 28, 2011. The year-end change was made to align the year end of the Company with that of its subsidiary, Forbes Coal Dundee. The change in year-end required the Company to have a transition year with a fourteen month period ending February 28, 2011 with comparatives for the period from inception (November 12, 2009) to December 31, 2009.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current operations will result in profitable mining operations. The recoverability of the carrying value of property, plant and equipment, intangibles and goodwill and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, ability to transport and sell its coal, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs to the carrying values. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

Although the Company has taken steps to verify title to the properties on which it is conducting its exploration, development and mining activities, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal land claims and non-compliance with regulatory and environmental requirements.

2) BASIS OF PREPARATION

These condensed interim consolidated financial statements are unaudited and prepared on a condensed basis in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting issued by the International Accounting Standards Board. These condensed interim consolidated financial statements have been prepared in accordance with the accounting policies described in Note 6 of the Company's annual consolidated financial statements as at and for the period ended February 29, 2012. Accordingly, these condensed interim consolidated financial statements for the three month periods ended May 31, 2012 and 2011 should be read together with the annual consolidated financial statements as at and for the periods ended February 29, 2012 and February 28, 2011.

The preparation of condensed interim consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

3) FUTURE ACCOUNTING CHANGES

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after March 1, 2012 or later periods. Updates that are not applicable or are not consequential to the Company have been excluded thereof.

IFRS 9 Financial Instruments ("IFRS 9") was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company is currently assessing the impact of IFRS 9 on its financial statements.

IFRS 10 Consolidated Financial Statements ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. This standard is effective for annual period annual period beginning on January 1, 2013. Earlier application is permitted. The Company has not yet determined the impact of the amendments to IFRS 10 on its financial statements.

IFRS 11 Joint Arrangements ("IFRS 11") replaces the guidance in IAS 31 Interests in Joint Ventures. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 Investments in Associates and IAS 36 Impairment of Assets. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 11 on its financial statements.

IFRS 13 Fair Value Measurement ("IFRS 13") converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 13 on its financial statements.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine ("IFRIC 20") provides guidance on the accounting for costs related to stripping activity in the production phase of surface mining. When the stripping activity results in the benefit of useable ore that can be used to produce inventory, the related costs are to be accounted for in accordance with IAS 2 Inventories; when the stripping activity results in the benefit of improved access to ore that will be mined in future periods, the related costs are to be accounted for in accordance with IFRIC 20 as additions to non-current assets when specific criteria are met. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013, and permits early adoption. The Company is in the process of determining the impact on its consolidated financial statements.

IAS 1, Presentation of Financial Statements ("IAS 1"), has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company has not yet determined the impact of the amendments to IAS 1 on its financial statements.

4) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, Forbes Coal Dundee, Zinoju, Nyah Resources Inc. and Forbes and Manhattan (Coal) Inc.

<u>Subsidiaries</u>

Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. Generally, control is obtained when the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

<u>Business Combinations and Goodwill</u>

On the acquisition of a subsidiary, the purchase method of accounting is used to account for the acquisition as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange;
- directly attributable transaction costs are expensed rather than included in the acquisition purchase price;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date except for non-current assets that are classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognized and measured at fair value less costs to sell;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- if the acquisition cost is less than the fair value of the net assets acquired, the difference is recognized directly in profit or loss;
- the interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's fair value; and
- the measurement of contingent consideration at fair value on the acquisition date is performed with subsequent changes in the fair value recorded through the consolidated statement of operations.

All material intercompany transactions are eliminated on consolidation. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized and is tested for impairment annually. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. The level at which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal purposes, but shall not be larger than an operating segment determined in accordance with IFRS 8 Operating Segments. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

<u>Transactions and non-controlling interests</u>

Transactions with non-controlling interests are treated as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between the consideration paid and the non-controlling share of the carrying value of net assets acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are similarly computed and also recorded in equity.

5) SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

5) SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

- Assets' carrying values and impairment charges
  In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

- Capitalization of exploration and evaluation costs
  Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.

- Mineral reserve estimates
  The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as coal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

- Impairment of mineral interests
  While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

- Estimation of decommissioning and restoration costs and the timing of expenditure
  The cost estimates are updated annually during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

- Income taxes and recoverability of potential deferred tax assets
  In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

(Presented in Canadian dollars)

5) SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

- Share-Based Payments
  Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

- Allocation purchase price related to reverse acquisition, asset acquisition and business combination.
  The fair value of assets acquired and liabilities assumed and the resulting goodwill, if any, requires that management make estimates based on the information provided by the acquiree. Changes to the provisional values of assets acquired and liabilities assumed, deferred income taxes and resulting goodwill, if any, will be retrospectively adjusted when the final measurements are determined (within one year of acquisition date).

- Contingencies
  Refer to Note 20.

6) OPERATING SEGMENTS

The Company operates in Canada and South Africa. The Company's revenue from external customers and information about its assets by geographical location are detailed below:

	Current assets	Properties, plant and equipment	Intangibles	Other non-current assets	Total assets
February 29, 2012					
Canada	$ 6,018,392	$ -	$ -	$ 745,681	$ 6,764,073
South Africa	21,907,470	81,956,437	5,414,498	24,508,802	133,787,207
	$ 27,925,862	**$ 81,956,437**	**$ 5,414,498**	**$ 25,254,483**	**$ 140,551,280**
May 31, 2012					
Canada	$ 5,136,229	$ -	$ -	$ 430,575	$ 5,566,804
South Africa	20,539,109	74,318,423	4,932,872	22,822,801	122,613,205
	$ 25,675,338	**$ 74,318,423**	**$ 4,932,872**	**$ 23,253,376**	**$ 128,180,009**

All of the Company's coal revenues are earned from production in South Africa.

7) INTEREST (EXPENSE)

	Three months ended May 31, 2012	Three months ended May 31, 2011
Interest bearing borrowings	$ 638,658	$ 360,106
Unwinding discount on rehabilitation provision	26,708	26,921
Interest expense	**665,366**	**387,027**
Cash	58,481	51,072
Restricted cash	24,607	24,384
Interest income	**83,088**	**75,456**
Net interest (expense)	**$ (582,278)**	**$ (311,571)**

(Presented in Canadian dollars)

8) INVENTORIES

	May 31, 2012	February 29, 2012
Consumables	$ 319,228	$ 332,536
Work in progress	512,373	358,917
Finished goods	3,648,997	2,752,238
	$ 4,480,598	**$ 3,443,691**

As at May 31, 2012 and February 29, 2012 all inventories were presented at cost.

The amount of inventories recognized as an expense during the three months ended May 31, 2012 is $18,987,732 (May 31, 2011 - $15,645,401).

9) PROPERTY, PLANT AND EQUIPMENT

	Mining assets	**Office equipment, radio equipment, fixtures and fittings**	**Land and buildings**	**Development costs**	**Mining rights**	**Total**
Cost as at February 29, 2012	**$ 52,498,247**	**$ 445,080**	**$ 856,220**	**$ 6,456,305**	**$ 40,810,181**	**$ 101,066,033**
Effect of foreign currency exchange difference	(4,292,060)	(36,388)	(70,001)	(527,843)	(3,336,487)	**(8,262,779)**
Additions	1,508,297	89,896	221,998	44,049	-	**1,864,240**
Cost as at May 31, 2012	**$ 49,714,484**	**$ 498,588**	**$ 1,008,217**	**$ 5,972,511**	**$ 37,473,694**	**$ 94,667,494**
Accumulated depreciation, depletion and impairment as at February 29, 2012	**$ (12,427,529)**	**$ (134,332)**	**$ (65,805)**	**$ (226,334)**	**$ (6,255,596)**	**$ (19,109,596)**
Effect of foreign currency exchange difference	1,016,028	10,982	5,380	18,504	511,434	**1,562,328**
Charge for the period	(2,078,153)	(47,450)	(12,254)	(94,288)	(569,658)	**(2,801,803)**
Depreciation and depletion as at May 31, 2012	**$ (13,489,654)**	**$ (170,800)**	**$ (72,679)**	**$ (302,118)**	**$ (6,313,820)**	**$ (20,349,071)**
Net book value as at February 29, 2012	**$ 40,070,718**	**$ 310,748**	**$ 790,415**	**$ 6,229,971**	**$ 34,554,585**	**$ 81,956,437**
Net book value as at May 31, 2012	**$ 36,224,830**	**$ 327,788**	**$ 935,538**	**$ 5,670,393**	**$ 31,159,874**	**$ 74,318,423**

Land and building includes a net book value balance of approximately $84,000 for a property that is not used in production and operations. Mining assets include a net book value balance of approximately $35,000 for a vehicle that is not used in production and mine operations.

10) INTANGIBLES

	Richards Bay Coal Terminal entitlements	**Mineral and prospecting rights**	**Total**
Cost as at February 29, 2012	**$ 4,665,904**	**$ 990,750**	**$ 5,656,654**
Effect of foreign currency exchange difference	(381,467)	(81,000)	**(462,467)**
Cost as at May 31, 2012	**$ 4,284,437**	**$ 909,750**	**$ 5,194,187**
Accumulated depreciation, depletion and impairment as at February 29, 2012	**$ (233,176)**	**$ (8,980)**	**$ (242,156)**
Effect of foreign currency exchange difference	19,062	734	**19,796**
Charge for the period	(36,629)	(2,326)	**(38,955)**
Depreciation, depletion and impairment as at May 31, 2012	**$ (250,743)**	**$ (10,572)**	**$ (261,315)**
Net book value as at February 29, 2012	**$ 4,432,728**	**$ 981,770**	**$ 5,414,498**
Net book value as at May 31, 2012	**$ 4,033,694**	**$ 899,178**	**$ 4,932,872**

(Presented in Canadian dollars)

11) GOODWILL

Balance as at February 29, 2012	**$**	**17,506,375**
Effect of foreign currency exchange difference		(1,398,766)
Balance as at May 31, 2012	**$**	**16,107,609**

12) OTHER ASSETS

		May 31, 2012		February 29, 2012
Endowment policy	$	4,804,243	$	4,967,278
Security investments		200,893		569,196
Long term investments		726,257		790,919
Long term receivables		426,656		630,928
	$	**6,158,049**	**$**	**6,958,321**

The other assets include an endowment policy held by the Company to fund payment requirements associated with its instalment sale agreement obligations. The total endowment policy consists of various individual policies managed in various investment funds. The investment in this financial asset is classified as level 3 on the fair value hierarchy as the inputs required to determine fair value of the investment are actuarially determined and not supported by market activity.

The table below sets forth the summary of changes in the endowment policy for the period ended May 31, 2012:

Balance as at February 29, 2012	**$**	**4,967,278**
Effect of exchange rate change		(406,107)
Current year contributions		233,344
Fair value adjustment		9,728
Balance as at May 31, 2012	**$**	**4,804,243**

13) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		May 31, 2012		February 29, 2012
Trade payables	$	4,340,932	$	5,291,967
Payroll and other statutory liabilities		1,027,035		667,381
Current tax payable		771,670		711,369
Other payables and accruals		2,871,349		2,563,113
	$	**9,010,986**	**$**	**9,233,830**

(Presented in Canadian dollars)

14) OTHER FINANCIAL LIABILITIES

		May 31, 2012		February 29, 2012
Instalment sale agreements(*)	$	3,071,788	$	3,435,165
Third party institutional loans (**)		18,711,562		20,491,538
Total interest bearing borrowings		21,783,350		23,926,703
Less:				
Current portion of instalment sale agreements		(428,483)		(556,513)
Current portion of third party institutional loans		(2,965,515)		(3,339,488)
Total current portion of interest bearing borrowings		(3,393,998)		(3,896,001)
Total long-term portion of interest bearing borrowings	**$**	**18,389,352**	**$**	**20,030,702**

(*) The instalment sale agreements related liabilities are payable over periods from three to five years, at interest rates linked to prime and are secured by mining assets with a book value of approximately $3,300,000 and an endowment policy.

(**) The Company, through its subsidiary Forbes Coal Dundee, has secured a ZAR 230 million (approximately $28 million) loan facility from Investec Limited (“Investec”). The loan facility consists of a five year senior secured amortizing term loan facility of up to ZAR 200 million (approximately $24 million) and a revolving loan facility of up to ZAR 30 million (approximately $4 million). Both facilities are flexible in terms of drawdowns and repayments. The facilities are secured against the assets of Forbes Coal Dundee and bear interest at the 3 month JIBAR rate, plus 3%, compounded quarterly. The interest rate will increase by 1% if the earnings before interest, taxes, depreciation and amortization of Forbes Coal Dundee falls below ZAR 100 million annually (approximately $12 million).

The loan is repayable in quarterly payments of ZAR 8,060,000 (approximately $980,000) commencing on March 1, 2012, with the first capital payment to be made in July 2012. As at May 31, 2012, an amount of $18,711,562 (ZAR 154,258,551) has been recorded as owed under this facility and repayable as follows:

Year		Amount
2013	$	2,965,515
2014		3,933,743
2015		3,937,458
2016		3,936,709
2017		3,938,137
	$	**18,711,562**

The Investec loan is issued under the following terms:

Facilities

- First ranking Security over the assets of the Company, including but not limited to mortgage bonds over the Company’s immovable property and special and general notarial bonds over the Company’s movable property; (Forbes Coal Dundee assets only).
- Subordination of all claims by the Affiliates of the Company and the Shareholder against the Company;
- Negative pledge over assets of the Company.

Cession in Security

- Secured property consists of bank account, insurances, trade receivables and related rights to the preceding.

Mortgage bond

- Secured bond over the property (land and buildings) within Forbes Coal Dundee (Coal Fields).

(Presented in Canadian dollars)

14) OTHER FINANCIAL LIABILITIES (Continued)

General bond

- Secured bond over the property (movable) within Forbes Coal Dundee, including:
  a. all the plant, equipment, machinery, office furniture, fixtures and fittings, inventory and motor vehicles;
  b. every claim and indebtedness of whatever kind or nature;
  c. all the rights to quotas, permits, licenses and the like;
  d. all the contractual rights, including without limitation, rights in respect of insurance policies taken out by or in favor of the mortgagor, franchise rights and rights under agency agreements or other agreements of a like nature and rights as lessee or lessor;
  e. all the goodwill of the business of the Mortgagor and all its rights to trademarks and trade names,

Special bond

- Secured bond over the property (movable) within Forbes Coal Dundee, that is currently used as security over the finance lease agreements.

The Company had two drawdowns in the period ended February 29, 2012. In January 2012, the Company made a drawdown for ZAR 11,140,000 (approximately $1,350,000) and in February 2012 for ZAR 142,000,000 (approximately $17,220,000). Also as at May 31, 2012, the Company had available for drawdown facility of ZAR 76,860,000 (approximately $10,150,000).

Under terms of the loan the Company is paying a commitment fee for the available drawdown facility in the amount of ZAR 300,000 (approximately $36,000) on a quarterly basis starting March 2012.

This loan is a subject to a Net Debt/EBIDA, EBITDA/Net Interest and Debt/Equity covenants, which were in full compliance as at May 31, 2012.

See Subsequent events Note 21.

The other financial liabilities are repayable as follows:

Year		Amount
2013	$	3,393,998
2014		6,478,585
2015		4,035,921
2016		3,936,709
2017		3,938,137
	$	**21,783,350**

The interest rate exposure of borrowings of the Company was as follows:

Instalment sale agreements at floating rates	$	3,071,788
Investec loan at rates of 8.58% and 8.60%		18,711,562
	$	**21,783,350**

(Presented in Canadian dollars)

15) ASSET RETIREMENT OBLIGATION

Balance as at February 29, 2012	**$**	**3,035,674**
Effect of foreign currency exchange difference		(248,187)
Accretion expense		25,493
Balance as at May 31, 2012	**$**	**2,812,980**

The provision for close down rehabilitation costs reflects the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the consolidated statements of financial position date and is expected to be paid out over 5 to 10 years. South African mining companies are required by law to undertake rehabilitation works as part of their ongoing operations. These environmental rehabilitation costs are funded by contributions into endowment policies.

The expected timing of the cash outflows in respect of the provision is on the closure of the various mining operations. However, certain current rehabilitation costs are charged to this provision as and when incurred.

16) SHARES IN ESCROW

On July 20, 2010, the shareholders of Forbes Coal were issued 2,700,000 performance special warrants (the "Performance Special Warrants"). Each Performance Special Warrant was automatically exercised into one common share of Forbes Coal (each "Performance Share" and, collectively, the “Performance Shares") for no additional consideration immediately prior to the completion of the Nyah acquisition, provided that such Performance Shares shall be deposited in escrow with an escrow agent (the "Escrowed Shares"), to be released as follows:

i) 50% of the Escrowed Shares (the "First Tranche Escrowed Shares") will be released once the Company achieves US$22,000,000 in EBITDA from the Forbes Coal Dundee Properties over a 12 consecutive month period by July 20, 2013. During the period ended February 29, 2012 the US$22,000,000 in EBITDA from Forbes Coal Dundee Properties was achieved and the above mentioned Escrowed Shares were released;

ii) The remaining Escrowed Shares will be released once the Company achieves US$35,000,000 in EBITDA from the Forbes Coal Dundee Properties over a 12 consecutive month period within a three year period following the release of the First Tranche Escrowed Shares. For further clarity, EBITDA generated from the Forbes Coal Dundee Properties will exclude any gains or losses generated by the combined company from the disposition of the Forbes Coal Dundee Properties. In the event of not achieving US$35,000,000 in EBITDA from the Forbes Coal Dundee Properties, the above mentioned Escrowed Shares will be cancelled. (EBITDA is a non-IFRS measure and defined as earnings before interest, taxes, depreciation and amortization).

The model used to fair value the Performance Special Warrants applies standard Monte Carlo simulation techniques and is based on correlated one-factor geometric Brownian motions. The key inputs used in the model include:

ZAR/USD FX: 7.3194
ZAR/CAD FX: 7.0897
Equity value of a comparable company: 3.45
API4 Coal Price: 91.81
ZAR/USD FX Volatility: 11.6%
ZAR/CAD FX Volatility: 8.1%
Volatility of a comparable company: 64.3%

(Presented in Canadian dollars)

17) SHARE-BASED PAYMENT RESERVES

	No. of options	Weighted average exercise price	Value of options vested	No. of warrants	Weighted average exercise price	Value of warrants vested	Total value
Balance as at February 29, 2012	**3,479,692**	**$ 3.20**	**$ 9,058,470**	**1,243,887**	**$ 3.48**	**$ 2,149,853**	**$ 11,208,323**
Vested	-	-	18,266	-	-	-	18,266
Expired	(36,432)	2.39	(65,512)	(763,887)	2.80	(993,053)	(1,058,565)
Balance as at May 31, 2012	**3,443,260**	**$ 3.21**	**$ 9,011,224**	**480,000**	**$ 4.55**	**$ 1,156,800**	**$ 10,168,024**

Employee share options plan

The Company has an ownership-based compensation scheme, to be administered by the board of directors of the Company, for directors, officers, employees and consultants. The plan provides for the issuance of share options to acquire up to 10% of the Company's issued and outstanding capital. The number of shares reserved for issuance pursuant to the grant of share options will increase as the Company's issued and outstanding share capital increases. In accordance with the terms of the plan, as approved by shareholders at a previous annual general meeting, directors, officers, employees and consultants of the Company may be granted options to purchase common shares at an exercise price determined by the board of directors, but which shall not be lower than the market price of the underlying common shares at the time of grant.

Each employee share option converts into one common share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

During the three months ended May 31, 2012, nil (May 31, 2011 - 825,000) share options were granted to directors, officers, employees and consultants of the Company. These options had a grant date estimated fair value of $nil (May 31, 2011 - $1,839,750), comprised of various option grants that vest immediately, over 4 quarters and over 8 quarters. The options expire five years from the date of issue, or 30 days after the resignation of the director, officer, employee or consultant.

The following share-based payment arrangements were in existence as at May 31, 2012:

Share options

Number of options outstanding	Number of options exercisable	Grant date	Expiration date	Exercise price	Grant date estimated fair value vested	Expected volatility	Expected life years	Expected dividend yield	Risk-free interest rate
8,260	8,260	20-Sep-10	4-Jan-13	$ 7.96	$ 9,249	100%	2.29	0.00%	1.54%
235,000	235,000	15-Mar-10	15-Mar-15	$ 2.80	$ 940,674	100%	5.00	0.00%	2.39%
1,825,000	1,825,000	13-Oct-10	13-Oct-15	$ 3.25	$ 4,434,750	100%	5.00	0.00%	1.74%
725,000	725,000	24-Mar-11	24-Mar-16	$ 4.10	$ 1,616,750	63%	5.00	0.00%	2.15%
100,000	50,000	6-Jun-11	6-Jun-16	$ 3.00	$ 139,772	61%	5.00	0.00%	2.23%
150,000	150,000	13-Jun-11	13-Jun-16	$ 2.77	$ 220,500	61%	5.00	0.00%	2.24%
400,000	400,000	25-Jan-12	25-Jan-17	$ 1.80	$ 404,000	67%	5.00	0.00%	1.36%
3,443,260	**3,393,260**			**$ 3.21**	**$ 7,765,695**		**4.99**		

For the three months ended May 31, 2012, the diluted weighted average number of common shares outstanding excluded 3,443,260 options, as they were anti-dilutive.

(Presented in Canadian dollars)

17) SHARE-BASED PAYMENTS RESERVES (Continued)

Settlement of BEE option

During the twelve-months period ended February 29, 2012, Forbes Coal Dundee assisted one of its BEE partners in the buying out of the interest in Zinoju held by its other BEE partner. This resulted in the issuance of the new call option to the continuing BEE partner represents the issuance of an equity-settled share-based payment. The value of the new call option on the date of issue of ZAR 9,073,711 ($1,245,529) was reflected as an expense in the statement of comprehensive income in fiscal 2012 as part of 'loss on share based payments' and as a credit in the statement of changes in equity in the 'share-based payment reserves'. Key assumptions utilized in the valuation of the new option issued include a maximum maturity date of 8 years, assumption that financing repayments will be made solely from dividends declared by Zinoju under the terms of the BEE agreement within 8 years, volatility of 33% and a risk-free interest rate of 5.20%.

Details of the transactions are provided in Note 9 of the Company's annual consolidated financial statements as at and for the period ended February 29, 2012.

Broker warrants

Number of warrants	Number of warrants outstanding exercisable	Grant date	Expiration date	Exercise price	Grant date estimated fair value	Expected volatility	Expected life years	Expected dividend yield	Risk-free interest rate
480,000	480,000	22-Feb-11	22-Feb-13	$ 4.55	$ 1,156,800	100%	2.00	0.00%	1.79%
480,000	**480,000**			**$ 4.55**	**$ 1,156,800**		**2.00**		

For the three months ended May 31, 2012, the diluted weighted average number of common shares outstanding excluded 480,000 warrants, as they were anti-dilutive.

(Presented in Canadian dollars)

18) FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset and financial liability are disclosed in Note 6 of the annual financial statements as at and for the period ended February 29, 2012.

The Company's financial assets and financial liabilities as at May 31, 2012 and February 29, 2012 were as follows:

	Cash, loans and receivables	Assets / (liabilities) at fair value through profit	Other financial assets/(liabilities)	Total
February 29, 2012				
Cash	$ 9,481,078	$ -	$ -	$ 9,481,078
Restricted cash	1,984,890	-	-	1,984,890
Accounts and other receivables	12,920,590	-	-	12,920,590
Other assets	630,928	6,327,393	-	6,958,321
Accounts payable and accrued liabilities	-	-	(9,233,830)	(9,233,830)
Other financial liabilities - current	-	-	(3,896,001)	(3,896,001)
Other financial liabilities - long term	-	-	(20,030,702)	(20,030,702)
Loan payable	$ -	$ -	$ (27,749)	$ (27,749)
May 31, 2012				
Cash	$ 8,113,781	$ -	$ -	$ 8,113,781
Restricted cash	1,863,990	-	-	1,863,990
Accounts and other receivables	11,086,154	-	-	11,086,154
Other assets	426,656	5,731,393	-	6,158,049
Accounts payable and accrued liabilities	-	-	(9,010,986)	(9,010,986)
Other financial liabilities - current	-	-	(3,393,998)	(3,393,998)
Other financial liabilities - long term	-	-	(18,389,352)	(18,389,352)
Loan payable	$ -	$ -	$ (27,463)	$ (27,463)

At May 31, 2012, there are no significant concentrations of credit risk for loans and receivables designated at fair value through the consolidated statement of operations and comprehensive income (loss). The carrying amount reflected above represents the Company's maximum exposure to credit risk for such loans and receivables.

CAPITAL MANAGEMENT

The capital of the Company consists of common shares, warrants and options.

The Company manages and adjusts its capital structure based on available funds in order to support the acquisition, exploration and development of mining properties. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, seek debt financing, or acquire or dispose of assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is not subject to any externally imposed capital requirements with the exception as discussed in Note 14.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no significant changes in the risks, objectives, policies and procedures in the three months ended May 31, 2012 and 2011, except for the Investec loan as discussed in Note 14.

As at May 31, 2012, the capital structure of the Company consists of equity attributable to the owners, share based payment reserves attributable to directors, officers, employees and consultants of the company totalling $81,349,220 (February 29, 2012 -$89,375,435) and an interest bearing loan of $18,711,562 (February 29, 2012 - $20,280,178).

18) FINANCIAL INSTRUMENTS (Continued)

FINANCIAL RISK FACTORS

The Company is exposed to a variety of financial risks.

The Company's overall management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company does not use derivative financial instruments, such as forward exchange contracts, to hedge certain exposures.

(a) Market risk

i. Foreign exchange risk

The Company's functional currency is the Canadian dollar. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the South African Rand ("Rand") and the US dollar. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. The Company purchased its South African Company in Rand and is required to make future payments in Rand. In addition, coal is priced on international markets in United States dollars and converted to Rand to support operations in South Africa.

Management has set up a policy to require its companies to manage their foreign exchange risk against their functional currency. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

A 10% increase (decrease) in the period average foreign exchange rate between the South African rand and the Company's functional currency, the Canadian dollar, would have increased (decreased) the Company's income by approximately $950,000 for the three months ended May 31, 2012. A 10% increase in the period average foreign exchange rate between the United States dollar and Forbes Coal Dundee's functional currency, the South African rand, would have increased (decreased) the Company's income by approximately $930,000 for the period ended May 31, 2012.

A 10% change in the value of the Canadian dollar relative to the US dollar and South African rand would have an impact on net income of approximately $110,000 based on the net assets of the Company at May 31, 2012.

The Company does not currently use derivative financial instruments such as forward exchange contracts to hedge currency risk exposures.

18) FINANCIAL INSTRUMENTS (Continued)

FINANCIAL RISK FACTORS (Continued)

(a) Market risk (continued)

The following assets and liabilities are presented in Canadian dollar values and denominated in different currencies as at May 31, 2012 and February 29, 2012:

	Forbes Coal parent company balances (*) denominated in			Forbes Coal Dundee balances (**) denominated in		Total
	CAD	USD	ZAR	ZAR	USD	
Cash	5,160,970	240	874,732	3,445,136	-	9,481,078
Restricted cash	50,000	296,850	1,638,040	-	-	1,984,890
Accounts and other receivables	420,939	-	32,672	8,675,692	3,791,287	12,920,590
Inventories	-	-	-	3,443,691	-	3,443,691
Prepaid expenses	89,393	-	6,220	-	-	95,613
Property, plant and equipment	-	-	-	81,956,437	-	81,956,437
Intangibles	-	-	-	5,414,498	-	5,414,498
Goodwill	-	-	-	17,506,375	-	17,506,375
Other assets	569,196	-	-	6,389,125	-	6,958,321
Long-term prepaid expenses	176,485	-	286,548	-	-	463,033
Deferred income taxes	-	-	-	326,754	-	326,754
Accounts payable and accrued liabilties	(484,725)	(1,237)	(765,460)	(7,982,408)	-	(9,233,830)
Other financial liabilities - current	-	-	-	(3,896,001)	-	(3,896,001)
Other financial liabilities - long term	-	-	-	(20,030,702)	-	(20,030,702)
Asset retirement obligation - current	-	-	-	(1,053,845)	-	(1,053,845)
Asset retirement obligation - long term	-	-	-	(1,981,829)	-	(1,981,829)
Loans payable	-	-	-	(27,749)	-	(27,749)
Deferred income taxes	-	-	-	(14,312,877)	-	(14,312,877)
Net balance sheet as at February 29, 2012	**$ 5,982,258**	**$ 295,853**	**$ 2,072,752**	**$ 77,872,297**	**$ 3,791,287**	**$ 90,014,447**
Cash	4,555,597	317	1,486,196	2,071,671	-	8,113,781
Restricted cash	50,000	309,870	1,504,120	-	-	1,863,990
Accounts and other receivables	95,444	-	2,558	10,687,802	300,350	11,086,154
Inventories	-	-	-	4,480,598	-	4,480,598
Prepaid expenses	125,001	-	5,814	-	-	130,815
Property, plant and equipment	-	-	34,848	74,283,575	-	74,318,423
Intangibles	-	-	-	4,932,872	-	4,932,872
Goodwill	-	-	-	16,107,609	-	16,107,609
Other assets	200,893	-	-	5,957,156	-	6,158,049
Long-term prepaid expenses	229,682	-	319,340	-	-	549,022
Deferred income taxes	-	-	-	438,696	-	438,696
Accounts payable and accrued liabilties	(347,425)	-	(905,158)	(7,758,403)	-	(9,010,986)
Other financial liabilities - current	-	-	-	(3,393,998)	-	(3,393,998)
Other financial liabilities - long term	-	-	-	(18,389,352)	-	(18,389,352)
Asset retirement obligation - current	-	-	-	(967,686)	-	(967,686)
Asset retirement obligation - long term	-	-	-	(1,845,294)	-	(1,845,294)
Loans payable	-	-	-	(27,463)	-	(27,463)
Deferred income taxes	-	-	-	(12,556,998)	-	(12,556,998)
Net balance sheet as at May 31, 2012	**$ 4,909,192**	**$ 310,187**	**$ 2,447,718**	**$ 74,020,785**	**$ 300,350**	**$ 81,988,232**

(*) Functional currency of Forbes Coal parent company is Canadian dollar
(**) Functional currency of Forbes Coal Dundee is South African rand

18) FINANCIAL INSTRUMENTS (Continued)

FINANCIAL RISK FACTORS (Continued)

(a) Market risk (continued)

ii. Interest rate risk

The Company's interest rate risk arises from deposits held with banks and interest-bearing liabilities. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. A 1% increase in interest rates would create additional expense of approximately $5,000 per month.

iii. Price risk

The Company is exposed to price risk with respect to commodity prices. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for commodities, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities including governmental reserves and stability of exchange rates can all cause significant fluctuations in commodities prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. A 10% change in the market price of coal would have resulted in a corresponding change in revenues of approximately $2,080,000 for the three months ended May 31, 2012.

(b) Credit risk

The Company's credit risk is primarily attributable to cash and accounts and other receivables. Cash consist of deposits, which have been made with reputable financial institutions, from which management believes the risk of loss to be remote. Other receivables primarily consist of amounts owing from coal sales. Management believes that the credit risks concentration with respect to these amounts receivables are remote.

Restricted cash totaling $1,863,990 was primarily on deposit with the First National Bank, to be released to a supplier if payments are not made to them, in GIC investment with Royal Bank of Canada held as collateral against credit card limits used by the Company and in a lawyer's trust account.

(c) Liquidity risk

As at May 31, 2012, the Company had net working capital of $12,275,205 (February 29, 2012 – $13,714,437) which included cash and restricted cash of $9,977,771 (February 29, 2012 – $11,465,968), accounts receivable and other receivables of $11,086,154 (February 29, 2012 – $12,920,590), and inventories of $4,480,598 (February 29, 2012 – $3,443,691), offset by current liabilities of $13,400,133 (February 29, 2012 – $14,211,425).

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through credit facilities. The Company aims to maintain flexibility in funding by keeping committed credit lines available in its operating entities Undrawn committed borrowing are available at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

(d) Fair value of financial instruments

The Company has designated its investments and certain other assets as held-for-trading, measured at fair value. Accounts receivable, other receivables, restricted cash and cash are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, loans payable and other financial liabilities are classified as other financial liabilities, which are measured at amortized cost.

The three levels of the fair value hierarchy are as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(Presented in Canadian dollars)

18) FINANCIAL INSTRUMENTS (Continued)

FINANCIAL RISK FACTORS (Continued)

(d) Fair value of financial instruments (continued)

As at May 31, 2012, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the limited term of these instruments. The following table illustrates the classification of the Company's financial instruments within the fair-value hierarchy as at May 31, 2012 and February 29, 2012:

May 31, 2012	Level 1	Level 2	Level 3
Endowment policy and investments	$ 200,893	$ -	$5,530,500

February 29, 2012	Level 1	Level 2	Level 3
Endowment policy and investments	$ 569,196	$ -	$5,758,197

19) RELATED PARTY DISCLOSURE

During the period, the Company entered into the following transactions in the ordinary course of business with related parties:

	Sales of goods and services for the three months ended		Purchases of goods and services for the three months ended	
	May 31, 2012	May 31, 2011	May 31, 2012	May 31, 2011
2227929 Ontario Inc.	$ -	$ -	$ 149,918	$ 68,094
Forbes & Manhattan Inc	$ -	$ -	$ 101,700	$ 50,850
Stan Bharti	$ -	$ -	$ -	$ 50,850
Forbes Coal Dundee related parties	$ -	$ 850,688	$ -	$ 1,206,514

The Company shares office space with other companies who may have officers or directors in common with the Company. The costs associated with this space, certain consulting, professional and general and administration services are administered by 2227929 Ontario Inc.

Mr. Stan Bharti, a director of the Company, is the Executive Chairman of Forbes & Manhattan, Inc. An administration fee of $15,000 per month was previously charged by Forbes & Manhattan, Inc. pursuant to a consulting agreement. Effective September 1, 2011, the contract with Forbes & Manhattan, Inc. was increased to $30,000 per month.

As a result of Forbes Coal Dundee acquisition, business relationships with certain parties were inherited, which were considered as related parties up until February 29, 2012.

The following balances were outstanding at the end of the reporting period:

	Amounts owed by related parties as at		Amounts owed to related parties as at	
	May 31, 2012	February 29, 2012	May 31, 2012	February 29, 2012
2227929 Ontario Inc.	$ 60,633	$ 41,584	$ -	$ -
Forbes Coal Dundee related parties	$ -	$ 42,572	$ -	$ 27,749

Also as a result of Forbes Coal Dundee acquisition, Forbes Coal acquired receivables and payables owed from the former Forbes Coal Dundee shareholders and their related parties, which were considered as related parties up until February 29, 2012.

These amounts are unsecured, non-interest bearing with no fixed terms of repayment. The related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(Presented in Canadian dollars)

19) RELATED PARTY DISCLOSURE (Continued)

Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the period were as follows:

	Three months ended	
	May 31, 2012	May 31, 2011
Short-term benefits	$ 296,489	$ 314,973
Share-based payments	-	1,617,000
	$ 296,489	**$ 1,931,973**

20) COMMITMENTS AND CONTINGENCIES

Management contracts

The Company is party to certain management contracts. These contracts require that additional payments of approximately $2,400,000 be made upon the occurrence of a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Minimum commitments remaining under these contracts were approximately $420,000 all due within one year.

Instalment sale agreements payment obligations

The Company is committed to minimum amounts under instalment sale agreements for plant and equipment. Minimum commitments remaining under these leases were $3,071,788 over the following years:

Year	Amount
2013	$ 428,483
2014	2,544,842
2015	98,463
	$ 3,071,788

Environmental contingency

The Company's mining and exploration activities are subject to various federal, provincial and international laws and regulations governing the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

Throughput, transportation and sales contracts

The Company is party to certain throughput, transportation and sales contracts. As the likelihood of full non-performance by the Company on these contracts is not determinable, the contingent payments have not been reflected in these consolidated financial statements.

Investec loan facility

Please refer to Notes 14 and 21.

21) SUBSEQUENT EVENTS

Subsequent to May 31, 2012 the Company made a drawdown on the Investec loan facility for the amount of ZAR 46,860,000 (approximately $5,700,000). The Company has available for drawdown facility of ZAR 30,000,000 (approximately $3,700,000).