FORBES & MANHATTAN COAL CORP.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 28, 2014 and February 28, 2013
(Presented in Canadian Dollars)

McGovern, Hurley, Cunningham, LLP
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Forbes & Manhattan Coal Corp.

We have audited the accompanying consolidated financial statements of Forbes & Manhattan Coal Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at February 28, 2014 and 2013, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

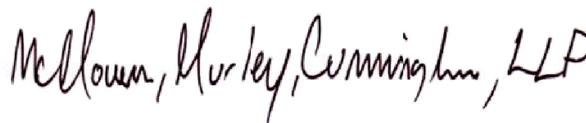
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Forbes & Manhattan Coal Corp. and its subsidiaries as at February 28, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2.1 in the consolidated financial statements which indicates that the Company has continued to incur losses during the year ended February 28, 2014 and has a working capital deficiency as at February 28, 2014. The Company has a significant need for equity capital and financing for operations and working capital. These conditions along with other matters set forth in Note 2.1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
May 27, 2014

FORBES & MANHATTAN COAL CORP.
Consolidated Statements of Financial Position
(Presented in Canadian Dollars)

	Notes	February 28, 2014	February 28, 2013
Assets			
Non-current assets			
Property, plant and equipment	9	59 362 937	69 796 122
Intangible assets	10	1 187 422	3 716 592
Goodwill	10	-	15 239 856
Investment in financial assets	11	2 434 158	2 644 873
Other receivables	13	403 274	379 211
Long-term restricted cash		-	1 421 040
Total non-current assets		63 387 791	93 197 694
Current assets			
Trade and other receivables	13	8 008 037	6 126 823
Inventories	14	7 572 445	10 153 759
Current portion of investment in financial assets	11	-	1 879 946
Interest bearing receivables	15	3 007 295	5 319 187
Non-interest bearing receivables	15	155 258	117 196
Taxation receivable		940 689	2 130 243
Restricted cash	16	1 794 707	50 000
Cash and cash equivalents	17	1 504 969	3 025 664
Total current assets		22 983 400	28 802 818
Total assets		86 371 191	122 000 512
Equity and liabilities			
Capital and reserves			
Share capital	18	97 918 086	97 342 142
Reserves	19	3 391 924	7 387 684
Currency translation reserve		(23 736 835)	(18 641 130)
Accumulated retained loss		(44 287 807)	(19 703 918)
Equity attributable to owners of the company		33 285 368	66 384 778
Non-controlling interest		639 012	639 012
Total equity		33 924 380	67 023 790
Non-current liabilities			
Borrowings	20	9 414 759	14 568 444
RCF loan facilities	21	5 251 600	-
Conversion option	21	807 895	-
Asset retirement obligation	22	3 295 092	3 388 467
Deferred tax liability	12	4 871 490	9 424 320
Total non-current liabilities		23 640 836	27 381 231
Current liabilities			
Trade and other payables	23	17 560 697	16 590 646
Current portion of Borrowings	20	6 767 696	10 674 912
Current portion of RCF loan facilities	21	4 202 635	-
Loans payable		-	24 616
Current portion of asset retirement obligation	22	274 947	305 317
Current liabilities		28 805 975	27 595 491
Total liabilities		52 446 811	54 976 722
Total equity and liabilities		86 371 191	122 000 512

Approved on behalf of the Board:

Signed "Craig Wiggill", Director *Signed "Bernie Wilson", Director*

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

FORBES & MANHATTAN COAL CORP.
Consolidated Statements of Profit or Loss and Other Comprehensive Income
(Presented in Canadian Dollars)

	Notes	February 28, 2014	February 28, 2013
Revenue		**72 342 739**	68 496 578
Cost of sales	**5**	**(74 616 717)**	(67 557 834)
Gross (loss)/profit		**(2 273 978)**	938 744
Other (expense)/income - net	**6**	**(17 686 308)**	(2 589 231)
General and adminstration expenses	**5**	**(8 554 619)**	(11 009 320)
Loss before the undernoted		**(28 514 905)**	(12 659 807)
Finance income	**7**	**338 057**	588 991
Finance expense	**7**	**(2 546 287)**	(2 186 083)
Loss before income tax		**(30 723 135)**	(14 256 899)
Income tax benefit	**8**	**1 767 696**	4 107 878
Loss for the year		**(28 955 439)**	(10 149 021)
Other comprehensive loss - currency translation		**(5 095 705)**	(12 534 600)
Total comprehensive loss for the year		**(34 051 144)**	(22 683 621)
Profit attributable to:			
- Owners of the parent		**(34 051 144)**	(22 683 621)
- Non-controlling interest		**-**	-
		(34 051 144)	(22 683 621)
Net loss per share - basic and diluted		**(0.8)**	(0.3)
Headline loss per share - basic and diluted		**(0.8)**	(0.3)
Weighted average number of common shares outstanding:			
- Basic		**34 873 429**	34 752 538
- Diluted		**34 873 429**	34 752 538

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

FORBES & MANHATTAN COAL CORP.

Consolidated Statements of Changes in Equity

(Presented in Canadian Dollars)

	Notes	Attributable to owners of the company									Non-controlling interest	Total equity
		Number of shares issued	Share capital	Reserves				Accumulated retained loss	Currency translation reserve	Total		
				Warrant reserve	Option reserve	BEE option reserve	Treasury shares					
Balance at March 1, 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	639 012	90 014 447
Repurchase of shares		-	-	-	-	-	(286 966)	-	-	(286 966)	-	(286 966)
Cancellation of repurchased shares		(479 682)	(1 450 784)	-	-	-	286 966	1 163 818	-	-	-	-
Stock-based compensation		-	-	-	38 304	-	-	-	-	38 304	-	38 304
Stock options expired		-	-	-	(1 709 090)	-	-	1 709 090	-	-	-	-
Broker warrants expired		-	-	(2 149 853)	-	-	-	2 149 853	-	-	-	-
Dividends declared to BEE partners		-	-	-	-	-	-	(58 374)	-	(58 374)	-	(58 374)
Other comprehensive loss for the year		-	-	-	-	-	-	-	(12 534 600)	(12 534 600)	-	(12 534 600)
Net loss for the year		-	-	-	-	-	-	(10 149 021)	-	(10 149 021)	-	(10 149 021)
Balance at February 28, 2013		34 386 035	97 342 142	-	6 142 155	1 245 529	-	(19 703 918)	(18 641 130)	66 384 778	639 012	67 023 790
Shares issued in relation to convertible RCF loan facilities	**18**	**3 041 047**	**575 944**	**-**	**-**	**-**	**-**	**-**	**-**	**575 944**	**-**	**575 944**
Stock-based compensation	**19**	**-**	**-**	**-**	**375 790**	**-**	**-**		**-**	**375 790**	**-**	**375 790**
Stock options expired	**19**	**-**	**-**	**-**	**(4 371 550)**	**-**	**-**	**4 371 550**	**-**	**-**	**-**	**-**
Other comprehensive loss for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5 095 705)**	**(5 095 705)**	**-**	**(5 095 705)**
Net loss for the year		**-**	**-**	**-**	**-**	**-**	**-**	**(28 955 439)**	**-**	**(28 955 439)**	**-**	**(28 955 439)**
Balance at February 28, 2014		**37 427 082**	**97 918 086**	**-**	**2 146 395**	**1 245 529**	**-**	**(44 287 807)**	**(23 736 835)**	**33 285 368**	**639 012**	**33 924 380**

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

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

	Notes	February 28, 2014	February 28, 2013
Cash flows from operating activities			
Cash generated from operations	**26**	**646 188**	903 060
Interest received		**113 483**	418 846
Interest paid		**(1 979 006)**	(2 175 156)
Taxation recovery		**929 194**	1 297 120
Net cash (utilized in)/generated from operating activities		**(290 141)**	443 870
Cash flows from investing activities			
Purchase of financial assets	**11**	**(823 450)**	(1 271 837)
Proceeds from maturity of financial assets	**11**	**2 823 244**	2 413 436
Purchase of property, plant and equipment	**9**	**(6 369 942)**	(6 903 790)
Proceeds from the disposal of property, plant and equipment		**761 416**	-
Deposit on cancelled Riversdale Acquisition	**27**	**-**	(5 440 544)
Increase in non-interest bearing receivables		**(50 577)**	-
Movement in restricted cash		**(504 689)**	296 850
Net cash utilized in investing activities		**(4 163 998)**	(10 905 885)
Cash flows from financing activities			
Proceeds from RCF loan facilities		**10 727 200**	-
Issuance costs relatec to the RCF loan facilities		**(643 965)**	-
Proceeds from borrowings		**-**	9 190 335
Repayment of borrowings		**(6 662 702)**	(4 318 007)
Movement in loans payable		**(24 616)**	(191 316)
Payments to BEE partners		**-**	(58 375)
Repurchase of shares under NCIB		**-**	(286 966)
Change in non-current accounts receivable		**-**	175 996
Net cash generated from financing activities		**3 395 917**	4 511 667
Net decrease in cash and cash equivalents		**(1 058 222)**	(5 950 348)
Cash at beginning of the year		**3 025 664**	9 481 075
Exchange losses on cash and cash equivalents		**(462 473)**	(505 063)
Cash at the end of the year		**1 504 969**	3 025 664

Non-cash investing and financing transactions

	Notes	February 28, 2014	February 28, 2013
Common shares issued in settlement of the establishment fees relating to the RCF loan facilities	**18**	**408 662**	-
Common shares issued in settlement of the interest owing on the RCF loan facilities	**18**	**167 282**	-
Total		**575 944**	**-**

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

1) NATURE OF OPERATIONS

Forbes & Manhattan Coal Corp. (individually, or collectively with its subsidiaries, as applicable, the “Company” or the "Group") is a coal mining company incorporated in Ontario, Canada. The Company is listed on the Toronto Stock Exchange (“TSX”) and the Johannesburg Stock Exchange (“JSE”). The registered office of the Company is Brookfield Place, Bay/Wellington Tower, 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3. The head office of the Company is located at Portion 3rd Floor, Building 13, Woodlands Office Park, Cnr Woodlands & Kelvin Drive, Woodmead, Johannesburg, South Africa, 2052. These consolidated financial statements were approved and authorized for issue by the Board of Directors on May 27, 2014.

The Company owns a 100% interest in Forbes Coal Proprietary Limited (“FC Dundee”), a South African company that holds an interest in coal mines in South Africa. FC Dundee holds a 70% interest in Zinoju Coal Proprietary Limited (“Zinoju”) which holds the mineral rights relating to the mining properties. The properties comprise of the operating Magdalena and newly opened Alleen bituminous mines (collectively “Magdalena”) and the Aviemore anthracite mine (“Aviemore”) which are engaged in open-pit and underground coal mining. The remaining 30% interest in Zinoju is held by 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 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, land claims and non-compliance with regulatory and environmental requirements.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These annual consolidated financial statements of the Group were prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), and have been prepared in accordance with accounting policies based on the IFRS standards and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations. The policies set out below were consistently applied to all the years presented unless otherwise noted below.

The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets at fair value through profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Group will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has a significant need for equity capital and financing for operations and working capital. Because of continuing operating losses and a working capital deficiency, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. During the financial year, the Company closed a secured US$6,0 million ($6,6 million) convertible loan and US$4,0 million ($4,4 million) bridge loan (note 21). If additional financing, as described in note 21, does not come to fruition there is significant uncertainty about the Company's ability to continue as a going concern.

If the going concern assumption was not appropriate for these consolidated financial statements then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications. Such adjustments could be material.

References to "R" mean South African Rands and to "US$" mean United States Dollars. Amounts stated in South African Rands have been translated to Canadian Dollars at R1:$0.1032 and amounts stated in US Dollars have been translated to Canadian Dollars at US$1: $1.1074, unless otherwise stated.

2.2 New standards, amendments and interpretations

The following standards, amendments and interpretations are issued and effective for the first time for the February 28, 2014 financial year-end:

Amendments to IAS 1, 'Presentation of Financial Statements', on presentation of items of other comprehensive income ("OCI")
The IASB has issued an amendment to IAS 1, 'Presentation of Financial Statements'. The main change resulting from this amendment is a requirement for entities to classify group items presented in OCI on the basis of whether they are potentially classifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in OCI. This amendment has had no significant impact on the Group.

Amendment to IAS 1, 'Presentation of Financial Statements'
This amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet either: as required by IAS 8, 'Accounting policies, changes in accounting estimates and errors'; or voluntarily. This amendment has had no impact on the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New standards, amendments and interpretations (continued)

The following standards, amendments and interpretations are issued and effective for the first time for the February 28, 2014 financial year-end (continued):

Amendment to IFRS 7, 'Financial Instruments: Disclosures' – Asset and Liability offsetting
The IASB has published an amendment to IFRS 7, 'Financial instruments: Disclosures', reflecting the joint requirements with the Financial Accounting Standards Board ("FASB") to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare financial statements in accordance with United States Generally Accepted Accounting Practices ("US GAAP"). This amendment has had no impact on the Group.

IFRS 10 – 'Consolidated Financial Statements'
This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a Group consolidates as its subsidiaries. The adoption of the new standard has not had a significant impact on the Group.

IFRS 11 – 'Joint Arrangements'
This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The adoption of the new standard has had no impact on the Group.

IFRS 12 – 'Disclosures of Interests in Other Entities'
This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The provisions of IFRS 12 have been adopted and are reflected in the notes to the annual financial statements. The adoption of the new standard has had no impact on the Group.

IFRS 13 – 'Fair Value Measurement'
This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP. The provisions of IFRS 13 have been adopted and are reflected in the notes to the annual financial statements. Refer to note 3.5.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New standards, amendments and interpretations (continued)

The following standards, amendments and interpretations are issued and effective for the first time for the February 28, 2014 financial year-end (continued):

Amendment to the transition requirements in IFRS 10, IFRS 11, and IFRS 12
The amendment clarifies that the date of initial application is the first day of the annual period in which IFRS 10 is adopted − for example, January 1, 2013 for a calendar-year entity that adopts IFRS 10 in 2013. Entities adopting IFRS 10 should assess control at the date of initial application; the treatment of comparative figures depends on this assessment. The amendment also requires certain comparative disclosures under IFRS 12 upon transition. There has been no impact on the Group.

IAS 19, 'Employee Benefits'
The IASB has issued an amendment to IAS 19, 'Employee benefits', which makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. This amendment has not had a significant impact on the Group.

IAS 27 (revised 2011) – 'Separate Financial Statements'
This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. There has been no significant impact on the Group.

IAS 28 (revised 2011) – 'Associates and Joint Ventures'
This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. There has been no significant impact on the Group.

Amendment to IAS 32, 'Financial Instruments: Presentation'
The amendment clarifies the treatment of income tax relating to distributions and transaction costs. The amendment clarifies that the treatment is in accordance with IAS 12. Income tax related to distributions is recognized in profit and loss, and income tax related to the costs of equity transactions is recognized in equity. This amendment has had no impact on the Group.

Amendment to IAS 34, 'Interim Financial Reporting'
The amendment brings IAS 34 into line with the requirements of IFRS 8, 'Operating segments'. A measure of total assets and liabilities is required for an operating segment in interim financial statements if such information is regularly provided to the Chief Operating Decision Maker ("CODM") and there has been a material change in those measures since the last annual financial statements. This amendment has had no impact on the Group.

IFRIC 20 – 'Stripping Costs in the Production Phase of a Surface Mine'
In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'. The Interpretation clarifies there can be two benefits accruing to an entity from stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. The Interpretation considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently. This amendment has had no significant impact on the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New standards, amendments and interpretations (continued)

The following standards, amendments and interpretations are issued but not yet effective for the February 28, 2014 financial year-end:

IFRS 9 – 'Financial Instruments' (2009) - effective January 1, 2018
This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortized cost and fair value.

IFRS 9 – 'Financial Instruments' (2010) - effective January 1, 2018
The IASB has updated IFRS 9, 'Financial instruments' to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognizing financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss.

Amendments to IFRS 9 – 'Financial Instruments' (2011) - effective January 1, 2018
The IASB has published an amendment to IFRS 9, 'Financial instruments' that delays the effective date to annual periods beginning on or after January 1, 2018. The original effective date was for annual periods beginning on or after January 1, 2013. This amendment is a result of the board extending its timeline for completing the remaining phases of its project to replace IAS 39 (for example, impairment and hedge accounting) beyond June 2011, as well as the delay in the insurance project. The amendment confirms the importance of allowing entities to apply the requirements of all the phases of the project to replace IAS 39 at the same time. The requirement to restate comparatives and the disclosures required on transition have also been modified.

Amendments to IAS 32 – 'Financial Instruments: Presentation' – effective January 1, 2014
The IASB has issued amendments to the application guidance in IAS 32, 'Financial instruments: Presentation', that clarify some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position. However, the clarified offsetting requirements for amounts presented in the statement of financial position continue to be different from US GAAP.

IASB issues narrow-scope amendments to IAS 36 – 'Impairment of Assets' – effective January 1, 2014
These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal.

Amendments to IAS 39 – Financial Instruments: Recognition and Measurement – effective January 1, 2014
The IASB has issued amendments to IAS 39 in June 2013 to clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting.

2.3 Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, FC Dundee, Zinoju, Zinoju Rehabilitation Trust ("the Trust"), Corondale Prospecting and Mining Company Pty Ltd (in the process of being deregistered) and Bowwood and Main No 33 Proprietary Limited ("Bowwood").

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Consolidation (continued)

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition- by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to OCI. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits or losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Consolidation (continued)

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in OCI in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, which has been identified as the Board of Directors.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Canadian Dollars, which is the Group's presentation currency and the Company's functional currency. The functional currency of the Company's subsidiaries, namely FC Dundee, Zinoju, the Trust and Bowwood, is South African Rand.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Foreign exchange gains and losses are presented in profit or loss within "Other (expenses)/income – net".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Foreign currency translation (continued)

(c) Group companies

The assets and liabilities of the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency at the closing rate at the statement of financial position date. The income and expenses are translated at the average exchange rate for the period. The resulting unrealized foreign exchange gain or loss is recognized in other comprehensive income or loss.

2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation of mining assets is calculated using the units-of-production ("UOP") method based on total run of mine tons of coal expected to be mined per the life-of-mine plan ("LOM"). Depreciation on the remaining assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Mining assets	5 to 15 years
Office equipment and fixtures and fittings	3 to 6 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in profit or loss.

(a) Mineral rights

Mineral rights are recorded at cost. This includes costs incurred to explore, sample, drill and perform feasibility tests when incurred before the research proves the land to be technically feasible and commercially viable, at which point the costs are reclassified as mining assets within property, plant and equipment. Exploration and evaluation costs incurred before mineral rights are acquired are expensed in profit or loss. Depreciation of mineral rights is calculated using the UOP method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree, at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses.

(b) Richards Bay Coal Terminal ("RBCT") entitlements

Depreciation of the RBCT entitlements is calculated using the UOP method based on total run of mine tons of coal expected to be mined per the LOM.

2.8 Leased assets

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the estimated present value of the underlying lease payment. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in interest bearing borrowings. The interest element of the finance charges is charged to the profit or loss over the lease period. Property, plant and equipment acquired under finance leasing contracts are depreciated over the useful lives of the assets.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.9 Impairment of non-financial assets

At least annually, or when events and circumstances warrant a review, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. The carrying value of an asset is considered to be impaired when the recoverable amount of such an asset is less than its carrying value. In this instance, a loss is recognized based on the amount by which the carrying value exceeds the recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets (including goodwill) are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable willing parties, less the costs of disposal.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of non-financial assets (continued)

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless it relates to goodwill, in which case it is not reversed.

2.10 Financial instruments

2.10.1 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss and as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as such unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months, otherwise they are classified as non-current. The Group's financial assets held for trading comprise of 'cash equivalents', 'endowment policies' (which matured during the 2014 financial year) and 'other long-term investments' which are included in 'investments in financial assets' in the statement of financial position.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the statement of financial position date, which are classified as non-current assets. The Group's loans and receivables comprise of 'trade and other receivables', 'cash' and 'long term receivables', interest and non-interest bearing receivables in the statement of financial position.

(c) Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade-date, being the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in profit or loss. Loans and receivables are initially carried at fair value and subsequently at amortized cost using the effective interest rate method. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in profit or loss within 'Other (expenses)/income – net'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

2.10.1 Financial assets (continued)

(d) Impairment

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables (Refer to note 2.12).

(e) Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

2.10.2 Financial liabilities

Financial liabilities are classified as other financial liabilities and include borrowings, RCF loan facilities, loans payable and trade and other payables. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

The Group derecognizes financial liabilities when the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

2.10.3 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible loans that can be converted to share capital at the option of the holder. The instrument is classified separately as a financial liability and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

2.10.3Compound financial instruments (continued)

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to issued capital. When the conversion option remains unexercised at the maturity date of the convertible note, the balance recognized in equity will be transferred to retained earnings/loss. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible loans are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transactions costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible loans using the effective interest rate method.

2.10.4Derivative financial instruments

Derivatives are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. The Group's derivative instruments are not designated as hedging instruments and do not qualify for hedge accounting. Accordingly, changes in the fair value of the derivative instruments are recognized immediately in profit or loss within 'Other (expense)/income – net'.

2.11 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity. In this case, the tax is recognized directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Current and deferred income tax (continued)

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.12 Trade and other receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables and is recognized in profit or loss within 'operating expenses'. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. When a trade receivable is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited against 'operating expenses' in of profit or loss.

2.13 Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first in, first out (FIFO) method. The cost of finished goods and work in progress comprises operating costs which are absorbed into stock on hand, based on the level of extraction during the period in which such stock was mined and the costs incurred during such period. Overheads are allocated on the same basis. Inventories exclude borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees and consultants as consideration for equity instruments (options) of the Group. The fair value of the employee and consulting services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted and is recognized within expenses in profit or loss. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognized the impact of the revision in the income statement, with a corresponding adjustment to equity. For those options which vest immediately and are subsequently cancelled, the adjustments are made directly in equity between the reserves and retained loss.

The fair value of common shares issued as compensation is based on the most recent private placement value or the quoted market price.

The fair value of stock options and compensation warrants is determined using the Black-Scholes option-pricing model. The compensation expense is recognized over the vesting period. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the vesting conditions. The Group recognizes the impact of the revision to original estimates in profit or loss, with a corresponding adjustment to equity.

When the options and warrants are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs, together with any related amount in reserves, are credited to share capital.

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

2.17 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

The Group’s provisions consist of an asset retirement obligation (“ARO”), which is measured at the present value of the amount expected to be required to settle the obligation using a risk-free rate that reflects the rate of interest on monetary assets that are essentially free of default risk, adjusted for the effect of any entity’s credit standing.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Provisions (continued)

Future costs to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site, are recognized and recorded as a provision for close down rehabilitation costs at fair value in the accounting period in which the legal obligation arising from the disturbance occurs. The liability is accreted over time through periodic charges to operations. The fair value of the costs is capitalized as part of the assets' carrying value and amortized over the assets' estimated useful lives.

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of coal in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

(a) Sale of coal

The Group extracts, washes and sells coal. Sales of coal is recognized when the entity has delivered products to the customer, the customer has full discretion over the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have either been shipped, (for certain foreign sales), or the date upon which the goods are delivered to the customer, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) Interest income

Interest income is recognized on a time-proportion basis using the effective interest rate method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

(c) Other income

Other income is recognized on an accrual basis and comprises primarily of foreign exchange gains and losses, profit on sale of assets and scrap sales.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Employee benefits

(a) Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as an employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

(b) Short-term employee benefits

The cost of short-term employee benefits (those payable within twelve months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical, are recognized in the period in which the service is rendered and are not discounted.

2.20 Borrowings

Borrowings are recognized initially at the fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest rate method, any difference between proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

2.21 Loss per share

Basic loss per common share has been computed by dividing the loss applicable to common shareholders by the weighted-average number of common shares outstanding during the representative period. Diluted loss per common share is determined under the assumption that deemed proceeds on the exercise of stock options and other dilutive instruments are considered to be used to reacquire common shares at the average price for the period with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share. As at February 28, 2014 outstanding options, loans and warrants, as well as the potential shares issuable with regards to the RCF convertible loan, referred to in Note 21, were excluded from the diluted loss per share calculation as they were anti-dilutive.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Loss per share (continued)

Headline earnings (loss) per share is a basis for measuring earnings per share accounts for all the profits and losses from operational, trading, and interest activities, that have been discontinued or acquired at any point during the year. Excluded from this figure are profits or losses associated with the sale or termination of discontinued operations, fixed assets or related businesses, or from any permanent devaluation or write off of their values. For the 2014 financial year, the Company's headline loss per share was adjusted for the profit on sale of property, plant and equipment of $0,7 million (2013: Nil).

2.22 Comparative figures

Certain comparative amounts have been reclassified to conform to the current year's presentation.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks such as currency risk, price risk, cash flow interest rate risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by Group finance under policies approved by the Board of Directors. The Group identifies, evaluates and manages financial risks in close co-operation with the Group's subsidiaries.

3.2 Market risk

(a) Foreign exchange risk

The Company's functional currency is the Canadian Dollar. The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures with respect to the US Dollar and South African Rand. The Group's foreign exchange risk arises primarily from the sale of coal, based on the API 4 coal index in US Dollars to foreign customers converted to Rands, the Group's Investec loan facilities, which are denominated in South African Rand and other external loans denominated in US Dollars.

The Group enters into foreign exchange contracts to buy and sell specified amounts of US Dollars in the future at a predetermined exchange rate. The contracts are entered into in order to manage the Group's exposure to fluctuations in foreign currency exchange rates on specific transactions. The sales and purchase contracts are matched with anticipated future cash flows in foreign currencies primarily from sales and purchases. There were no open forward exchange contracts at February 28, 2014. At February 28, 2013 the settlement dates of open foreign exchange contracts were within one month.

At February 28, 2014, a 10% increase/(decrease) in the period average foreign exchange rate between the Canadian Dollar and the South African Rand, would have increased/(decreased) the Group's profit or loss and equity by approximately $0,7 million (2013: $0,7 million).

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

(a) Foreign exchange risk (continued)

A 10% increase in the period average foreign exchange rate between the Canadian Dollar and the US Dollar, would have increased/(decreased) the Group's income by approximately $1,1 million (2013: Nil) and a 10% increase in the period average foreign exchange rate between the South African Rand and US Dollar would have increased/(decreased) the Group's income by approximately $0,4 million (2013: $2,8 million).

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 $1,9 million.

(b) Price risk

The Group is exposed to commodity price risk, primarily due to fluctuations in the API 4 coal index, by which foreign coal sales are priced. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Group'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 rate can all cause significant fluctuations in commodity 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 API 4 coal index would have resulted in a corresponding change in exported coal revenue of approximately $3,2 million (2013: $6,9 million).

(c) Cash flow interest rate risk

The Group's interest rate risk arises from deposits held with banks and interest-bearing liabilities. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. During 2014 and 2013 the Group's borrowings at variable rates were denominated in South African Rands.

Based on the simulations performed, the impact on profit or loss of a 1% shift of interest rates on borrowings would be a maximum increase/(decrease) in expense of $0,2 million (2013: $0,2 million).

3.3 Credit risk

Credit risk is managed at Group level, except relating to trade receivables which is managed at an operational level. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions (refer notes 13 and 17, respectively). For banks and financial institutions, only independently rated parties with a minimum rating of 'BB' are accepted. If customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The utilization of credit limits is regularly monitored.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Credit risk (continued)

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

Restricted cash totaling $1,8 million was on deposit with First National Bank ("FNB") to be released to the relevant counterparties if payments are not made to them.

3.4 Liquidity risk

Cash flow forecasting is performed by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt/equity financing plans, covenant compliance and external legal requirements.

Below is an analysis of the Group's non-derivative financial liabilities disclosed in maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Not later than 1 year	Between 1 and 5 years	Greater than 5 years
At 28 February 2014			
Borrowings	**6 767 657**	**9 414 759**	**-**
RCF loan facilities	**4 429 600**	**6 644 400**	**-**
Trade and other payables	**17 560 697**	**-**	**-**
At 28 February 2013			
Borrowings	10 674 912	14 568 444	-
Trade and other payables	16 590 646	-	-
Loans payable	24 616	-	-

3.5 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statements of financial position) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt.

3 FINANCIAL RISK MANAGEMENT (continued)

The gearing ratios at February 28, 2014 and February 28, 2013 were as follows:

	February 28, 2014	February 28, 2013
Total borrowings	**26 444 585**	25 243 356
Less: cash and cash equivalents	**(1 504 969)**	(3 025 664)
Net debt	**24 939 616**	22 217 692
Total equity	**33 924 380**	67 023 790
Total capital	**58 863 996**	89 241 482
Gearing ratio	**42%**	25%

Included within total borrowings is a convertible loan of $6,6 million. The Company is not subject to any externally imposed capital requirements with the exception as discussed in Note 20 and 21. There have been no significant changes in the risks, objectives, policies and procedures in the twelve months ended February 28, 2014 and 2013, except for the Investec loan as discussed in Note 20 and 30 and the RCF loan facilities as discussed in Note 21.

3.6 Fair value estimation

Financial instruments carried at fair value are assigned to different levels of the fair value hierarchy, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (level 3).

The long-term investments and security investments are classified within level 1, and endowment policies (which matured during the 2014 financial year) were classified within level 3 of the fair value hierarchy as the inputs required to determine fair value of the investment are actuarially determined and not supported by market activity. Refer to note 11 for analysis of investments in financial assets.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires the Group's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes thereto. Although these estimates are based on management's best knowledge of the amounts, events 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 the carrying values and amounts include, but are not limited to:

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.1 Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.9. The recoverable amounts of cash generating units have been determined based on the fair value less costs to sell. These calculations require the use of estimates.

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, depreciation of the US Dollar relative to the South African Rand, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics could result in a write-down of the carrying amounts of the Group's assets.

An impairment loss of $15,7 million arose at the FC Dundee level during the course of the 2014 financial year, resulting in the carrying amount of goodwill and certain intangible assets being written down to its recoverable amount. If the weighted average cost of capital had been 2% higher than management's estimates, the Group would have recognized a further impairment of $0,4 million. If the API 4 coal index had been 2% lower than management's estimates, the Group would have recognized a further impairment of $4,3 million.

4.2 Provisions

Significant judgment and use of assumptions is required in determining the Group's provision. Management uses its best estimates based on current knowledge in determining the amount to be recognized as a provision. Key assumptions utilized in the determination of the rehabilitation provision, which is measured at fair value, include the estimated life of mine, estimates of reserves and discount rates. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of the liability 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.

4.3 Property, plant and equipment and mineral rights

The Group makes use of experience and assumptions in determining the useful lives and residual values of property, plant and equipment and mineral rights. Management reviews annually whether any indications of impairment exist for property, plant and equipment and mineral rights. Information that the Group considers includes changes in the market, economic and legal environment in which the Group operates as well as internal sources of information.

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, depreciation of US Dollar relative to the South African Rand, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics could result in a write-down of the carrying amounts of the Group's assets.

No impairment exists at February 28, 2014 as a result of Management's review.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.4 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 judgment, management has assessed various sources of information including but not limited to the geological 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.

4.5 Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing deferred 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 forecast cash flows from operations and the application of existing tax laws in South Africa.

4.6 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 could materially affect the fair value estimates.

4.7 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 Group’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, foreign exchange rates and market conditions could have a material effect the Group’s reserves and resources, and as a result, could also have a material effect on the Group’s financial position and results of operation.

4.8 Contingencies

Refer to Note 29.

5 NATURE OF EXPENSES

	February 28, 2014	February 28, 2013
Raw materials and consumables	**4 909 880**	4 011 823
Changes in inventories	**10 485 077**	8 658 866
Mining overheads	**1 141 258**	1 188 026
Depreciation and amortization	**10 592 322**	9 969 678
Repairs and maintenance	**7 610 539**	6 359 928
Salaries and wages	**21 841 284**	22 274 914
Social development expenditure	**374 613**	603 692
Royalty tax expense	**591 776**	607 338
Provision for bad debts	**183 322**	(8 037)
Auditor's remuneration	**417 908**	365 522
Write-down of inventory to net realizable value	**1 002 207**	734 638
Transport costs - internal	**3 109 206**	2 664 571
Railage, handling and wharfage	**13 644 594**	13 588 168
Legal, consulting and other professional fees	**3 580 745**	4 708 605
Stock-based compensation	**375 790**	38 304
Mineral properties investigation costs	**-**	614 012
Other expenses	**3 310 815**	2 187 106
Total	**83 171 336**	78 567 154
Cost of sales	**74 616 717**	67 557 834
General and adminstration expenses	**8 554 619**	11 009 320
Total	**83 171 336**	78 567 154

6 OTHER (EXPENSE)/INCOME – NET

	February 28, 2014	February 28, 2013
Foreign exchange loss/(gain)-net	**(1 747 838)**	(2 673)
Impairment of escrow funds	**(1 968 153)**	-
Impairment of goodwill and intangible assets	**(15 687 238)**	-
Net profit on disposal of property, plant and equipment	**665 275**	-
Scrap sales	**70 746**	115 361
Fair value adjustment on financial assets	**391 105**	587 742
Unrealized marked to market gain on securities	**(33 482)**	(508 929)
Fair value adjustment on conversion option (note 21)	**215 734**	-
Other income	**407 543**	(2 780 732)
Total	**(17 686 308)**	(2 589 231)

7 FINANCE INCOME AND EXPENSE

	February 28, 2014	February 28, 2013
Finance income		
Cash and restricted cash	**338 057**	418 846
Interest on provision	**-**	170 145
Total	**338 057**	588 991
Finance expense		
Interest bearing borrowings	**(1 823 737)**	(2 175 156)
Interest on the RCF loan facilities	**(299 826)**	-
Unwinding discount on asset retirement obligation	**(152 263)**	(10 896)
Loan accretion	**(248 049)**	-
Other	**(22 412)**	(31)
Total	**(2 546 287)**	(2 186 083)

8 INCOME TAX

Income tax expense is comprised as follows:

	February 28, 2014	February 28, 2013
Current tax:		
Current tax on profits - South Africa	**-**	(20 475)
Deferred taxes	**1 767 696**	4 128 353
Income tax benefit	**1 767 696**	4 107 878

The major items causing the Company's income tax expense to differ from the combined Canadian federal and provincial statutory rate of approximately 26.5% (2013: 26.5%) are as follows:

Loss before income taxes	**(30 723 135)**	(14 256 899)
Expected tax benefit at statutory tax rates	**8 141 631**	3 778 078
Adjustments resulting from:		
Benefits of tax losses not recognized	**(4 272 606)**	(2 288 127)
Income not subject to tax	**305 079**	-
Permanent differences	**(426 710)**	(542 173)
Foreign tax rate differential	**201 878**	1 711 936
Other temporary differences	**(2 181 576)**	1 448 164
Income tax benefit	**1 767 696**	4 107 878

9 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Mining assets	Office equipment, fixtures and fittings	Development costs capitalized	Mineral rights	Total
Year ended February 28, 2014						
Opening net book value	885 943	33 367 833	393 354	5 860 491	29 288 501	**69 796 122**
Additions	13 499	4 696 062	26 885	373 745	1 259 751	**6 369 942**
Change in asset retirement obligation	-	90 290	-	-	-	**90 290**
Disposals	-	(42 821)	(22 511)	-	-	**(65 332)**
Effect of foreign currency exchange difference	(112 778)	(2 677 797)	90 211	(969 981)	(2 697 427)	**(6 367 771)**
Depreciation charge	(67 755)	(8 506 429)	(130 618)	(280 088)	(1 475 423)	**(10 460 313)**
Net book value at end of year	**718 909**	**26 927 138**	**357 321**	**4 984 167**	**26 375 402**	**59 362 938**
At February 28, 2014						
Cost	949 483	61 633 391	742 459	5 569 702	33 946 068	**102 841 103**
Accumulated depreciation	(230 574)	(34 706 253)	(385 138)	(585 535)	(7 570 666)	**(43 478 166)**
Net book value at end of year	**718 909**	**26 927 138**	**357 321**	**4 984 167**	**26 375 402**	**59 362 937**
Year ended February, 28 2013						
Opening net book value	790 415	40 070 718	310 748	6 229 971	35 536 355	82 938 207
Additions	249 424	5 244 095	307 214	820 289	-	6 621 022
Change in asset retirement obligation	-	1 212 890	-	-	-	1 212 890
Effect of foreign currency exchange difference	(104 710)	(5 308 385)	(41 166)	(825 318)	(4 707 691)	(10 987 270)
Depreciation charge	(49 186)	(7 851 485)	(183 442)	(364 451)	(1 540 163)	(9 988 727)
Net book value at end of year	885 943	33 367 833	393 354	5 860 491	29 288 501	69 796 122
At February, 28 2013						
Cost	992 216	52 000 506	693 332	6 421 292	36 263 336	96 370 682
Accumulated depreciation	(106 273)	(18 632 673)	(299 978)	(560 801)	(6 974 835)	(26 574 560)
Net book value at end of year	885 943	33 367 833	393 354	5 860 491	29 288 501	69 796 122

Office equipment includes items to the value of $0,04 million that are not directly used in production and operations and relate to property, plant and equipment in the Company's branch in South Africa. All Property, plant and equipment are located in South Africa. Depreciation expense of $10,5 million (2013: $10,0 million) was recognized in 'Cost of sales'.

10 INTANGIBLE ASSETS

	Goodwill	RBCT entitlements	Total
Year ended February 28, 2014			
Opening net book value	15 239 856	3 716 592	**18 956 448**
Effect of foreign currency exchange difference	(1 583 185)	(366 595)	**(1 949 780)**
Impairment loss	(13 656 671)	(2 030 566)	**(15 687 237)**
Amortization charge	-	(132 009)	**(132 009)**
Net book value at end of year	**-**	**1 187 422**	**1 187 422**
At February 28, 2014			
Cost	13 656 671	3 645 136	**17 301 807**
Accumulated amortization and impairment loss	(13 656 671)	(2 457 714)	**(16 114 385)**
Net book value at end of year	**-**	**1 187 422**	**1 187 422**
Year ended February, 28 2013			
Opening net book value	17 506 375	4 432 728	21 939 103
Effect of foreign currency exchange difference	(2 266 519)	(587 230)	(2 853 749)
Amortization charge	-	(128 906)	(128 906)
Net book value at end of year	**15 239 856**	**3 716 592**	**18 956 448**
At February, 28 2013			
Cost	15 239 856	4 047 787	19 287 643
Accumulated amortization and impairment loss	-	(331 195)	(331 195)
Net book value at end of year	**15 239 856**	**3 716 592**	**18 956 448**

All intangible assets originate from South Africa. Amortization expense of $0,1 million (2013: $0,1 million) was recognized in 'Cost of sales'.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU's") identified according to subsidiary level. All goodwill is attributable to FC Dundee. During the 2014 financial year, an impairment loss of $15,7 million (2013: Nil) was recognized. The recoverable amount has been determined based on a fair value less cost to sell basis. The fair value calculation has been determined using pre-tax cash flow projections based on FC Dundee's projected LOM.

The key assumptions used in the fair value less cost to sell calculations for the 2014 financial year are as follows:

Pre-tax discount rate: 20.2%
Gross fair value: $55,7 million
Costs to sell: $1,1 million
Recoverable amount: $54,6 million

10 INTANGIBLE ASSETS (continued)

The impairment loss was fully allocated against the outstanding goodwill balance and the remaining portion was allocated against the RBCT entitlements as management believes that all other assets have carrying values that are approximately equal to their fair values.

11 INVESTMENT IN FINANCIAL ASSETS

	February 28, 2014	February 28, 2013
Endowment policy	-	3 778 409
Long-term investments	**2 407 372**	686 142
Security investments	**26 786**	60 268
Total	**2 434 158**	4 524 819

The movement in the endowment policies and long-term investments is as follows:

	February 28, 2014	February 28, 2013
Opening balance	**4 464 551**	5 758 197
Current year contributions	**823 450**	1 218 948
Fair value adjustment	**382 761**	563 301
Policies matured	**(2 823 244)**	(2 313 074)
Effect of foreign currency exchange difference	**(440 146)**	(762 821)
	2 407 372	4 464 551
Less: Current portion transferred to current assets	-	(1 879 946)
Closing balance	**2 407 372**	2 584 605

The investment in financial assets consists of long-term investments, held by the Group to fund payment requirements associated with its rehabilitation obligations, and security investments. The long-term investments are held by the Trust which was formed with the sole purpose of applying its property for the rehabilitation of land in order to discharge the statutory obligations of Zinoju. The security investments may only be used by Zinoju to carry out the statutory obligations as and when so required. In the prior year, the Group held endowment policies to fund payment requirements related to its instalment sale agreements. These policies matured during October 2013 as the related instalment sale agreements (refer note 20) were fully repaid in the same period.

The long-term investments and security investments are classified at fair value through profit and loss and are disclosed within level 1 of the fair value hierarchy as the investments are traded actively in the market and are regularly available from the broker or regulatory agency. The endowment policies were classified within level 3 of the fair value hierarchy as the inputs required to determine the fair value were actuarially obtained. Changes in the fair values of the investments are recorded in 'Other (expense)/income-net' within profit or loss.

12 DEFERRED TAX

	February 28, 2014	February 28, 2013
Deferred income tax liabilities:		
At beginning of year	**(9 852 429)**	(14 312 877)
Current year timing differences	**(1 029 639)**	2 564 344
Effect of foreign currency exchange difference	**2 797 506**	1 896 104
At end of year	**(8 084 562)**	(9 852 429)
Deferred tax asset:		
Opening balance	**428 109**	326 754
Current year timing differences	**2 797 335**	144 642
Effect of foreign currency exchange difference	**(12 372)**	(43 287)
At end of year	**3 213 072**	428 109
Deferred tax liability - net	**(4 871 490)**	(9 424 320)

The above balance is comprised of the following:

	February 28, 2014	February 28, 2013
Provisions	**982 881**	756 688
Deferred revenue	**862 809**	-
Tax losses	**3 451 939**	1 518 941
Property, plant and equipment and other long-term assets	**(10 080 721)**	(13 554 125)
Other	**(88 398)**	1 854 176
Deferred tax liability - net	**(4 871 490)**	(9 424 320)

All recognized tax assets and liabilities arise from the Company's South African subsidiaries.

The Company has deductible temporary differences of approximately $24,1 million in Canada for which no deferred tax assets have been recognized because it is not probable that future taxable profits will be available against which the Company will be able to utilize the profits. The Canadian non-capital operating losses have expiry dates between 2028 and 2033 and can be used to reduce the taxable income of future years under certain circumstances.

As at February 28, 2014, the Company had an unrecognized deferred asset of approximately $4,6 million (2013: $Nil) relating to investments in subsidiaries that has not been recognized because the Company controls the timing of the reversal of the temporary differences and it is probable that these differences will not reverse in the foreseeable future.

As at February 28, 2014, the Company has an unrecognized deferred tax liability of approximately $Nil (2013: $3,7 million) relating to investments in subsidiaries that has not been recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

13 TRADE AND OTHER RECEIVABLES

	February 28, 2014	February 28, 2013
Non-current other receivables:		
- Deposits	**403 274**	379 211
Total non-current other receivables	**403 274**	379 211
Current trade and other receivables:		
- Trade receivables	**6 683 765**	4 653 578
Less: Provision for impairment of receivables	**(274 062)**	(97 765)
- Trade receivables - net	**6 409 703**	4 555 813
- Value-Added Tax (VAT)	**999 329**	510 566
- Prepayments	**511 661**	428 512
- Harmonized Sales Tax (HST)	**63 779**	442 386
- Other receivables	**23 565**	189 546
Total current trade and other receivables	**8 008 037**	6 126 823

The fair values of trade and other receivables approximate their carrying values. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security. There is no significant concentration of credit risk in respect of any particular customer.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	February 28, 2014	February 28, 2013
CAD	**327 481**	453 959
USD	**-**	1 420 568
ZAR	**7 680 556**	4 252 296
Total	**8 008 037**	6 126 823

Movements on the Group provision for impairment of receivables are as follows:

	February 28, 2014	February 28, 2013
Opening balance	**97 765**	103 754
Provision raised/(released)	**183 322**	(8 037)
Effect of foreign currency exchange difference	**(7 025)**	2 048
Closing balance	**274 062**	97 765

The creation and release of the provision for impairment of trade receivables has been included in profit or loss. The other classes within trade receivables do not contain impaired assets.

14 INVENTORIES

	February 28, 2014	February 28, 2013
Consumables	**294 680**	338 164
Work in progress	**587 057**	808 126
Finished goods	**6 690 708**	9 007 469
Total	**7 572 445**	10 153 759

A portion of finished goods inventory was written down to net realizable value during the current financial year. A write-down of $1,0 million (2013: $0,7 million) was recognized in 'Cost of sales' within profit or loss. Depreciation of $1,8 million is included within inventory. The amount of inventories recognized as an expense during the year ended February 28, 2014 is $74,6 million (2013: $67,6 million).

15 INTEREST AND NON-INTEREST BEARING RECEIVABLES

	February 28, 2014	February 28, 2013
Interest bearing receivables:		
Deposit with respect to cancelled transaction (note 27)	**3 007 295**	5 319 187
Non-interest bearing receivables:		
Other receivables	**155 258**	117 196

The non-interest bearing receivables are unsecured, interest free and have no fixed terms of repayment.

16 RESTRICTED CASH

Restricted cash comprises of deposits of R3,2 million ($0,3 million) with FNB in respect of guarantees provided to the Department of Mineral Resources ("DMR") and Eskom; R8,0 million ($0,8 million) deposit with FNB for guarantees to Transnet Freight Rail ("TFR") and the balance relates to amounts ceded to Resource Capital Fund V L.P ("RCF") as security for the convertible and bridge loan facilities (note 21).

As security for the convertible and bridge loan facilities provided by RCF to the Company (note 21), FC Dundee ceded all rights, titles and interest in the anthracite stockpile at July 31, 2013 as well as a bank account into which the proceeds are deposited from the sale of such anthracite stock pile.

17 CASH AND CASH EQUIVALENTS

	February 28, 2014	February 28, 2013
Cash in bank	**1 504 969**	3 025 664
Cash is denominated in the following currencies:		
CAD	**447 072**	680 932
USD	**107 612**	463
ZAR	**950 285**	2 344 269
Total	**1 504 969**	3 025 664

18 SHARE CAPITAL

	Number of shares	Stated value
Opening balance at March 1, 2012	**34 865 717**	98 792 926
Shares repurchased and cancelled under NCIB	**(479 682)**	(1 450 784)
Balance at February 28, 2013	**34 386 035**	97 342 142
Shares issued in relation to RCF loan facilities	**3 041 047**	575 944
Balance at February 28, 2014	**37 427 082**	97 918 086

On September 4, 2013, the Company closed a secured US$6,0 million ($6,6 million) convertible loan facility from RCF (note 21). RCF received a 3% establishment fee payable in cash or common shares of the Company ("Common Shares"). Following shareholder approval, 517,450 Common Shares at a price of $0.36 per share were issued on September 19, 2013 to settle the establishment fee.

Interest for the periods ended September 30, 2013 and December 31, 2013 was settled in Common Shares. An additional 166,623 and 819,077 Common Shares at prices of $0.2371 and $0.1560 per share were issued on October 15, 2013 and January 15, 2014, respectively, to settle the interest payments on the loan.

On February 5, 2014, the Company closed a secured US$4,0 million ($4,4 million) bridge loan facility from RCF, being the first tranche of the RCF US$25 million Facility (Note 21). As a result of the RCF Bridge Loan, RCF received a 5% establishment fee payable in cash or Common Shares. On February 5, 2014, 1,537,897 Common Shares were issued at a price of $0.1446 per share to settle the establishment fee.

Normal course issuer bid ("NCIB")

During the 2012 financial year, the Company instituted a NCIB, in respect of its Common Shares. Pursuant to the terms of the NCIB, and in accordance with the policies of the TSX, during the period commencing April 30, 2012 for a one year period, the Company could purchase up to 5% of the issued and outstanding shares of the Company. The maximum number of shares that could be purchased was 1,743,285 shares. All Common Shares purchased under the NCIB were to be cancelled. During the year ended February 28, 2013, the Company purchased and cancelled 479,682 Common Shares at an average price of $0.5982 per share approved by the TSX. There were no shares purchased and cancelled during the 2014 financial year.

19 RESERVES

	Number of options	Weighted average exercise price	Value of options vested	Number of warrants	Weighted average exercise price	Value of warrants vested	Total
Opening balance at March 1, 2013	3 479 692	3.20	9 058 470	1 243 887	3.48	2 149 853	**11 208 323**
Vested	-	-	38 304	-	-	-	**38 304**
Expired	(749 692)	3.28	(1 709 090)	(1 243 887)	3.48	(2 149 853)	**(3 858 943)**
Balance at February 28, 2013	2 730 000	3.18	7 387 684	-	3.48	-	**7 387 684**
Granted and vested	2 347 500	0.29	375 790	-	-	-	**375 790**
Expired/cancelled	(1 855 000)	-	(4 371 550)				**(4 371 550)**
Closing balance at February 28, 2014	**3 222 500**	**0.94**	**3 391 924**	**-**	**-**	**-**	**3 391 924**

Employee share options plan

The Company has an ownership-based compensation scheme, 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 2014 financial year 2,347,500 (2013: Nil) share options were granted to directors, officers, employees and consultants of the Company. The fair value of these stock options was estimated to be $0,4 million (2013: Nil) using the Black-Scholes option pricing model. Refer below for the assumptions used in the valuation model. An amount of $0,2 million (2013: Nil) is included in profit or loss as stock based compensation expense related to the fair value of the portion of options vested during the period for directors, officers and consultants engaged at the corporate level. An amount of $0,2 million (2013: Nil) is included in profit or loss as stock based compensation within cost of sales and is related to the fair value of the portion of options vested during the period for officers, employees and consultants engaged at the site level. The options expire five years from the date of issue, or 30 days after the resignation of the director, officer, employee or consultant.

19 RESERVES (continued)

Share options outstanding at the end of the financial year have the following exercise prices:

Grant date	Exercise price	February 28, 2014	February 28, 2013
15 March 2010	2.80	**190 000**	190 000
13 October 2010	3.25	**25 000**	1 425 000
24 March 2011	4.10	**120 000**	545 000
06 June 2011	3.00	**100 000**	100 000
13 June 2011	2.77	**150 000**	150 000
25 January 2012	1.80	**300 000**	320 000
13 August 2013	0.29	**2 337 500**	-
Total		**3 222 500**	**2 730 000**

The weighted average remaining contractual life on share options outstanding at February 28, 2014 is 2.75 years (2013: 2.88 years). Certain of the options granted and outstanding above will be expiring in the following financial year as part of the settlement agreements entered into with consultants with regards to the closure of the Company's Toronto office, refer to note 29.

The salient details of options granted during the 2014 financial year are provided in the table below:

	Valuation details
Grant date	13 August 2013
Fair value	375 790
Option strike price	0.29
Share price on grant date	0.29
Expiry date	13 August 2018
Remaining contractual life	4.38
Valuation assumptions:	
Expected volatility (%)	65
Expected life of grant	5
Annual risk-free interest rate (%)	1.88
Expected dividend yield (%)	0

Restricted Share Units

The Company approved the adoption of a Restricted Share Unit ("RSU") Incentive Plan. Upon adoption of the new plan, the Company is authorized to grant and issue RSUs to directors and officers of the Company. Each RSU shall entitle the director or officer to receive one Common Share upon completion of certain terms. The Common Shares will be repurchased from the open market and held in trust for subsequent issuance. As of February 28, 2014 $100,000 worth of RSUs were granted but not issued under the plan (note 28).

19 RESERVES (continued)

Black Economic Empowerment option

During the year ended February 29, 2012, FC Dundee assisted one of its BEE partners in buying out the interest in Zinoju held by its other BEE partner. This resulted in the issuance of a new call option to the continuing BEE partner which represented the issuance of an equity-settled share-based payment. The value of the new call option on the date of issue of R9,1 million ($1,3 million) was reflected as an expense in profit or loss 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'.

20 BORROWINGS

Borrowings consist of the following:

	February 28, 2014	February 28, 2013
Instalment sale agreements	**83 478**	2 496 344
Investec loan facility	**16 098 977**	22 747 012
Total	**16 182 455**	25 243 356
Current portion	**(6 767 696)**	(10 674 912)
Long-term portion	**9 414 759**	14 568 444

(a) Instalment sale agreements

Total amount outstanding	**83 478**	2 496 344
Less: current portion transferred to current liabilities	**(83 478)**	(2 403 690)
Long-term portion of instalment sale agreements	**-**	92 654

The instalment sale agreements are payable at interest rates linked to prime with a maturity date of April 2014**.**

(b) Investec loan facility

Total amount outstanding	**16 098 977**	22 747 012
Less: Current portion transferred to current liabilities	**(6 684 218)**	(8 271 222)
Long-term portion of Investec loan facility	**9 414 759**	14 475 790

The Investec loan consists of two facilities, a revolving loan facility of up to R30,0 million (approximately $3,1 million) and a term loan facility of R200,0 million (approximately $20,6 million). The revolving loan facility bore interest at prime less 1.5% until February 2014, when the interest rate was amended to prime plus 0.5%. Interest is payable monthly with the facility maturing on May 31, 2014. See note 30 for additional details.

20 BORROWINGS (continued)

The term loan facility bears interest at JIBAR plus 4%, with interest payable on a quarterly basis in line with the Company's quarter-ends. Effective January 2013, the interest rate increased from JIBAR plus 3% to JIBAR plus 4%, as the earnings before interest, taxes, depreciation and amortization of FC Dundee fell below R100 million annually (approximately $10,3 million). The loan was repayable in quarterly payments of R10,5 million (approximately $1.1 million) with a payment holiday for the quarter ended February 28, 2014. Payments will increase to R11,4 million (approximately $1,2 million) from May 31, 2014, due to the payment holiday. The loan will mature in January 2017.

The term loan facility is repayable as follows:

	February 28, 2014
12 months	**6 767 696**
13-24 months	**4 707 379**
25-36 months	**4 707 379**
Total	**16 182 454**

The loan from Investec is secured by:

- first ranking security over the assets of FC Dundee, including but not limited to mortgage bonds over the FC Dundee immovable property and special and general notarial bonds over FC Dundee's movable property (The FC Dundee assets only);
- subordination of all claims by the affiliates of FC Dundee and the Company against FC Dundee; and
- negative pledge over assets of FC Dundee.

Cession in security

Secured property consisting of bank accounts, insurances, trade receivables, FC Dundee's shares in Zinoju, all claims by and against Group companies and related rights to the preceding, except for the bank account ceded to RCF (note 21).

Mortgage bond

Secured bond over the property (land and buildings) within FC Dundee (Coalfields).

General bond

Secured bond over the property (movable) within FC Dundee, including:

- all the plant, equipment, machinery, office furniture, fixtures and fittings, inventory and motor vehicles;
- every claim and indebtedness of whatever kind or nature;
- all the rights to quotas, permits, licences and the like;
- all the contractual rights, including without limitation, rights in respect of insurance policies taken out by or in favour of the mortgagor, franchise rights and rights under agency agreements or other agreements of a like nature and rights as lessee or lessor; and

20 BORROWINGS (continued)

- 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 FC Dundee, that is currently used as security over the instalment sale agreements except for the anthracite stockpile as at July 31, 2013 provided as security to RCF (refer to note 21).

See Note 27 which discloses additional security given to Investec.

The Company is in the process of finalizing a restructuring of the Investec loan facilities (refer to note 30). The "Restructured Investec Facilities" will be secured by first ranking security over the FC Dundee shares and all the assets of FC Dundee, apart from any new equipment acquired using the proceeds of the RCF Convertible Loan.

Covenants

In terms of the agreement with Investec, FC Dundee is required to meet certain key performance indicators. The Company did not fulfil these ratios such that the Company was in breach of the debt covenants at February 28, 2014 and 2013.

Upon breach, the bank is entitled to request early payment of the outstanding debt. Investec was approached in both financial years when it appeared likely that the covenants were to be breached. As of February 28, 2014 and 2013, Investec had waived the breach on the debt covenants.

Non-current borrowings are based on variable interest rates and the fair value equates to their carrying amount. The fair value of current borrowings equals their carrying amount, as the effect of the discounting is not significant. The carrying amounts of the Group's borrowings are denominated in South African Rands.

The Group was fully drawn on the term loan facility and had R10,0 million (approximately $1,0 million) available for drawdown on the revolving loan facility as at February 28, 2014 (2013: Nil).

21 RCF LOAN FACILITIES

Original convertible loan facility

On September 4, 2013, the Company closed a secured US$6,0 million ($6,6 million) convertible loan facility from RCF (the "RCF Original Loan"). The RCF Original Loan matures on June 30, 2016. The principal on the RCF Original Loan is convertible into Common Shares at a price of $0.36 per Common Share.

The issuance of Common Shares to RCF upon conversion of the loan, interest payments and for the establishment fee were subject to shareholder approval which was received at the annual and special meeting that was held on September 11, 2013. As a result of the RCF Original Loan, RCF received a 3% establishment fee payable in cash or Common Shares. Following shareholder approval, 517,450 Common Shares at a price of $0.36 per share were issued on September 19, 2013 to satisfy the establishment fee (note 18).

21 RCF LOAN FACILITIES (continued)

Prior to receipt of shareholder approval, the loan had an interest rate of 10% per annum, payable on each calendar quarter in cash or Common Shares at a price per share equal to the 20-day VWAP as at the date the payment is due. Upon receipt of shareholder approval on September 11, 2013, the interest rate decreased to 8% per annum. An additional 166,623 and 819,077 Common Shares at prices of $0.2371 and $0.1560 per share were issued on October 15, 2013 and January 15, 2014, respectively, to settle the interest payment on the RCF Original Loan, for the quarters ended September 30, 2013 and December 31, 2013 (note 18).

The RCF Original Loan is secured by a cession of the shares of FC Dundee, a special notarial bond over the anthracite stockpile as at July 31, 2013 and a cession of a specified bank account into which all proceeds from the sale of such anthracite stockpile are transferred.

In addition, FC Dundee has provided a guarantee to RCF guaranteeing the payment and performance of all liabilities and obligations of the Company to RCF under the RCF Original Loan. The guarantee is limited to any restrictions imposed by the South African Reserve Bank, if any.

The closing of the RCF Original Loan with RCF triggered the change of control provision in certain consulting contracts. Settlement agreements were entered into with these consultants prior to February 28, 2014 in full and final settlement of all matters arising and outstanding under such consulting agreements (Note 29).

New convertible loan facility and bridge loan

On February 4, 2014, the Company entered into an agreement with RCF for a secured US$25,0 million (approximately $27,7 million) convertible loan facility (the “RCF US$25 million Facility”), comprising of a bridge loan of US$4,0 million ($4,4 million) (the “RCF Bridge Loan”), a convertible loan of up to US$15,0 million (approximately $16,6 million) (the “RCF Convertible Loan”) and a refinancing of the RCF Original Loan (the “Refinancing”).

Subject to receipt of shareholder approval, the RCF US$25 million Facility is convertible into Common Shares at a price of $0.1446 per share. The RCF US$25 million Facility will bear interest at a rate of 12% per annum, payable in arrears at the end of each month, in cash or Common Shares at a price per share equal to the 20-day VWAP as at the date the payment is due. The RCF US$25 million Facility is expected to close on or around June 30, 2014.

On February 5, 2014, the Company closed the secured US$4,0 million ($4,4 million) RCF Bridge Loan, being the first tranche of the RCF US$25 million Facility. The RCF Bridge Loan matures on June 30, 2014, provided that if the Company receives all necessary shareholder approvals as required in connection with the RCF US$25 million Facility, the Bridge Loan will convert into a convertible loan with the same terms and conditions as the RCF Convertible Loan, with the principal amount of the RCF Bridge Loan convertible into Common Shares at a price of $0.1446 per share.

The Company made an application to the TSX to rely on an exemption from the requirement to obtain shareholder approval of the RCF Bridge Loan on the basis of financial hardship, which was granted by the TSX.

As a result of the RCF Bridge Loan, RCF received a 5% establishment fee which was issued in Common Shares on February 5, 2014 at a price of $0.1446 per share (note 18).

21 RCF LOAN FACILITIES (continued)

The RCF Bridge Loan has an interest rate of 15% per annum, payable each month.

The RCF Bridge Loan is secured by the security provided by the Company for the RCF Original Loan (other than the special notarial bond over the anthracite stock pile). On closing of the RCF US$25 million Facility, RCF will release its existing security and hold a first ranking security over the new equipment acquired using the proceeds of the RCF Convertible Loan and a second ranking security over the FC Dundee shares and all other assets of FC Dundee.

The movement in the RCF loan facilities is as follows:

	February 28, 2014
Loan proceeds received on September 4, 2013	**6 295 200**
Loan proceeds received on February 5, 2014	**4 432 000**
Conversion option liability	**(1 122 644)**
Loan issue costs	**(684 872)**
Loan accretion relating to liability	**161 977**
Accretion of issue costs	**82 206**
Effect of foreign currency exchange difference	**290 368**
Total loan	**9 454 235**
Current portion of RCF loan facilities	**(4 202 635)**
Long-term portion of RCF loan facilities at February 28, 2014	**5 251 600**

The Company recognized the RCF Original Loan in two parts, a component liability and a conversion option liability. An embedded derivative exists due to the convertible loan facility being denominated in US Dollars. The loan was recorded in the consolidated statements of financial position at the net present value of future payments using a discount rate of 16%. After discounting the liability to its estimated fair value, the liability and conversion option liability were US$4,9 million ($5,4 million) and US$1,1 million ($1,2 million), respectively. The component liability will be accreted to its face value of US$6,0 million ($6,6 million) using the effective interest rate method at approximately 20%.

The fair value of the conversion option liability was obtained using the Black-Scholes option pricing model and the following assumptions: expected volatility of 83%, expected life of 2.3 years, risk-free interest rate of 1.03% and an expected dividend yield of 0%.

Accretion of both the liability portion and loan issue costs totaled $0,2 million for the 2014 financial year and was recorded as a finance cost within profit or loss.

Movement in the conversion option liability is as follows:

	February 28, 2014
Conversion option liability	**1 122 644**
Loan issue costs relating to conversion option	**(99 015)**
Fair value of option liability	**(215 734)**
Closing balance	**807 895**

21 RCF LOAN FACILITIES (continued)

RCF shareholding

The Company's largest shareholder is RCF which owned 6,867,443 Common Shares, representing 19.97% of the issued and outstanding Common Shares on a non-diluted basis prior to the funding transactions described above. As at May 27, 2014, RCF owns 12,568,684 Common Shares, representing 31.4% of the issued and outstanding Common Shares. The increase in shareholding is due to the establishment fees on the RCF Original Loan and RCF Bridge Loan as well as interest on both facilities being settled in Common Shares (Refer to note 18). RCF has the right to convert the RCF Original Loan, at its sole discretion, up to 18,240,000 Common Shares (As of April 30, 2014, assuming an exchange rate of US$1 = $1.094 and excluding any Common Shares that may be issued on conversion of any accrued interest). Assuming full conversion of the RCF Original Loan, RCF would hold approximately 30,808,684 Common Shares, representing 52.8% of the then issued and outstanding Common Shares on a partially diluted basis (assuming no other Common Shares are issued by the Company other than in respect of this conversion).

Assuming full conversion of the RCF US$25million Facility (subject to receipt of shareholder approvals in respect of the RCF Original Loan, RCF Bridge Loan and RCF Convertible Loan and assuming payment of the establishment fee on the RCF Convertible Loan in shares, (As of April 30, 2014, assuming an exchange rate of US$1 = $1.094 and excluding any Common Shares that may be issued on conversion of any accrued interest), RCF would hold approximately 201,780,302 Common Shares, representing 88.0% of the then issued and outstanding Common Shares on a partially diluted basis (assuming no other Common Shares are issued by the Company other than in respect of this conversion).

22 ASSET RETIREMENT OBLIGATION

	February 28, 2014	February 28, 2013
Opening balance	**3 388 467**	3 035 674
Change in estimate	**242 552**	1 060 263
- included in property, plant and equipment	**90 290**	1 212 890
- included in finance cost	**-**	(159 106)
- Unwinding of discount	**152 263**	6 479
Effect of foreign currency exchange difference	**(60 981)**	(402 153)
Closing balance	**3 570 039**	3 693 784
Current portion	**(274 947)**	(305 317)
Non-current portion	**3 295 092**	3 388 467

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 long-term investments held in the Trust (note 11). A provision is recognized based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred at the statement of financial position date and is expected to be paid out over 17-27 years.

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.

22 ASSET RETIREMENT OBLIGATION (continued)

The provision is calculated using the following rates:

	February 28, 2014	February 28, 2013
Discount rate (%)	**6.05**	6.06
Inflation rate (%)	**5.60**	5.70

23 TRADE AND OTHER PAYABLES

	February 28, 2014	February 28, 2013
Trade payables	**9 622 347**	4 737 069
Audit fees	**399 039**	174 875
Receiver of Revenue - VAT	**296 054**	227 396
Income received in advance	**51 871**	5 693 382
Deferred revenue	**3 081 460**	-
Sundry payables and accruals	**2 642 311**	4 632 990
Current tax payable	**-**	292 706
Leave pay provision	**1 467 615**	832 228
Total	**17 560 697**	16 590 646

The fair value of trade and other payables approximates their carrying amount, as the impact of discounting is not considered significant.

In a prior financial year, Zinoju entered into a contract with a customer which expired on December 31, 2013, with an outstanding liability to the customer of US$2.8 million, as a result of an invoicing mismatch. A new contract was entered into with the customer on February 1, 2014, the terms of which allowed for the settlement of the outstanding liability. However, the contract includes a clause that in the event of default, the customer is entitled to payment of the liability reduced in proportion over the period of the contract. The liability was therefore reclassified as deferred revenue ($3,1 million) as in substance the contract is an off-take agreement with an upfront payment.

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	February 28, 2014	February 28, 2013
CAD	**981 753**	739 066
USD	**4 400 496**	4 509 808
ZAR	**12 175 801**	11 332 894
GBP	**2 647**	8 878
Total	**17 560 697**	16 590 646

24 SHARES IN ESCROW

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

- 50% of the Escrowed Shares (the "First Tranche Escrowed Shares") to be released once the Company achieves US$22,0 million in EBITDA from the FC Dundee Properties over a twelve consecutive month period by July 20, 2013. During the year ended February 29, 2012, the US$22,0 million in EBITDA from the FC Dundee Properties was achieved and the above mentioned Escrowed Shares were released;

- The remaining Escrowed Shares will be released if the Company achieves US$35,0 million in EBITDA from the FC Dundee Properties over a twelve consecutive month period within a three year period following the release of the First Tranche Escrowed Shares. For further clarity, EBITDA generated from the FC Dundee Properties will exclude any gains or losses generated by the combined company from the disposal of the FC Dundee Properties. In the event of not achieving US$35,0 million in EBITDA from the FC Dundee Properties, the above mentioned Escrowed Shares will be cancelled. To date, the Company has not reached the set target.

25 FINANCIAL INSTRUMENTS BY CATEGORY

The Company's financial assets and financial liabilities as at February 28, 2014 and February 28, 2013 were as follows:

Financial instruments	Loans and receivables	Fair value through profit or loss	At amortized cost	Total
February 28, 2014				
Trade and other receivables (excluding non-financial assets)	6 409 703	-	-	**6 409 703**
Investments in financial assets	-	2 434 158	-	**2 434 158**
Interest bearing receivables	3 007 295	-	-	**3 007 295**
Non-interest bearing receivables	155 258	-	-	**155 258**
Investec borrowings	-	-	(16 098 977)	**(16 098 977)**
RCF loan facilities	-	-	(10 262 130)	**(10 262 130)**
Trade and other payables (excluding non-financial liabilities)	-	-	(12 663 697)	**(12 663 697)**

25 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial instruments	Loans and receivables	Fair value through profit or loss	At amortized cost	Total
February 28, 2013				
Trade and other receivables (excluding non-financial assets)	4 555 813	-	-	4 555 813
Investments in financial assets		4 524 819	-	4 524 819
Interest bearing receivables	5 319 187	-	-	5 319 187
Non-interest bearing receivables	117 196	-	-	117 196
Borrowings	-	-	(25 243 356)	(25 243 356)
Trade and other payables (excluding non-financial liabilities)	-	-	(9 837 640)	(9 837 640)
Loan payable	-	-	(24 616)	(24 616)

26 CASH GENERATED FROM OPERATIONS

	February 28, 2014	February 28, 2013
Loss before income tax	**(30 723 135)**	(14 256 899)
Adjusted for:		
Depreciation and amortization	**10 592 322**	8 974 305
Impairment of escrow funds	**1 968 153**	-
Impairment of goodwill and other intangible assets	**15 687 238**	-
Unrealized foreign exchange loss/(gain)-net	**(1 579 286)**	(63 229)
Impairment of trade receivables	**(183 322)**	-
Net profit on disposal of property, plant and equipment	**(665 275)**	-
Fair value adjustments of financial assets and conversion option	**(573 357)**	(78 814)
Write-down of inventory to net realizable value	**1 002 207**	-
Stock-based compensation	**375 790**	38 304
Finance income - cash	**(113 483)**	(418 846)
Finance income - non-cash	**(224 574)**	(170 145)
Finance cost – cash	**1 979 006**	2 175 156
Finance cost – non-cash	**567 281**	10 896
Net changes in working capital:	**2 536 623**	4 692 332
Cash generated from operations	**646 188**	903 060

27 TRANSACTION WITH RIVERSDALE MINING LIMITED

Proposed acquisition of Riversdale Holdings Proprietary Limited

In September 2012, the Company and Rio Tinto PLC ("Rio Tinto") announced that they had entered into a definitive agreement whereby FMC was expected to acquire 100% ownership of the shares and shareholder claims of Riversdale Mining Limited ("RML") in Riversdale Holdings Proprietary Limited ("RHPL") ("the Riversdale Acquisition"), as a result of which, the Company would have acquired RHPL's 74% interest in the Zululand Anthracite Colliery ("ZAC"), a current producing anthracite mine, and RHPL's 74% interest in the Riversdale Anthracite Colliery ("RAC"), an undeveloped anthracite resource. A deposit, totaling R45,5 million (approximately $4,7 million) was paid into an escrow account to be applied against the purchase consideration for the Riversdale Acquisition ("the Escrow Funds"). See below under "Loan facility" regarding the funding and guarantees provided for the Riversdale Acquisition.

Cancellation of transaction

In February 2013, the Company notified RML of the cancellation of the Riversdale Acquisition, as a result of a material deterioration in the performance of ZAC, which, in the opinion of the Company, constituted a breach of certain provisions of the agreement. Following the cancellation of the Riversdale Acquisition, two disputes were declared with the Company seeking the return of the Escrow Funds and RML seeking damages in the amount of R299,5 million (approximately $30,9 million) resulting from the cancellation of the Riversdale Acquisition.

Loan facility

Investec agreed to underwrite the funding for the Riversdale Acquisition, by way of the provision of guarantees of R394,5 million (approximately $40,7 million) to RML, and ultimately by providing debt funding for the same amount, for the payment of the purchase consideration. The debt was structured as a loan facility to FC Dundee which was then advanced to Bowwood, which would then purchase the shares and claims in RHPL.

In terms of the agreement with Investec, various assets were pledged as security for the transaction guarantees. These include the following:

- FC Dundee has pledged to Investec all its shares and ceded in securitatem debiti to Investec all its secured property, the bank accounts, insurances, trade receivables, FC Dundee's shares in Zinoju, all claims by and against Group companies and related rights to the preceding.

- The Company has pledged to Investec all its shares in FC Dundee and Bowwood and ceded in securitatem debiti to Investec all the relevant secured property, the shares, the claims, the acquisition documents and the related rights. The cession of shares in FC Dundee was subsequently released by Investec and ceded by the Company to RCF as security for the RCF Original Facility (note 21).

- Zinoju has issued an undertakings letter in terms of which it has agreed to comply with its mining rights and to uphold and timeously comply in full with all its obligations to FC Dundee under the mining contract between the parties. It has also undertaken to ensure that it takes all appropriate steps within its control or open to it which are required from time to time for the maintenance, care, preservation and protection all mining rights held by it.

27 TRANSACTION WITH RIVERSDALE MINING LIMITED (continued)

- A subordination agreement has been entered into in terms of which the various Group companies subordinate any inter-group loans in favour of Investec.

- Bowwood has agreed to be an additional guarantor and to be bound by the terms of the agreement as an additional guarantor.

At February 28, 2014 and 2013, no liability existed to Investec in respect of the transaction guarantees, other than in respect of a front-end fee. Pursuant to the loan agreement, FC Dundee had to pay Investec a front-end fee equal to 4% of the guarantee facility amount. The fee of R18,0 million (approximately $1,9 million) was paid in May 2013. The guarantee expired in May 2013.

See additional securities in respect of the Investec term loan facility and revolving loan facility as disclosed in note 20.

Settlement

In March 2014, subsequent to the 2014 financial year-end, the Company reached a settlement agreement with RML in respect of the disputes between the parties. The claim by the Company against RML for the return of the Escrow Funds, and the claim by RML against the Company for damages in the amount of R299,5 million (approximately $30,9 million) were settled by way of the Escrow Funds (including interest) being shared between the parties as to R19,4 million (approximately $2,0 million) to RML and the balance of R29,3 million (approximately $3,0 million) to the Company.

Pursuant to the terms of the settlement agreement, neither party shall have any further claim, right, liability and/or duty of any kind towards the other party in respect of either claim.

28 RELATED PARTIES

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

	February 28, 2014	February 28, 2013
Payments for services rendered		
2227929 Ontario Inc.	**600 555**	676 069
Forbes and Manhattan Inc.	**287 743**	406 800
RCF	**251 058**	-
Total	**1 139 356**	1 082 869

The Company has historically shared office space in Toronto, Canada with other companies which 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. On December 7, 2013, the agreement between the Company and 2227929 Ontario Inc. for a fee of $40,000 per month was terminated, with a three month termination period. Following the termination period, the Company has agreed to pay a reduced monthly fee to 2227929 Ontario Inc. for the use of shared services until July 31, 2014.

28 RELATED PARTIES (continued)

Mr. Stan Bharti, a former director of the Company, is the Executive Chairman of Forbes & Manhattan, Inc. The Company previously had consulting agreements with each of Mr. Stan Bharti and Forbes & Manhattan Inc.:

- On May 1, 2013 the consulting agreement with Mr. Stan Bharti for a consulting fee of $15,000 per month was terminated.
- On May 1, 2013, the consulting agreement between the Company and Forbes and Manhattan Inc. for an administration fee of $15,000 per month was amended to include three months termination clause and 24 months change of control clause.
- On December 7, 2013, the consulting agreement between the Company and Forbes and Manhattan Inc. was terminated with a three month termination period, and an agreement between the parties that no change of control payment would be triggered.

RCF is a related party to the Company as a result of owning more than 10% of the issued and outstanding Common Shares and having a representative, Mr. Thomas Quinn Roussel on the Board of Directors of the Company. The Company has paid establishment fees and interest to RCF on the RCF Original Loan and RCF Bridge Loan, in addition to the costs disclosed above (Refer to note 21). As set out in the legal agreements relating to the RCF loan facilities, RCF has invoiced the Company for costs incurred by RCF relating to the facilities, which are disclosed above.

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

	February 28, 2014	February 28, 2013
Related party payables		
2227929 Ontario Inc.	**243 321**	7 938
Forbes and Manhattan Inc.	**6 029**	-
RCF	**209 370**	-
Total	**458 720**	7 938

These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

The remuneration of directors and other members of key management personnel (officers) during the period was as follows:

	February 28, 2014	February 28, 2013
Short-term benefits	**1 417 824**	1 506 823
Share-based payments	**336 250**	-
Total	**1 754 074**	1 506 823

As of February 28, 2014 $100,000 worth of RSU's were granted to a director but not issued under the plan. Amounts owing to directors and other members of key management personnel were $275,000 as of February 28, 2014.

29 COMMITMENTS AND CONTINGENCIES

Management contracts

The closing of the RCF Original Loan (note 21) triggered the change of control provision in certain consulting contracts amounting up to $2,3 million. In terms of the closure of the Company's Toronto office, settlement agreements were entered into in respect of these management contracts in terms of which the relevant parties agreed to settlement arrangements in full and final settlement of all obligations under the contracts, including the change of control payments. The settlement payments are payable on a monthly basis, as services are provided, with the exception of the lump sum settlements referred to below, and no material commitment therefore exists at February 28, 2014.

Mr. Stephan Theron was entitled, prior to April 30, 2014 to elect whether to receive a portion of his settlement amount in either cash or Common Shares, subject to the Company achieving minimum EBITDA thresholds for the twelve months ending February 28, 2015. Mr. Theron did not elect to receive cash, and is therefore entitled to receive $300,000 in Common Shares, subject to the Company achieving EBITDA of $12,5 million for the twelve months ending February 28, 2015.

Certain management were entitled to lump sum payments, in an aggregate amount of $45,500 on receipt by the Company of the Escrow Funds relating to the Riversdale Acquisition (note 27).

The Company has entered into new management contracts with certain members of management. These contracts require that payments of approximately $1,3 million be made upon the occurrence of a change of control, other than a change of control attributable to RCF.

Instalment sale agreements

The Company is committed to minimum amounts under instalment sale agreements for plant and equipment. Minimum commitments remaining under these leases at February 28, 2014 were $0,08 million and are payable in the current period.

Environmental contingency

The Company's mining and exploration activities are subject to various 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.

Capital commitments

FC Dundee and Zinoju entered into an agreement with Ikwezi Mining Proprietary Limited ("Ikwezi") for the acquisition of a portion of the Ikwezi mining right over the property known as Alleen No. 2, located north of Dundee in Kwa-Zulu Natal, South Africa, adjacent to FC Dundee's Magdalena opencast operations.

29 COMMITMENTS AND CONTINGENCIES (continued)

Capital commitments (continued)

Zinoju will acquire Alleen No. 2 for a purchase price of R8,0 million (approximately $0,8 million), based on the estimated run of mine that can be extracted from the mining right area. If the run of mine actually extracted exceeds the agreed upon production threshold, Ikwezi is entitled to receive a top-up payment equivalent to R10 (approximately $1) per tonne extracted which exceeds the production threshold.

The agreement is subject to Zinoju receiving written consent from the Minister of Mineral Resources in terms of section 102 of the Mineral and Petroleum Resources Development Act 28 of 2002 (“MPRDA”) on or before June 30, 2014.

Outstanding legal proceedings

Sasfin Bank Limited has claimed advisory fees in relation to the successful conclusion of the Riversdale Acquisition in the amount of R5,7 million (approximately $0,6 million). The Company believes the claim is without merit and intends to defend itself against this claim. No amount has been provided for related to this claim in the consolidated annual financial statements for the years ended February 28, 2014 and 2013.

An appeal was lodged in terms of section 96 of the MPRDA, by the Avemore Trust challenging the DMR in relation to the grant of Mining Right 174 MR (“Mining Right 174”) to Zinoju. Zinoju has lodged its replying submission to the DMR and in the interim, pending the outcome of the process embarked upon by Avemore Trust, Zinoju remains the holder of Mining Right 174 and is entitled to continue mining activity in the mining area covered by Mining Right 174. The Company is taking various steps to mitigate any potential risks in relation to the appeal.

Sale, transfer and cession of a notarial mining right to Zinoju

The Company entered into an agreement to acquire a mining right, for a total consideration of R14,0 million ($1,4 million), of which R2,0 million ($0,2 million) was paid as a deposit and the balance of R12,0 million ($1,2 million) was paid by Zinoju to the seller in June 2013.

The mining right is included in property, plant and equipment as at February 28, 2014.

30 SUBSEQUENT EVENTS

Settlement of Riversdale Acquisition disputes

In March 2014, subsequent to financial year-end, the Company reached a settlement agreement with RML in respect of the disputes between the parties. The claim by the Company against RML for the return of the Escrow Funds, and the claim by RML against the Company for damages in the amount of R299,5 million (approximately $30,9 million) were settled by way of the Escrow Funds (including interest) being shared between the parties as to R19,4 million (approximately $2,0 million) to RML and the balance of R29,3 million (approximately $3,0 million) to the Company.

Pursuant to the terms of the settlement agreement, neither party has any further claim, right, liability and/or duty of any kind towards the other party in respect of either claim.

30 SUBSEQUENT EVENTS (continued)

In terms of the settlement arrangements with management as set out in Note 29, certain management was entitled to lump sum payments, in an aggregate amount of $45,500 on receipt by the Company of the Escrow Funds.

TSX Delisting Review

The TSX has informed the Company that it will be placed under remedial delisting review in connection with the Company's application for reliance on the financial hardship exemption from shareholder approval in respect of the RCF Bridge Loan. Delisting review is customary practice under TSX policies when a company requests relief in reliance on this exemption.

Closing of RCF US$25 million Facility and Investec Restructuring

The RCF US$25 million Facility and Investec restructuring are expected to close on or around June 30, 2014, subject to the receipt of shareholder approval.

On closing,

- the Company will draw down US$15,0 million (approximately $16,6 million) under the RCF US$25 million Facility, and the terms of the RCF Bridge Loan and the RCF Original Loan will be amended to contain the same terms and conditions as the RCF Convertible Loan, resulting in the Company entering into the RCF US$25 million Facility for an aggregate amount of US$25,0 million ($27,7 million).

- The Company will enter into new Restructured Investec which will be applied against the refinancing of the Investec Facilities.

- Investec will subscribe for warrants of R50,0 million ($5,2 million), with a strike price of $0.1446, the proceeds of which will be applied against settlement of the Bullet Facility. RCF will have the right to acquire the warrants from Investec at agreed pricing.

Subsequent to year-end, Investec waived the covenant breach for the period ending May 31, 2014 and has waived the capital repayment due on the same date. Furthermore, FC Dundee received an extension on the final maturity date of the working capital facility to July 7, 2014.

Subsequent to year-end, the Company issued shares to RCF in settlement of interest owing on the convertible and bridge loan facilities for the periods ending February 28, 2014, March 31, 2014 and April 30, 2014. An additional 356,728, 1,704,778 and 598,687 Common Shares were issued at prices of $0.1247, $0.1103 and $0.0914, respectively.