Forbes & Manhattan Coal Corp.
Management's Discussion and Analysis
For the three and twelve months ended February 28, 2013

The following Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of Forbes & Manhattan Coal Corp. ("we", "our", "us", "Forbes Coal", the "Company" or the "Corporation") for the three and twelve months ended February 28, 2013 and should be read in conjunction with Audited Annual Consolidated Financial Statements and related years ended February 28, 2013 and February 29, 2012. The financial statements and related notes have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain non-IFRS measures are discussed in this MD&A which are clearly disclosed as such. Additional information and press releases have been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and are available online under the Forbes & Manhattan Coal Corp. profile at www.sedar.com.

This MD&A reports our activities through May 29, 2013 unless otherwise indicated. References to Q1, Q2, Q3 and Q4 2013 or the 1st, 2nd, 3rd and 4th quarter of 2013 mean the three months ended May 31, 2012, August 31, 2012, November 30, 2012 and February 28, 2013 respectively, references to Q1, Q2, Q3 and Q4 2012 or the 1st, 2nd, 3rd and 4th quarter of 2012 mean the three months ended May 31, 2011, August 31, 2011, November 30, 2011 and February 29, 2012 respectively.

Unless otherwise noted all amounts are recorded in Canadian dollars.

NJ Odendaal B.Sc. (Geol.), B.Sc. (Hons) (Min. Econ.), M.Sc. (Min. Eng.) Pr. Sci. Nat., FSAIMM, GSSA, MAusIMM and D Van Heerden B.Ing. (Min. Eng.), M.Comm. (Bus. Admin.), are qualified persons as defined in National Instrument 43-101 and have reviewed the technical information in the MD&A.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking information under Canadian securities legislation. Forward-looking information includes, but is not limited to, information with respect to the Company's (as defined below) expected production from, and further potential of, the Company's properties; the Company's ability to raise additional funds; the future price of minerals, particularly coal; the estimation of mineral reserves and mineral resources; conclusions of economic evaluations; the realization of mineral reserve estimates; the timing and amount of estimated future production; costs of production; capital expenditures; success of exploration activities; mining or processing issues; currency exchange rates; government regulation of mining operations; labour relations and future collective agreements; and environmental risks. In general, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking information is based on the opinions and estimates of management as of the date such statements are made. Estimates regarding the anticipated timing, amount and cost of exploration, and development and production activities are based on assumptions underlying mineral reserve and mineral resource estimates and the realization of such estimates. Capital and operating cost estimates are based on extensive research of the Company, purchase orders placed by the Company to date, recent mining costs and other factors. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Such factors include: the price of coal; the Company's securities may experience price volatility; production estimate risks; cost estimate risks; risks relating to the depletion of mineral reserves; power supply risks; South Africa country risks; environmental risks and other hazards; risks relating to the requirement for additional capital; mineral legislation risks; risks relating to foreign mining tax regimes; title to mineral holdings risks; infrastructure risks; exploration and development risks; competition risks; currency fluctuation risks; risks relating to owning foreign assets; risks relating to dependence on key personnel; dependence on outside parties; labour and employment risks; insurance and uninsured risks; litigation risks; and the Company's directors and officers may have conflicts of interests. Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

OVERVIEW OF THE COMPANY

Forbes Coal is a coal mining and supply company operating in South Africa. The Company is listed on the Toronto Stock Exchange ("TSX") and the securities exchange operated by the JSE Limited ("JSE"). Forbes Coal began trading under the symbol "FMC" on the TSX on September 27, 2010 and on the JSE on July 28, 2011.

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

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

FORBES COAL DUNDEE PROPERTIES

The Magdalena Property is located 22 kilometers from the town of Dundee in KwaZulu-Natal and encompasses approximately 1,844 hectares. The Magdalena Property which consists of the Magdalena underground mine and the Magdalena opencast operation, has an estimated measured and indicated mineable coal resource of 50.29 million tonnes of *in situ* coal with an estimated volume of 33.52 million cubic metres. The Magdalena opencast operation and underground mine have an estimated production capacity of 100,000 tonnes of bituminous coal per month. One of the Company's two processing plants is located on the Magdalena Property.

The Aviemore Property is located four kilometers from the town of Dundee in KwaZulu-Natal and encompasses approximately 5,592 hectares. The Aviemore Property consists of the Aviemore underground mine and has an estimated mineable measured and indicated coal resource of 35.35 million tonnes of *in situ* coal with an estimated volume of 23.57 million cubic metres. The Aviemore underground mine has an estimated production capacity of 45,500 tonnes of anthracite coal per month.

Forbes Coal Dundee's head office is located in the town of Dundee and is known as the Coalfields site. The second processing plant is located at Coalfields, as is the Company's rail siding.

FORBES COAL RESOURCES

Mr. C J Muller: B.Sc. (Hons) (Geol.), Pr. Sci. Nat (P.Geo) is a qualified person as defined in National Instrument 43-101 and has read and approved the scientific and technical information included in this table. The following table sets forth the resource estimate for the Forbes Coal Dundee Properties.

Mineable Coal Resources for the Dundee Operations as at 1 October 2012														
Area	**Seam**	**Resource Seam Width**	**Resource Classification**	**Seam Width**	**Volume**	**RD**	**Tonnage**	**Ash**	**Fixed**	**CV**	**Inherent**	**Sulphur**	**Volatiles**	**Yield**
		Cut-Off m	**Category**	**m**	**Mm³**	**t/m³**	**Mt**	**%**	**%**	**MJ/Kg**	**%**	**%**	**%**	**%**
Magdalena Underground	Gus	0.8	Measured	1.90	8.48	1.5	12.72	14.89	65.79	29.46	1.23	1.62	17.76	77.52
	Alfred	0.8	Measured	2.10	10.72	1.5	16.08	15.62	66.21	30.16	1.39	1.48	16.76	79.02
	Combined	0.8	Measured	4.10	13.98	1.5	20.97	14.77	67.84	29.25	1.39	1.55	15.27	82.98
	Total Measured				**33.18**	**1.5**	**49.77**	**15.08**	**66.79**	**29.60**	**1.35**	**1.55**	**16.39**	**80.31**
Area	**Seam**	**Resource Seam Width**	**Resource Classification**	**Seam Width**	**Volume**	**RD**	**Tonnage**	**Ash**	**Fixed**	**CV**	**Inherent**	**Sulphur**	**Volatiles**	**Yield**
		Cut-Off m	**Category**	**m**	**Mm³**	**t/m³**	**Mt**	**%**	**%**	**MJ/Kg**	**%**	**%**	**%**	**%**
Hilltop	Gus	0.8	Inferred	1.50	1.97	1.5	2.96	21.24	-	22.11	0.98	1.84	13.19	100
	Alfred	0.8	Inferred	1.60	5.64	1.5	8.46	21.07	-	22.24	0.94	1.86	13.47	100
	Total Inferred				**7.61**	**1.5**	**11.42**	**21.11**	**-**	**22.21**	**0.95**	**1.85**	**13.40**	100
Area	**Seam**	**Resource Seam Width**	**Resource Classification**	**Seam Width**	**Volume**	**RD**	**Tonnage**	**Ash**	**Fixed**	**CV**	**Inherent**	**Sulphur**	**Volatiles**	**Yield**
		Cut-Off m	**Category**	**m**	**Mm³**	**t/m³**	**Mt**	**%**	**%**	**MJ/Kg**	**%**	**%**	**%**	**%**
Magdalena Opencast	Gus	0.8	Measured	1.90	0.10	1.5	0.16	22.35	54.28	25.63	1.83	1.68	21.52	89.01
	Alfred	0.8	Measured	2.00	0.24	1.5	0.36	26.58	51.97	23.53	1.93	1.90	19.51	95.04
	Total Measured				**0.34**	**1.5**	**0.52**	**25.30**	**52.67**	**24.16**	**1.90**	**1.83**	**20.12**	**93.22**
Area	**Seam**	**Resource Seam Width**	**Resource Classification**	**Seam Width**	**Volume**	**RD**	**Tonnage**	**Ash**	**Fixed**	**CV**	**Inherent**	**Sulphur**	**Volatiles**	**Yield**
		Cut-Off m	**Category**	**m**	**Mm³**	**t/m³**	**Mt**	**%**	**%**	**MJ/Kg**	**%**	**%**	**%**	**%**
Aviemore Mine	Gus	0.8	Measured	1.80	0.82	1.5	1.23	13.34	77.76	30.15	1.84	2.01	7.19	74.31
	Total Measured				**0.82**	**1.5**	**1.23**	**13.34**	**77.76**	**30.15**	**1.84**	**2.01**	**7.19**	**74.31**
Leeuw Mining & Exploration	Gus	0.8	Indicated	1.72	9.72	1.5	14.58	13.55	77.53	29.00	2.21	1.80	6.73	63.51
Zinoju Coal	Gus	0.8	Indicated	1.72	13.03	1.5	19.54	13.46	75.51	28.93	2.59	1.60	8.28	57.00
	Total Indicated				**22.75**	1.5	**34.12**	**13.50**	**76.37**	**28.96**	**2.43**	**1.69**	**7.62**	**59.78**
	Total Measured & Indicated				**23.57**	**1.5**	**35.35**	**13.49**	**76.42**	**29.00**	**2.41**	**1.70**	**7.60**	**60.29**
Leeuw Mining & Exploration	Gus	0.8	Inferred	1.72	1.09	1.5	1.63	14.97	74.78	27.29	1.77	1.41	8.50	55.98
Zinoju Coal	Gus	0.8	Inferred	1.72	8.99	1.5	13.48	14.14	74.72	28.85	2.49	1.71	8.64	59.60
	Total Inferred				**10.08**	**1.5**	**15.11**	**14.23**	**74.75**	**28.69**	**2.41**	**1.68**	**8.63**	**59.23**

Notes:

1. Coal Resources are inclusive of Coal Reserves.
2. Tonnes and qualities have been rounded and this may result in minor adding discrepancies.
3. The coal qualities are stated for the ash content ("ASH"), fixed carbon, calorific value ("CV"), inherent moisture, sulphur content ("Sulphur"), volatile matter ("Volatiles") and yield.
4. The coal qualities assays were determined on an air-dried moisture basis.
5. A 15% geological loss has been applied to the Gross *in situ* tonnes.
6. The declared tabulation of coal resources prepared by Minxcon has been prepared in accordance with the NI 43-101 reporting code and is compliant with this Code.
7. A cut-off seam thickness of 0.8 m has been applied to the Gross *in situ* Coal Resource statements.
8. The Coal Resources for the Magdalena and Aviemore Areas are calculated on 1.7 t/m^3 float density coal quality values and the Hilltop Coal Resources are calculated on Raw coal quality values.
9. The coal density for all areas is 1.5 t/m^3
10. The Hilltop data received from the Client did not include fixed carbon values.

OVERVIEW & OUTLOOK

The demand for South African seaborne bituminous coal is largely driven by a continued increase in thermal coal imports from India and China. On the domestic industrial front, the bituminous coal market has remained steady, with marginal growth on a year-to-year basis over the past 4 years. South Africa relies heavily on coal fired power generation. The Company produces a high quality export bituminous coal at the Forbes Coal Dundee operations. The near term outlook for bituminous coal remains healthy on the domestic front, with continued softness experienced in the export front. API4 FOB Richards Bay Spot Coal Thermal prices have remained soft at levels of between $80 and $90 per tonne. It is anticipated that prices will remain at these levels in the short to medium term.

The anthracite coal market is highly correlated with the metals industry where anthracite is primarily used as a reductant. South Africa is one of the world's largest ferrochrome and ferroalloy producers and the domestic demand for anthracite remains good. South Africa is also a large steel producer and continues to be a net importer of metallurgical coal and coke products. Forbes Coal Dundee also exports its anthracite products to global steel producers.

In summary, in an uncertain global economic environment, the outlook for Forbes Coal remains positive as the Company has a portfolio of high quality products and services both in the domestic and global thermal and metallurgical coal markets. Domestic coal supply contracts are typically structured at a fixed coal price over a 12 month period. The Company is also constantly evaluating potential acquisitions in the region.

FISCAL 2014 STRATEGY AND FUTURE PLANS

Forbes Coal's vision is to build a high quality bituminous and metallurgical coal mining and supply company with potential capacity in excess of 10M t/year. Future production growth is set to be twofold, firstly through expansion of the existing Forbes Coal Dundee operation and secondly through acquisition in the Southern African region.

The ability of the Company to increase production amounts has not been the subject of a feasibility study and there is no certainty that the proposed expansion will be economically feasible.

The Company's strategic goals in fiscal 2014 are to advance and expand production at the Forbes Coal Dundee Properties, as follows:

- Further development at Magdalena
  - Increasing productivity and production capacity at Magdalena through operational efficiency initiatives
  - Achieve saleable production of 845,000 tonnes for the year
  - Extension of the Magdalena opencast life of mine by a number of months
  - Investigate regional possibilities for the relocation of the opencast at the end of the current extension
  - Generate pitroom for future mining expansion
  - Estimated capital expenditure of $3 million

- Increase wash plant recovery rates
  - Improve from current level of 62% by improving efficiencies of wash plant by using density control
  - Investigate product upgrade potential

- Further development at Aviemore
  - Achieve saleable production of 300,000 tonnes for the year
  - Progress exploration program and feasibility study for the expansion of Aviemore to a 1,000,000 run of mine ("ROM') tonnes per year producer
  - Estimated capital expenditure of $0.8 million

- Improve operational efficiencies
  - Further develop management team with international experience
  - Explore opportunities to increase sales and exports
  - Explore new market opportunities for the anthracite product
  - Increase rail and port allocation to further gain exposure to seaborne bituminous and anthracite export markets, where feasible

The Company plans to continue exploration programs at both mines to determine expansion potential:

- At Magdalena: drilling for potential opencast mine expansion has been completed.
- At Aviemore: a feasibility study for the expansion of Aviemore, will be undertaken and the scoping study in this regard has been initiated internally.

The Company is also focused on the exploring the potential for acquisition of further high quality bituminous and metallurgical coal projects (both greenfield and producing) in the Southern African region.

CANCELLED ACQUISITION OF RIVERSDALE MINING LIMITED

Proposed acquisition of Riversdale Mining Limited

On September 24, 2012, the Company and Rio Tinto PLC ("Rio Tinto") announced that they entered into a definitive agreement whereby the Company was expected to acquire 100% ownership of the shares and shareholder claims of Riversdale Mining Limited ("RML") in Riversdale Holdings (Proprietary) Limited ("RHPL") (the "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.

Cancellation of proposed acquisition

In February 2013, the Company notified RML of the cancellation of the agreement between the Company and RML for the acquisition by the Company of 100% of the shares and shareholder claims of RHPL.

Subsequent to the parties entering into the agreement in September 2012, and pending fulfillment of the conditions precedent contained in the agreement, management and the board of directors believed that the performance of ZAC deteriorated to a material extent. This, in the opinion of the Company, constituted a material breach of certain of the provisions of the agreement by RML, entitling the Company to cancel the agreement. The cancellation took place by written notice from the Company to RML on February 1, 2013. RML has denied being in breach of the agreement. RML has also alleged damages have been suffered by RML as a result of the termination of the agreement. The parties have attempted to reach agreement on an alternative and mutually beneficial way forward in respect of the acquisition, but such discussions have to date been unsuccessful. The Company will defend itself against any claims received against Forbes Coal by RML as a result of the termination of the agreement. As at February 28, 2013 and May 29, 2013, the Company is not aware of any formal claims having been made against Forbes Coal by RML.

The deposits made totalling ZAR 45,500,000 ($5,214,300) are expected to be recovered and therefore have been included in the accounts and other receivables at February 28, 2013.

Loan facility

Investec had agreed to underwrite the funding for the Acquisition, by the way of the provision of guarantees of ZAR 394.5 million (approximately $44.1 million) to Riversdale Mining Limited, and ultimately by providing debt funding for the same amount, for the payment of the purchase consideration.

As at February 28, 2013, no liability existed to Investec in respect of the transaction guarantees, other than in respect of the front–end fee. Pursuant to the loan agreement, the Company must pay to the lender a front–end fee equal to 4% of the guarantee facility amount. This fee of ZAR 17,989,200 (approximately $2,062,000) has been accrued in full on the closing date of the guarantee facility agreement and is payable in May 2013. The transaction guarantees expire on May 31, 2013.

As at February 28, 2013, all costs related to the loan facility and incurred by the Company were charged to the Transaction costs within other Items in the consolidated statements of operations.

See additional securities in respect of the Investec term loan facility and revolving loan facility as disclosed in the Investec loan section of this MD&A.

EXECUTIVE SUMMARY AND OPERATIONAL OVERVIEW FOR THE QUARTER

During October and November 2012, the mining industry in South Africa experienced tense labour relation issues. Labour disruptions together with time required returning the operations to normal at the Forbes Coal Dundee Properties lasted 6 weeks, which had a significant negative impact on the operations and financial results of the Company for the twelve months ended February 28, 2013.

	Q3 2013	Q4 2013	Change Q3 2013 vs Q4 2013	Change % Q3 2013 vs Q4 2013	Q4 2012	Change Q4 2013 vs Q4 2012	Change % Q4 2013 vs Q4 2012
Financial results (CAD million):							
-Revenue	10.83	13.47	2.64	24%	18.49	-5.02	-27%
-Gross profit (loss)	-2.29	-0.93	1.36	59%	1.06	-1.99	-188%
-Consolidated EBITDA	-3.39	-2.58	0.81	24%	1.54	-4.11	-267%
-Forbes Coal Dundee stand alone EBITDA	-1.43	-1.61	-0.18	-13%	2.91	-4.52	-155%
Production results (t):							
-Total ROM production	246,002	364,145	118,143	48%	303,029	61,116	20%
-Total saleable production of below:	176,949	225,099	48,150	27%	223,901	1,198	1%
- including own production	152,013	214,044	62,031	41%	204,310	9,734	5%
- including bought in coal	24,936	11,055	-13,881	-56%	19,591	-8,536	-44%
-Total sales	146,559	168,913	22,354	15%	219,889	-50,976	-23%
-Calculated yield on plant feed (%)	**63.5%**	**58.6%**	-4.9%	-8%	**63.5%**	-4.9%	-8%

SUMMARIZED FINANCIAL RESULTS OF FORBES COAL DUNDEE

	Three months ended			Twelve months ended	
	November 30, 2012	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Run of Mine (ROM) (t)	246,002	364,145	303,029	1,411,773	1,290,799
Run of Mine (ROM) coal purchased (t)	-	-	10,685	1,569	32,345
Saleable production (t)	152,013	214,044	204,310	867,245	876,793
Saleable coal purchased, including adjustment (t)	24,936	11,055	19,591	90,809	46,904
Plant feed (t)	239,450	365,008	321,502	1,397,096	1,316,673
Yield (%) on plant feed	63.5%	58.6%	63.5%	62.1%	66.6%
Inventory tonnes balance open	80,407	102,924	38,258	41,109	189,778
Inventory tonnes balance close	102,924	162,479	41,109	162,479	41,109
Sales (t)	146,559	168,913	219,889	836,655	1,081,814
Revenue 000,000's (CAD)	10.8	13.5	18.5	68.5	104.5
EBITDA 000,000's (CAD)	(1.4)	(1.6)	2.9	3.4	27.3
CAD: USD (average)	0.99	1.00	1.01	1.00	0.99
ZAR: CAD (average)	8.69	8.79	7.86	8.38	7.44
Selling price (average) / sold production tonnes (CAD)	73.91	79.77	84.11	81.87	96.59
Selling price (average) / sold production tonnes (USD)	74.81	80.02	83.19	81.97	97.43
Cash cost of sales and operating expenses 000,000's (CAD)	11.1	13.0	14.0	58.6	71.1
Cash cost of sales and operating expenses / sold production tonnes (CAD)	75.96	76.78	63.71	70.02	65.69
Cash cost of sales and operating expenses / sold production tonnes (USD)	76.89	77.02	63.01	70.11	66.25
Capital expenditures 000,000's (CAD)	1.77	1.27	2.95	6.90	20.41
Capital expenditures per t of saleable production (CAD)	11.65	5.92	14.46	7.96	23.28

Numbers in this chart are derived from the Forbes Coal Dundee stand alone financial statements (See non-IFRS measures).

OPERATIONAL HIGHLIGHTS

	Three months ended			Twelve months ended	
	November 30, 2012	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Sales from:					
-Aviemore operations (t)	39,558	39,369	65,239	189,376	185,508
-Calcine operations (t)	-	-	682	-	29,506
-Magdalena operations (t)	107,001	129,544	139,123	647,279	819,896
-Purchased coal (t)	-	-	14,845	-	46,904
Total sales (t)	**146,559**	**168,913**	**219,889**	**836,655**	**1,081,814**
Saleable production from:					
-Aviemore operations (t)	40,270	57,502	52,610	255,309	175,675
-Magdalena operations (t)	111,743	156,542	144,427	611,936	681,116
-Purchased, incl adjustment (t)	24,936	11,055	26,864	90,809	66,906
Total saleable production (t)	**176,949**	**225,099**	**223,901**	**958,054**	**923,697**
Run of Mine production from:					
-Aviemore operations (t)	61,742	85,591	88,241	402,593	281,244
-Magdalena operations (t)	184,260	278,554	214,788	1,009,180	1,009,555
Total ROM production (t)	**246,002**	**364,145**	**303,029**	**1,411,773**	**1,290,799**

Labour disruptions

During the period under review, the mining industry in South Africa experienced tense labor relation issues. Labour disruptions at the Forbes Coal Dundee Properties lasted 4.5 weeks out of 13 weeks in Q3 2013, from October 17, 2012 to November 16, 2012, representing one third of the working weeks in the quarter. This had a significant negative impact on the operations and financial results of the Company for Q3, Q4 2013 and the year ended February 28, 2013.

The strike action related to wage demands made by employees and their unions. Extensive negotiations were held over the period between Forbes Coal management and the unions representing employees, and an average unionized wage increase of 14.8% and extended working hours were ultimately agreed between the parties.

Regrettably, a tragic incident related to the labour disruption took place at the Forbes Coal mines during the strike period, resulting in the fatalities of two Forbes Coal employees.

ROM Production

- Total ROM production from all operations for Q4 2013 was 364,145 tonnes, a 48% increase compared to 246,002 tonnes produced in Q3 2013. The increase in ROM production in Q4 2013 was primarily due to low production in Q3 as a result of the labour disruptions as set out above.
- Total ROM production for Q4 2013 was below targeted ROM production of 467,501 tonnes (as originally budgeted prior to the labour disruptions) primarily as a result of the impact of the labour disruptions which took place at the end of Q3, as well as difficult geology, interruptions in the power supply and high target tonnages for a stone section in Magdalena.
- Total ROM production from all operations for the twelve months ended February 28, 2013 was 1,411,773 tonnes, a 9% increase compared to 1,290,799 tonnes produced in the twelve months ended February 29, 2012.
- ROM production from Magdalena operations, underground and open pit combined, for Q4 2013 was 278,554 tonnes, a 51% increase compared to 184,260 tonnes produced in Q3 2013. The production for the quarter comprised 196,178 tonnes from the underground operations and 82,376 tonnes from the open pit.

- ROM production from Aviemore operations for Q4 2013 was 85,591 tonnes, a 39% increase compared to 61,742 tonnes produced in Q3 2013.
- ROM production from Magdalena operations for the twelve months ended February 28, 2013 was 1,009,180 tonnes, on par when compared to 1,009,555 tonnes produced for the twelve months ended February 29, 2012.
- ROM production from Aviemore operations for the twelve months ended February 28, 2013 was 402,583 tonnes, a 43% increase compared to 281,244 tonnes produced for the twelve months ended February 29, 2012.

Saleable Production

- Saleable coal production for Q4 2013 was 214,044 tonnes, a 41% increase compared to 152,013 saleable tonnes in Q3 2013, as a result of the increased ROM production.
- Saleable coal bought in for Q4 2013 was 11,055 tonnes, compared to 24,936 tonnes in Q3 2013, resulting in total saleable tonnes of 225,099 in Q4 2013, a 27% increase compared to 176,949 total saleable tonnes in Q3 2013. The Company used bought in coal to blend with lower volatile coal to increase the coal qualities for certain customers.
- Saleable coal for the twelve months ended February 28, 2013 was 958,054 tonnes (including bought in coal), a 4% increase compared to 923,697 saleable tonnes in the twelve months ended February 29, 2012, as a result of the increased ROM production.
- The total calculated yield from plant feed was 58.6% for Q4 2013, compared to 63.5% for Q3 2013.
- The total plant yield from plant feed was 62.1% for the twelve months ended February 28, 2013, compared to 66.6% for the twelve months ended February 29, 2012.
- Thinner coal seams and additional roof cutting in Magdalena sections 1 and 5 continued to result in increased contamination of coal from these sections during Q4 2013, resulting in lower yields.

Sales

- Total sales of bituminous coal and anthracite products for Q4 2013 were 168,913 tonnes, a 15% increase compared to 146,559 tonnes sold in Q3 2013.
- Export sales for Q4 2013 were 68,368 tonnes, a 7% decrease compared to 73,188 tonnes sold in Q3 2013.
- Domestic sales in Q4 2013 were 100,545 tonnes, a 36% increase compared to 73,371 tonnes sold in Q3 2013.
- Total sales of bituminous coal and anthracite products in 2013 were 836,655 tonnes, a 23% decrease compared to 1,081,814 tonnes sold in 2012.

Logistics

Coal is normally transported by rail and truck to domestic customers, while export coal is transported to the Richards Bay Coal Terminal (RBCT) and the Grindrod Navitrade terminal (Navitrade) by rail. A comprehensive review of the coal handling and processing plants at Magdalena and Coalfields was undertaken with a view to improving efficiency and capacity. The siding at Coalfields was included in this review.

Forbes Coal negotiated an agreement with Navitrade for incremental capacity over a three year period, with export capacity in the terminal of 960,000 metric tonnes for calendar 2013 year.

Forbes Coal transported 68,814 tonnes of saleable product to Navitrade in Q4 2013, an increase of 27% compared to Q3 2013 and shipped 74,727 tonnes during Q4 2013, a decrease of 14% compared to Q3 2013. Coal inventory at Navitrade at the end of Q4 2013 was 46,303 tonnes, a decrease of 11% compared to Q3 2013.

The Company was charged a take or pay penalty of approximately $1.08 million in respect of the contract with Grindrod for the twelve months ended February 28, 2013. It is the company's strategy to supply more coal product to domestic customers where higher margins are being generated. The lower margins on the export product are due to the decrease in the API4. The company is currently providing for the take or pay penalty on a monthly basis and it is payable on a quarterly basis.

Social Development, Health and Safety

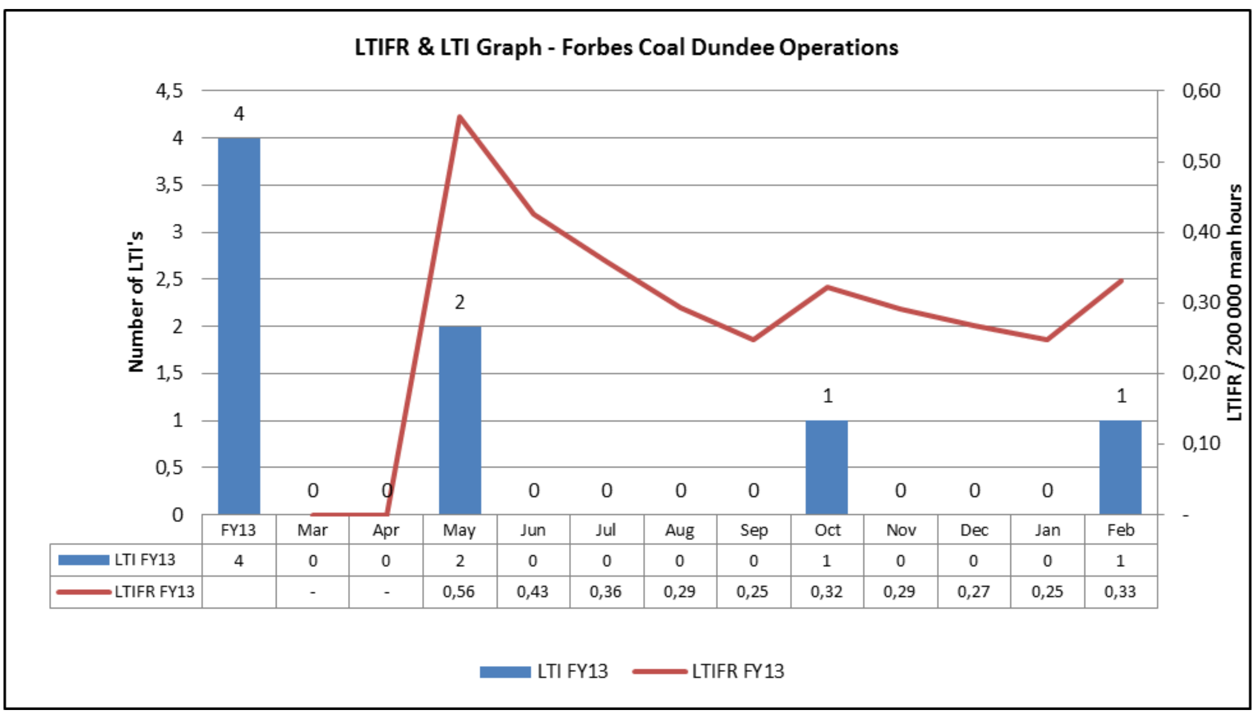
A key component of the Company's strategy involves Social Development, Health and Safety.

Forbes Coal supports a number of Social Development projects through the activities of Zinoju. These projects have had a great impact on the local community, in particular projects related to water provision, farming, brick fabrication, math literacy and the tertiary education bursary system are enjoying success. The first successful bursary student, a mine surveyor, has been engaged full time at the Zinoju operations.

Forbes Coal has implemented a revision of the Health, Safety and Environment management system including the provision of resources to support risk awareness and education campaigns. Management is confident that the results from these campaigns will support the Company's objective to achieve an Incident and Injury Free ("IIF") workplace at all its operations. This review has resulted in the following focus areas:

- Identifying and eliminating at-risk behavior;
- Implementing an integrated Safety, Health and Environment ("SHE") management system;
- Demonstrating visible leadership in the workplace;
- Managing contract workers more effectively; and
- Transforming the safety culture.
- Implementing a Health and Safety Committee of the Board of Directors

In addition, the operations baseline risk assessment has been reviewed along with the code of practice for roof support. The effect on the operations HSE performance has been significantly improved as reflected in the chart below. Note that the Lost Time Injury Frequency Rate ("LTIFR") is measured as the number of incidents per 200,000 man hours worked:



RESULTS OF OPERATIONS

Total Comprehensive Income

The net loss before income taxes for the three and twelve months ended February 28, 2013, was $6.58 million and $14.26 million respectively, compared to a net loss of $0.51 million and net income of $3.26 million for the three and twelve months ended February 29, 2012. Comprehensive loss for the three and twelve months ended February 28, 2013, was $3.91 million and $22.68 million respectively, compared to income of $5.06 million and a loss of $3.28 million for the comparable periods ended February 29, 2012.

Revenue

Coal revenues during the three and twelve months ended February 28, 2013 were $13.47 million and $68.50 million respectively compared to $18.49 million and $104.50 million for the three and twelve months ended February 29, 2012 respectively. Such decline in revenue is attributed to a decline in the coal price index in Q1 and Q2 2013 and to labour disruptions in Q3 2013.

During the twelve months ended February 28, 2013, the Company's saleable production was 958,054 tonnes and sales were 836,655 tonnes compared to saleable production of 923,697 tonnes and sales of 1,081,814 tonnes for the twelve months ended February 29, 2012.

The average selling price per coal tonne decreased in the twelve months ended February 28, 2013 when compared to the twelve months ended February 29, 2012 due to softening export coal sale pricing ($81.87 per tonne versus $96.59 per tonne).

Cost of Sales and Operating Expenses

Operating expenses for the three and twelve months ended February 28, 2013, were $12.97 million and $58.58 million ($76.78 and $70.02 per tonne) compared to $14.01 million and $71.06 million ($63.71 and $65.69 per tonne) for the three and twelve months ended February 29, 2012. This amount includes transportation, rail and port handling costs. Amortization and depletion for the three and twelve months ended February 28, 2013 amounted to $1.44 million and $8.97 million ($8.50 and $10.73 per tonne) compared to $3.43 million and $15.78 million ($15.59 and $14.59 per tonne) for the three and twelve months ended February 29, 2012. Such decrease in per tonne depreciation for the twelve months ended February 28, 2013 is directly attributable to production from newly added opencast coal portions. Included in the $8.97 million amortization and depletion expense for the twelve months ended February 28, 2013 are charges related to the property plant and equipment of $9.98 million, charges related to the intangible assets of $0.14 million and recoveries related to the coal and work in progress inventory movement of $1.15 million. Also $8.97 million of amortization and depletion expense includes $4.76 million related to the amortization and depletion of fair values adjustments made on the Forbes Coal Dundee acquisition.

The Magdalena underground and other production costs were higher on a per tonne basis in Q4 2013 when compared to Q4 2012 ($77.02 per tonne vs $63.01 per tonne). The major contributing factor was the ongoing impact of the labour disruptions in October and November of 2012, resulting in the fixed cost allocation per tonne being higher as a result of the reduced production. Another contributing factor to the cost increase has been the redesign of roof support systems in order to eliminate fall of ground accidents and injuries, as set out below. This has resulted in approximately 33% more roof support being installed. Additionally, and in order to create sufficient pit room for the increased number of sections, a higher number of dykes have been negotiated.

The Company is also seeing increased costs compared to prior years and periods as a result of new initiatives including increased supervisory oversight at the mine sites, implementation of health and safety initiatives and other enhanced mining and administrative standards.

In particular and as a part of the health and safety initiatives and investigations undertaken over the last year, the Company focused on improving safety performance at the Magdalena underground mine. It was established that the roof support system with the first 5cm layer of friable roof material could not be supported adequately to prevent fall of ground incidents occurring. As a result, this material is now cut down with the continuous miner which contributes to dilution of the ROM coal. This has negatively affected washing plant yields.

During the twelve months ended February 28, 2013, in addition to the labour disruptions, the major production challenges at Magdalena underground mine continue to be difficult geology, and interruptions in the power supply.

Expenses

The Company recorded expenses of $3.12 million and $11.01 million during the three and twelve months ended February 28, 2013 compared to $3.80 million and $13.94 million during the three and twelve months ended February 29, 2012. During the three and twelve months ended February 28, 2013 the Company recorded $nil and $0.04 million in stock based compensation related to vesting of previously granted options. Comparatively, the Company recorded $0.59 million and $2.36 million in stock based compensation during the three and twelve months ended February 29, 2012 related to the estimated fair value of nil and 1,475,000 options issued respectively.

The Company adopted a stock option plan (the "Plan") to be administered by the directors of the Company. Under the Plan, the Company may grant options to purchase shares of the Company to directors, officers, employees and consultants. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. The Plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. Options granted under the Plan will be for a term not to exceed five years. The Plan provides that, it is solely within the discretion of the Board to determine who should receive stock options, in what amounts, and determine vesting terms. The exercise price for any stock option shall not be lower than the market price of the underlying common shares, or at fair market value in the absence of a market price, at the time of grant.

In March 2011, the Company granted 825,000 stock options to directors, officers and consultants of the Company at an exercise price of $4.10 expiring five years from the date of grant. The value of these options was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend – 0%; risk-free interest rate - 2.15%; expected volatility – 63%; and time to expiry – 5 years from the date of grant. Management considered the estimated forfeiture rate and concluded that its effect would not have a material impact on the valuation of the stock options.

In June 2011, the Company granted 100,000 stock options to officers and consultants of the Company at an exercise price of $3.00 and 150,000 (37,500 were allotted in June 2011 and the remainder 112,500 options were allotted in December 2011, when enough room became available under the Plan) at an exercise price of $2.77 expiring five years from the date of grant. The value of these options was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend – 0%; risk-free interest rates between 2.23-2.24%; expected volatility – 61%; and time to expiry – 5 years from the date of grant. No forfeiture rate consideration was applied.

In January 2012, the Company granted 400,000 stock options to directors, officers and consultants of the Company at an exercise price of $1.80 expiring five years from the date of grant. The value of these options was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend – 0%; risk-free interest rate - 1.36%; expected volatility – 67%; and time to expiry – 5 years from the date of grant. Management considered the estimated forfeiture rate and concluded that its effect would not have a material impact on the valuation of the stock options.

No options were granted during the twelve months ended February 28, 2013.

Included in expenses are $0.79 million and $4.17 million respectively for the three and twelve months ended February 28, 2013 for consulting and professional fees compared to $1.19 million and $5.03 million for the three and twelve months ended February 29, 2012. The primary reasons for the decrease in year over year amounts were bonuses and success fees paid during the twelve months ended February 29, 2012 totaling $0.75 million as well as the inclusion of new staff hired in Forbes Coal's South African office. The bonuses were paid in order to recognize certain milestones met during the year, including the Johannesburg listing and certain production, integration and sales targets.

General and administrative expenses of $1.73 million and $6.19 million for the three and twelve months ended February 28, 2013 were somewhat lower when compared to general and administrative expenses of $1.89 million and $6.23 million for the three and twelve months ended February 29, 2012. Of the $6.19 million and $6.23 million, $5.55 million and $5.04 million originate from the South African offices, in both Dundee and Johannesburg, and $0.64 and $1.19 million are related to the head office in Toronto. General and administrative expenses from the South African offices increased as a result of new initiatives, including implementation of health and safety initiatives, facilitation of improved staff training and other enhanced mining and administrative standards. These initiatives impacted administration staff costs. Increased legal fees were also incurred in relation to the labour disruptions during the third quarter of 2013.

Other items

During the three and twelve months ended February 28, 2013 the Company recorded an expense from other items totaling $2.52 million and $4.19 million compared to an income of $0.74 million and an expense $0.23 million respectively for the three and twelve months ended February 29, 2012.

The Company recorded other income of $0.15 million and $0.86 million during the three and twelve months ended February 28, 2013 compared to $0.26 million and $0.61 million during the three and twelve months ended February 29, 2012. Other income and expense results primarily from small scrap sales, discounts received, commissions paid and certain fair value adjustments.

The Company recorded business combination transaction costs for the cancelled acquisition of Riversdale Mining Limited of $2.66 million and $2.93 million during the three and twelve months ended February 28, 2013. Business combination transaction costs reflect expenses and costs incurred by the Company in order to facilitate this transaction such as: management time costs, legal costs and travelling and accommodation expenses. The major item being expensed is a guarantee fee for a prearranged Investec Loan facility. See also Cancelled Acquisition of Riversdale Mining Limited section of this MD&A for more details.

The Company recorded $nil related to accretion with respect to the acquisition obligation for the three and twelve months ended February 28, 2013 compared to a recovery of $1.86 million and $0.32 million for the three and twelve months ended February 29, 2012. The Company made its final payment on the Forbes Coal Dundee acquisition on February 29, 2012.

The Company recorded a net interest expense of $0.02 million and $1.60 million during the three and twelve months ended February 28, 2013 compared to a net interest income of $0.11 million and net interest expense of $0.72 million for the three and twelve months ended February 29, 2012. The Company incurred interest expense primarily on borrowings which totaled $0.46 million and $2.18 million for the three and twelve months ended February 28, 2013 relating to the Investec loan facility and certain instalment sale agreements on certain equipment, compared to $0.77 million and $1.92 million for the three and twelve months ended February 29, 2012 respectively. The expense was generated from a small line of credit with First National Bank, new Investec loan facility as well as from certain installment sale agreements on certain equipment. The Company also generates interest income on cash balances held in financial institutions. The Company invested its excess cash in liquid low risk investments during the three and twelve months ended February 28, 2013 and generated $0.15 million and $0.42 million respectively, compared to $0.59 million and $0.98 million generated during the three and twelve months ended February 29, 2012.

The Company also recorded a nominal foreign currency exchange loss during the three and twelve months ended February 28, 2013 compared to a loss of $0.58 million and a gain of $0.55 million for the three and twelve months ended February 29, 2012. As previously discussed, the Company had a liability of ZAR 140 million related to the Forbes Coal Dundee acquisition obligation, which was settled on February 29, 2012. This generated the majority of foreign exchange gains and losses in the year ended February 29, 2012. The foreign exchange gain recorded in Q1, Q2, Q3 and Q4 2013 is generated primarily through settlement and revaluation of accounts payable held in the head office in US dollars and South African Rand.

The Company recorded income and other tax recovery of $3.21 million and $4.11 million during the three and twelve months ended February 28, 2013. This amount includes $0.22 million and $1.09 million that was credited to income tax expense and is related to the income tax effect of the amortization and depletion of the fair value adjustments made with respect to the purchase price allocation on the Forbes Coal Dundee acquisition. Also an amount of $2.3 million is included in income tax recovery in relation to tax recovery resulted from the effect of foreign currency fluctuation on the net book values of fair value adjustments recorded on Forbes Coal Dundee acquisition date. Income tax is payable at a rate of 28% on taxable income earned in South Africa. A dividend tax expense of $0.41 million payable in South Africa was recorded due to an intercompany dividend of $8.13 million being declared and paid from Forbes Coal Dundee to head office in Q1 2013.

Other comprehensive income items

The functional currency of the Company is the Canadian dollar. The Company's foreign subsidiary is considered to be a self-sustaining operation and its functional currency is the South African Rand. The results are translated accordingly to Canadian dollars using the current method. Under this method, the assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, the revenue and expense items are translated at the exchange rate in effect on the dates on which such items are recognized in income, and exchange gains and losses arising from the translation are recognized in other comprehensive income. Accordingly, for the three and twelve months ended February 28, 2013 a loss of $0.55 million and $12.53 million has been recorded compared to an income of $3.87 million and a loss of $5.57 million for the three and twelve months ended February 29, 2012. There was significant movement in the value of South African Rand in relation to Canadian dollar from 7.57 on February 29, 2012 to 8.73 on February 28, 2013.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital of $1.21 million as at February 28, 2013, compared to $13.72 million at February 29, 2012 (see Non-IFRS Measures). Working capital decreased by $12.51 million as a result of a decrease in cash and amounts receivable in combination with an increase in accounts payable and current portion of other financial liabilities. The current portion of the Investec loan facility has increased as per the repayment schedule, along with an increase in the current portion of the Company's instalment sale agreements liability. Also a front-end fee in the amount of $2.15 million for the loan facility on the proposed Riversdale acquisition is recorded in accounts payable. The Company also made investments in property, plant and equipment totaling $1.27 million and $6.90 million during the three and twelve months ended February 28, 2013.

Investec loan facility

The Company, through its subsidiary Forbes Coal Dundee, has secured a ZAR 230 million (approximately $26 million) loan facility from Investec Limited ("Investec"). The loan facility consists of a five year senior secured amortizing term loan facility of up to ZAR 200 million (approximately $23 million) and a revolving loan facility of up to ZAR 30 million (approximately $3 million). The facilities are secured against the assets of Forbes Coal Dundee. The term loan bears interest at the 3 month JIBAR rate, plus 3%, compounded quarterly and the revolving loan bears interest at prime interest rate less 1.5%. The interest rate has increased by 1% effective January 2013 as the earnings before interest, taxes, depreciation and amortization of Forbes Coal Dundee fell below ZAR 100 million annually (approximately $11 million).

Investec loan facility is issued under the following terms:

Facilities

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

Cession in Security

- Secured property consists of bank account, insurances, trade receivables, the borrower's shares in Zinoju Coal Proprietary Limited Ltd, all claims by and against group companies and related rights to the preceding.

Mortgage bond

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

General bond

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

Special bond

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

The Company made the following drawdowns on the facility: in January 2012, the Company made a drawdown for ZAR 11,140,000 (approximately $1,276,000), in February 2012 for ZAR 142,000,000 (approximately $16,270,000) and in June 2012 for ZAR 46,860,000 (approximately $5,370,000). As at February 28, 2013, the Company had available for drawdown facility of ZAR 30,000,000 (approximately $3,435,000).

This loan is a subject to a Net Debt/EBIDA, EBITDA/Net Interest and Debt/Equity covenants. As at February 28, 2013, the Company was not in compliance with its covenants. The bank has waived these breaches.

As at February 28, 2013, an amount of $22,747,012 (ZAR 198,490,504) has been recorded as owed under this facility and repayable as follows:

Year		Amount
2014	$	8,271,222
2015		4,825,264
2016		4,825,263
2017		4,825,263
	$	**22,747,012**

CASH FLOWS AND INVESTING ACTIVITIES

Cash and cash equivalents decreased from $9.48 million as at February 29, 2012, to $3.03 million as at February 28, 2013, representing a decrease of $6.46 million.

Operating activities during the three and twelve months ended February 28, 2013 used $1.65 million and generated $0.44 million compared to $1.56 million being used and $19.94 million being generated during the three and twelve months ended February 29, 2012. The net loss for the three and twelve months ended February 28, 2013 was $3.36 million and $10.15 million compared to a net income of $1.19 million and $2.29 million for the three and twelve months ended February 29, 2012 as discussed under the Results of Operations section of this MD&A. Non-cash items included in the net income and loss for the three and twelve months ended February 28, 2013 were: amortization and depletion of $1.44 million and $8.97 million; gains on fair value adjustments on financial assets of $0.12 million and $0.59 million; deferred income taxes of $1.78 million and $3.55 million; accretion of $0.29 million and $0.16 million; foreign exchange loss of $0.01 million and a gain of $0.06 million; stock based compensation of $nil and $0.04 million and write-down of long-term prepaid expenses of $0.44 million and $0.44 million respectively, of which the material items were discussed under the Results of Operations section of this MD&A. The Company generated $2.02 million and $4.99 million during the three and twelve months ended February 28, 2013 and used $3.26 million and generated $3.27 million during the three and twelve months ended February

29, 2012 related to the net change in non-cash working capital. The net change in non-cash working capital reported on the cash flow statement identifies the changes in current assets and current liabilities that occurred during the period. An increase in a liability (or a decrease in an asset) is a source of funds; while a decrease in a liability (or an increase in an asset) account is a use of funds.

Investing activities used $1.09 million and $10.91 million during the three and twelve months ended February 28, 2013 compared to $21.73 million and $41.06 million used in investing activities during the three and twelve months ended February 29, 2012. The Company used $5.44 million as a deposit towards the proposed and cancelled acquisition of Riversdale Mining Limited during the twelve months ended February 28, 2013 (see Cancelled Acquisition section). During the three and twelve months ended February 28, 2013 the Company used $1.27 million and $6.90 million in property, plant and equipment related to the Magdalena and Aviemore operations related to sustaining capital. Also during the twelve months ended February 28, 2013 $0.30 million was provided by restricted cash due to release of certain South African lawyers trust accounts.

The Company also recovered $1.14 million from its endowment policies which are used to fund equipment instalment sale agreements in a tax effective manner. Uses during the prior periods related primarily to the additions to property, plant and equipment in the amount of $2.95 million and $20.41 million for the three and twelve months ended February 29, 2012 as the Company engaged in mine development and its Siyathuthuka expansion project.

Financing activities generated $2.00 million and $4.51 million during three and twelve months ended February 28, 2013 and generated $15.95 million and $15.71 million during the three and twelve months ended February 29, 2012. During the three and twelve months ended February 28, 2013 the Company repaid Investec and instalment sale agreements loan facilities by $3.94 million and $4.32 million. During the three and twelve months ended February 29, 2012, the Company repaid its borrowings related to instalment sales agreements by $5.50 million and $9.58 million respectively, while making drawdowns from Investec loan facility for $20.70 million and $20.70 million respectively. The Company also received proceeds from exercise of over-allotment option to purchase 1,200,000 common stock shares at $4.55 per share for net proceeds of $4.77 million in the twelve months ended February 29, 2012.

The positive effect of $0.03 million and a negative effect of $0.51 million are recorded on the consolidated statement of cash flows and are related to the effect of foreign exchange on cash and cash equivalents for the three and twelve months ended February 28, 2013 compared to negative $0.01 million and $0.36 million for the three and twelve months ended February 29, 2012.

ANNUAL INFORMATION

	Twelve months ended February 28, 2013	Twelve months ended February 29, 2012	Fourteen months ended February 28, 2011
Revenue from mining operations (CAD $000's)	68,497	104,497	27,678
Mine operating expense (CAD $000's)	58,584	71,062	19,925
Amortization and depletion (CAD $000's)	8,974	15,783	3,510
Net income (loss) (CAD $000's)	(10,149)	2,290	(17,398)
Net income (loss) per share, basic and diluted $	(0.29)	0.07	(1.23)
Cash provided by (used in) operations (CAD$ 000's)	444	19,936	(2,917)
Tonnes of coal produced, ROM	1,411,773	1,290,799	593,234
Tonnes of coal sold	836,655	1,081,814	311,682
Average realized coal price per tonne (CAD)	82	97	93
Average realized coal price per tonne (USD)	82	97	93
Total Assets (CAD $000's)	122,429	140,551	149,405
Long term financial liabilities (CAD $000's)	14,568	20,031	11,728

QUARTERLY INFORMATION

	Q4-2013	Q3-2013	Q2-2013	Q1-2013	Q4-2012	Q3-2012	Q2-2012	Q1-2012
Revenue from mining operations (CAD 000's)	13,475	10,832	23,390	20,800	18,495	31,152	35,243	19,608
Mine operating expense (CAD 000's)	12,968	11,134	18,301	16,181	14,009	20,459	24,098	12,495
Amortization and depletion (CAD 000's)	1,436	1,993	2,739	2,807	3,427	3,907	5,521	2,928
Net income (loss) (CAD 000's)	(3,361)	(4,972)	(225)	(1,590)	1,193	3,523	(1,421)	(1,005)
Net income (loss) per share, basic and diluted $	(0.10)	(0.14)	(0.01)	(0.05)	0.03	0.10	(0.04)	(0.03)
Cash provided by (used in) operations (CAD 000's)	(1,648)	(1,800)	2,569	1,323	(1,830)	6,662	10,530	4,574
Tonnes of coal produced, ROM	364,145	246,002	414,551	387,075	303,029	354,003	322,765	311,002
Tonnes of coal sold	168,913	146,559	286,186	234,997	219,889	331,296	339,802	190,827
Average realized coal price per tonne (CAD)	80	74	82	89	84	94	104	103
Average realized coal price per tonne (USD)	80	75	81	89	83	93	107	106
Total Assets (CAD 000's)	122,429	118,374	128,902	128,180	140,551	140,922	155,894	154,954
Long term financial liabilities (CAD 000's)	14,568	15,518	22,492	18,389	20,031	8,333	9,966	10,187

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

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

	Sales of goods and services for the year ended		Purchases of goods and services for the year ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
2227929 Ontario Inc.	$ -	$ -	$ 676,069	$ 576,865
Forbes & Manhattan Inc	$ -	$ -	$ 406,800	$ 322,050
Stan Bharti	$ -	$ -	$ -	$ 101,700
Forbes Coal Dundee related parties	$ -	$ 2,207,410	$ -	$ 8,723,084

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

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

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

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

	Amounts owed by related parties as at		Amounts owed to related parties as at	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
2227929 Ontario Inc.	$ -	$ 41,584	$ 7,938	$ -
Forbes Coal Dundee related parties	$ -	$ 42,572	$ -	$ 27,749

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

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

Compensation of key management personnel

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

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

	Year ended	
	February 28, 2013	February 29, 2012
Short-term benefits	$ 1,506,823	$ 1,787,633
Share-based payments	-	1,699,300
	$ 1,506,823	**$ 3,486,933**

OTHER

New Board of Directors

On October 16, 2012, the Company announced that it has implemented an amicable reconstitution of its board of directors following discussions between the Company and Resource Capital Fund V L.P. ("RCF"), one of Forbes Coal's major shareholders.

As a result of these discussions, Forbes Coal's board was reconstituted, to include as follows: Mr. Stephan Theron, Mr. Stan Bharti, Mr. Bernard Wilson, Mr. Ryan Bennett, Mr. Mike Price, Mr. John Dreyer and Mr. Craig Wiggill.

As part of the board reconstitution, Mr. David Stein, Mr. David Gower and Mr. Grant Davey resigned their board positions.

Mr. Stephan Theron (CEO, Executive Director) has over thirteen years of extensive financial management, project finance and equity analysis experience in the mining, energy and infrastructure sectors. Prior to joining Forbes Coal in November 2009, Mr. Theron was Sector Head, Materials and Energy at an independent investment research firm with a focus on emerging markets from September 2007 to October 2009. He also worked on various capital projects in Southern Africa for AMEC PLC from January 2002 to March 2004 and AMEC PLC from June 2004 to September 2007 in North America and Europe. Mr. Theron is a Certified General Accountant and has a Bachelor of Commerce degree from the University of Johannesburg.

Mr. Stan Bharti (Non-Executive Director) has over 25 years of experience in operations, public markets and finance. Over the last ten years Mr. Bharti has been involved in acquiring, restructuring and financing various mineral companies. He is a Professional Mining Engineer and holds a Masters Degree in Engineering from Moscow, Russia and University of London, England. From 2002 to April 2006, Mr. Bharti was a director and past president of Desert Sun Mining Corp. (which was acquired by Yamana Gold Inc. in 2006). Mr. Bharti is currently the President of Forbes & Manhattan, Inc. In addition, Mr. Bharti is a director of several public and private companies.

Mr. Ryan Bennett (Non-Executive Director) is a Senior Partner with Resource Capital Funds, a private equity group of funds that invests in development and growth stage mining companies. From 1992 to 1998, Mr. Bennett held various positions within NM Rothschild & Sons in Denver and Rothschild Australia Limited in Sydney, where he was principally responsible for the technical analysis of mining projects seeking debt finance. Prior to joining Rothschilds, he worked as a geologist for the United States Bureau of Mines and a private exploration company focused on Alaska, as well as a mining engineering consultant for Caterpillar. Mr. Bennett has a Masters of Science degree in Mining Engineering from the Colorado School of Mines and a Bachelors of Science degree in Geological Engineering and Mathematics from the University of Wisconsin - Madison.

Mr. John Dreyer (Non-Executive Director) is a qualified South African lawyer, previously MD of Shell South Africa, CEO of Tavistock Coal and executive director of Anglo American Platinum. He served as chairman of ASX listed Firestone Energy until 2011. Mr. Dreyer currently serves on the board of ASX listed Cobar Consolidated Resources where he also serves on the audit committee.

Mr. Craig Wiggill (Non-Executive Director) has held management, executive and directorship positions on several international mining and marketing companies in the coal sector and, as CEO of Coal Americas at Anglo American plc. was responsible for all of that company's coal activities in North and South America. He was previously Managing Director of Anglo Coal Marketing Ltd from 2000 to 2004 and is an engineer by profession (B.Sc. Engineering, University of the Witwatersrand, 1984).

Mr. Bernard Wilson (Non-Executive Director) is a senior financial professional with a wide array of working relationships with business executives in Canada, the United States and internationally. Mr. Wilson serves as an advisor in corporate finance and investment banking and has extensive experience in major financial restructurings and international trade and commerce issues. Some of Mr. Wilson's more notable leadership roles include serving as the Chairman of the Canadian Chamber of Commerce, the largest Canadian business organization with 175,000 members, Chairman of the Canadian Council for International Business, Chairman of the International Chamber of Commerce, as a member of the Canada/US Trade Committee and Chairman Founders Board of the Institute of Corporate Directors.

Mr. Mike Price (Non-Executive Director) has more than 35 years experience in mining and mining finance. He has BSc and Phd qualifications in mining engineering from University College Cardiff, UK, a Mine Managers Certificate of Competency (Coal Mines) South Africa and he is a European Engineer (FEANI) and Chartered Mining Engineer (CEng). After working for BP Coal, BP Minerals and BP Exploration in various mine management and business development roles Mr. Price moved into mining finance with NM Rothschild & Sons, Societe Generale and Barclays Capital where he structured, arranged and advised on the financing of mining projects worldwide. Mr. Price is now a Non-Executive Director of several mining companies and he is an independent adviser on mining finance as well as the London Representative of Resource Capital Funds.

On November 1, 2012 the Company announced that it appointed Craig Wiggill as chairman of its board of directors.

Normal course issuer bid ("NCIB")

On April 25, 2012, the Company instituted a Normal Course Issuer Bid ("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 and ending on April 29, 2013, the Company may purchase up to 5% of the issued and outstanding shares of the Company. Based on the 34,865,717 shares issued and outstanding as at April 24, 2012 the maximum number of shares may be purchased during the course of the NCIB are 1,743,285. All common shares purchased under the NCIB are to be cancelled.

During the twelve months ended February 28, 2013, the Company purchased and cancelled 479,682 common shares at an average price of $0.5982 per share under the NCIB approved by the TSX.

COMMITMENTS AND CONTINGENCIES

Management contracts

The Company is party to certain management contracts. These contracts require that additional payments of approximately $2,300,000 be made upon the occurrence of a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements. Minimum commitments remaining under these contracts were approximately $520,000 all due within one year.

Instalment sale agreements obligations

The Company is committed to minimum amounts under instalment sale agreements for plant and equipment. Minimum commitments remaining under these leases were $2,496,344 over the following years:

Year		Amount
2014	$	2,403,690
2015		92,654
	$	**2,496,344**

Environmental contingency

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

The Company and its subsidiaries have made certain guarantees and pledges in the aggregate of approximately ZAR 20 million ($2,300,000).

Operating commitments

The Company is party to an off-take agreement, terminating December 31, 2013 that requires the Company to deliver 720,000 metric tons of coal during 2013 on a price based upon the market price of coal.

The Company is party to an agreement, terminating December 31, 2013, that requires the Company to export 60,000 metric tons of coal per through the Navitrade Terminal. Should this requirement not be met, a penalty of ZAR 90 ($10) per ton is payable on the difference between the actual number of tons shipped and the minimum commitment.

Outstanding legal proceedings

Sasfin Bank Limited has claimed advisory fees in relation to the successful conclusion of the Riversdale Mining Acquisition in the amount of ZAR 5,660,000 ($650,000). The Company believes the claim is without merit and intends to defend itself against this claim. No amount has been included in the financial statements.

Existing Investec loan facility

Please refer to Investec loan section of this MD&A for details.

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

Zinoju has entered into an agreement for the purchase of a prospecting right, for a total consideration of ZAR 14 million (approximately $1.6 million). A payment of ZAR 2 million (approximately $0.2 million) of the purchase consideration has been paid to the seller and has been included in intangibles as at February 28, 2013. The seller holds an undivided 100% interest in the prospecting right and is in the process of applying for the effective conversion of the prospecting right into a mining right, by virtue of an application for a mining right.

In order for the sale agreement to be effective, two conditions need to be met, which are still outstanding as at February 28, 2013:

1. The granting of the mining right; and
2. Zinoju obtaining the written consent of the Minister as required by the Mineral and Petroleum Titles Registration Office contemplated in s2 of the Mining Titles Registration Act, 1967 (the "Assignment Approval").

Should the conditions not be met and no extension is applied, then the sale and assignment of the mining right as provided in the agreement shall cease forthwith to be any force or effect. Notwithstanding the above, if application for the mining right is approved but the sale agreement ceases to be of any force or effect in consequence of the assignment approval not being granted, the seller will appoint Zinoju as their contractor to undertake the mining operations in respect of the coal on the prospecting area in pursuance of the mining right, which extracted coal shall be sold exclusively, and on consignment, to Zinoju. The Company is currently in the process of achieving these conditions.

Should the sales agreement lapse in consequence of the non-fulfilment of the conditions above, the money deposited by Zinoju is expected to be reimbursed to Zinoju. Where the contractorship and supply agreement comes into effect, the deposit will not be refundable to Zinoju but will be taken into account in determining the net amount payable per ton of coal extracted and sold pursuant to the contractorship and supply agreement.

SUBSEQUENT EVENTS

On March 1, 2013 the Company and its subsidiaries Nyah Resources Inc. and Forbes and Manhattan (Coal) Inc. underwent an amalgamation under the laws of province of Ontario, Canada. The amalgamated entity will continue as Forbes and Manhattan Coal Corp.

Subsequent to February 28, 2013, option agreements for 1,670,000 common stock share options with expiry dates October 13, 2015 and March 24, 2016 were amended. As a result 1,670,000 common stock options were forfeited and cancelled.

Subsequent to February 28, 2013, 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 of the Company upon completion of certain terms. The common shares will be repurchased from the open market and held in trust for subsequent issuance.

Subsequent to February 28, 2013, Ryan Bennett, a senior partner of Resource Capital Funds, Company's largest shareholder, has stepped down from the Company's board of directors and was replaced by his colleague Thomas Quinn Roussel.

Mr. Roussel is a Principal of Resource Capital Funds, a mining-focused private equity firm based out of Denver, Colorado. Mr. Roussel has also worked as an engineer in both the mining and the oil & gas industries and currently serves on the board of an Australian resource company, Finders Resources.

Subsequent to February 28, 2013 a consulting agreement with Mr. Stan Bharti, a director of the Company and the Executive Chairman of Forbes & Manhattan, Inc for consulting fee of $15,000 per months was terminated.

Subsequent to February 28, 2013 a consulting agreement for administration fee of $15,000 per month by Forbes & Manhattan, Inc. was amended to include 3 months termination clause and 24 months change of control clause.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Subject to the limitations, if any, described below, the Company's CEO and CFO, have as at the end of the period ended February 28, 2013 designed Disclosure and Control Procedures, ("DC&P") or caused it to be designed under their supervision, to provide reasonable assurance that:

- material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and

- information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

Internal control over financial reporting has been designed, based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in Canada.

There have been no significant changes to the Company's disclosure controls and procedures and internal controls over financial reporting that occurred during the period ended February 28, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures and internal control over financial reporting.

Management, under the supervision of the CEO and CFO, has evaluated the effectiveness of our internal control over financial reporting using the framework designed as described above and based on this evaluation, the CEO and CFO have concluded that internal control over financial reporting was effective as of February 28, 2013.

Because of inherent limitations, internal control over financial reporting and disclosure controls can provide only reasonable assurances and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Audit and Governance Committees of the Company have reviewed this MD&A, and the consolidated financial statements for the year ended February 28, 2013, and the Company's board of directors approved these documents prior to their release.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

assumptions such as coal prices, foreign exchange rates and market conditions could have a material effect the Company's reserves and resources, and as a result, could also have a material effect on the Company's financial position and results of operation.

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

  Management completed an impairment assessment and determined the estimated net present value, using a value in use method, to be ZAR 1,015 million ($118 million). As a result, no impairment provision was recorded. The net present value estimate is based on an expected life of mine of 20 million salable tones over 24 years, an expected long-term foreign currency rate of USD to ZAR of 8.55, an expected long term price of US$86 per tonne, and a discount rate of 7.12%. The net present value estimate is highly sensitive to changes in the inherent inputs and assumptions, for example: an increase in the discount rate to 10%, with all other inputs remaining constant, would result in a decrease in the net present value to ZAR 882 million ($102 million); and a decrease in the expected long term coal price by 5%, with all other inputs remaining constant, would result in a decrease in the net present value to ZAR 722 million ($84 million).

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

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

- 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.

- Contingencies
  Refer to Commitments and Contingencies and Cancelled Acquisition of Riversdale Mining Limited sections of this MD&A.

Future accounting changes

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2013 or later periods. Updates that are not applicable or are not consequential to the Company have been excluded thereof.

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

IFRS 10 Consolidated Financial Statements ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. This standard is effective for annual period beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently assessing the impact of the amendments to IFRS 10 on its consolidated financial statements.

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

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 Investments in Associates and IAS 36 Impairment of Assets. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its consolidated financial statements for the annual period beginning on January 1, 2013. The Company is currently assessing the impact of the amendments to IFRS 11 on its consolidated financial statements.

On May 12, 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"). This IFRS requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. This IFRS enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12. The Company is currently assessing the impact of these new standards and amendments on its consolidated financial statements.

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

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

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

FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset and financial liability are disclosed in Note 6 of the annual financial statements for the years ended February 28, 2013 and February 29, 2012.

The Company's financial assets and financial liabilities as at February 28, 2013 and February 29, 2012 were as follows:

	Cash, loans and receivables	Assets / (liabilities) at fair value through profit	Other financial assets/(liabilities)	Total
February 29, 2012				
Cash	$ 9,481,078	$ -	$ -	$ 9,481,078
Restricted cash	1,984,890	-	-	1,984,890
Accounts and other receivables	12,920,590	-	-	12,920,590
Other assets	630,928	6,327,393	-	6,958,321
Accounts payable and accrued liabilities	-	-	(9,233,830)	(9,233,830)
Other financial liabilities - current	-	-	(3,896,001)	(3,896,001)
Other financial liabilities - long term	-	-	(20,030,702)	(20,030,702)
Loan payable	-	-	(27,749)	(27,749)
February 28, 2013				
Cash	$ 3,025,664	$ -	$ -	$ 3,025,664
Restricted cash	50,000	-	-	50,000
Accounts and other receivables	13,610,214	-	-	13,610,214
Other assets	379,211	4,524,819	-	4,904,030
Long-term restricted cash	1,421,040	-	-	1,421,040
Accounts payable and accrued liabilities	-	-	(16,590,646)	(16,590,646)
Other financial liabilities - current	-	-	(10,674,912)	(10,674,912)
Other financial liabilities - long term	-	-	(14,568,444)	(14,568,444)
Loan payable	-	-	(24,616)	(24,616)

At February 28, 2013, there are no significant concentrations of credit risk for loans and receivables designated at fair value through the consolidated statement of operations and comprehensive income (loss). The carrying amount reflected above represents the Company's maximum exposure to credit risk for such loans and receivables.

CAPITAL MANAGEMENT

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

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

The Company is not subject to any externally imposed capital requirements with the exception as discussed in the Investec loan section of this MD&A.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no significant changes in the risks, objectives, policies and procedures in the years ended February 28, 2013 and February 29, 2012 except for the Investec loan as discussed in the Investec loan section of this MD&A.

As at February 28, 2013, the capital structure of the Company consists of equity attributable to the owners, reserves attributable to owners, directors, officers, employees and consultants of the company totaling $66,384,778 (February 29, 2012 -$89,375,435) and an interest bearing loan of $22,747,012 (February 29, 2012 - $20,280,178).

FINANCIAL RISK FACTORS

The Company is exposed to a variety of financial risks.

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

(a) Market risk

i. Foreign exchange risk

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

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

A 10% increase (decrease) in the period average foreign exchange rate between the South African rand and the Company's functional currency, the Canadian dollar, would have increased (decreased) the Company's income by approximately $700,000 for the twelve months ended February 28, 2013. A 10% increase in the period average foreign exchange rate between the United States dollar and Forbes Coal Dundee's functional currency, the South African Rand, would have increased (decreased) the Company's income by approximately $2,780,000 for the period ended February 28, 2013, as only export the part of sales is denominated in United States dollars.

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 $360,000 based on the net assets of the Company at February 28, 2013.

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

The following assets and liabilities are presented in Canadian dollar values and denominated in different currencies as at February 28, 2013 and February 29, 2012:

	Forbes Coal parent company balances (*) denominated in				Forbes Coal Dundee balances (**) denominated in		Total
	CAD	USD	GBP	ZAR	ZAR	USD	
Cash	$ 5,160,970	$ 240	$ -	$ 874,732	$ 3,445,136	$ -	$ 9,481,078
Restricted cash	50,000	296,850	-	1,638,040	-	-	1,984,890
Accounts and other receivables	420,939	-	-	32,672	8,675,692	3,791,287	12,920,590
Inventories	-	-	-	-	3,443,691	-	3,443,691
Prepaid expenses	89,393	-	-	6,220	-	-	95,613
Property, plant and equipment	-	-	-	-	81,956,437	-	81,956,437
Intangibles	-	-	-	-	5,414,498	-	5,414,498
Goodwill	-	-	-	-	17,506,375	-	17,506,375
Other assets	569,196	-	-	-	6,389,125	-	6,958,321
Long-term prepaid expenses	176,485	-	-	286,548	-	-	463,033
Deferred income taxes	-	-	-	-	326,754	-	326,754
Accounts payable and accrued liabilties	(484,725)	(1,237)	-	(765,460)	(7,982,408)	-	(9,233,830)
Other financial liabilities - current	-	-	-	-	(3,896,001)	-	(3,896,001)
Other financial liabilities - long term	-	-	-	-	(20,030,702)	-	(20,030,702)
Asset retirement obligation - current	-	-	-	-	(1,053,845)	-	(1,053,845)
Asset retirement obligation - long term	-	-	-	-	(1,981,829)	-	(1,981,829)
Loans payable	-	-	-	-	(27,749)	-	(27,749)
Deferred income taxes	-	-	-	-	(14,312,877)	-	(14,312,877)
Net exposure as at February 29, 2012	**$ 5,982,258**	**$ 295,853**	**$ -**	**$ 2,072,752**	**$ 77,872,297**	**$ 3,791,287**	**$ 90,014,447**
Cash	$ 680,932	$ 463	$ -	$ 1,166,275	$ 1,177,994	$ -	$ 3,025,664
Restricted cash	50,000	-	-	-	-	-	50,000
Accounts and other receivables	453,959	-	-	5,367,750	6,367,937	1,420,568	13,610,214
Inventories	-	-	-	-	10,153,759	-	10,153,759
Other assets - current	-	-	-	-	1,879,946	-	1,879,946
Prepaid expenses	69,846	-	-	13,389	-	-	83,235
Property, plant and equipment	-	-	-	89,129	68,862,380	-	68,951,509
Intangibles	-	-	-	-	4,561,205	-	4,561,205
Goodwill	-	-	-	-	15,239,856	-	15,239,856
Other assets - long term	60,268	-	-	-	2,963,816	-	3,024,084
Long-term restricted cash	-	-	-	1,421,040	-	-	1,421,040
Deferred income taxes	-	-	-	-	428,109	-	428,109
Accounts payable and accrued liabilties	(739,066)	(2,880)	(8,878)	(1,368,956)	(9,963,938)	(4,506,928)	(16,590,646)
Other financial liabilities - current	-	-	-	-	(10,674,912)	-	(10,674,912)
Other financial liabilities - long term	-	-	-	-	(14,568,444)	-	(14,568,444)
Asset retirement obligation - current	-	-	-	-	(305,317)	-	(305,317)
Asset retirement obligation - long term	-	-	-	-	(3,388,467)	-	(3,388,467)
Loans payable	-	-	-	-	(24,616)	-	(24,616)
Deferred income taxes	-	-	-	-	(9,852,429)	-	(9,852,429)
Net exposure as at February 28, 2013	**$ 575,939**	**$ (2,417)**	**$ (8,878)**	**$ 6,688,627**	**$ 62,856,879**	**$ (3,086,360)**	**$ 67,023,790**

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

ii. Interest rate risk

The Company's interest rate risk arises from deposits held with banks and interest-bearing liabilities. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. A 1% increase in interest rates would create additional expense of approximately $13,000 per month.

iii. Price risk

The Company is exposed to price risk with respect to commodity prices. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for commodities, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities including governmental reserves and stability of exchange rates can all cause significant fluctuations in commodities prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. A 10% change in the market price of coal would have resulted in a corresponding change in revenues of approximately $6,850,000 for the twelve months ended February 28, 2013.

(b) Credit risk

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

Restricted cash totaling $50,000 was in GIC investment with Royal Bank of Canada held as collateral against credit card limits used by the Company. Long-term portion of restricted cash totaling $1,421,040 was on deposit with First National Bank to be released to a supplier if payments are not made to them.

(c) Liquidity risk

As at February 28, 2013, the Company had net working capital of $1,207,327 (February 29, 2012 – $13,714,437) which includes cash and restricted cash of $3,075,664 (February 29, 2012 – $11,465,968), accounts receivable and other receivables of $13,610,214 (February 29, 2012 – $12,920,590), inventories of $10,153,759 (February 29, 2012 – $3,443,691) and other assets of $1,879,946 (February 29, 2012 – $nil), offset by current liabilities of $27,595,491 (February 29, 2012 – $14,211,425).

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through credit facilities. The Company aims to maintain flexibility in funding by keeping committed credit lines available in its operating entities.

(d) Fair value of financial instruments

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

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

As at February 28, 2013, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the limited term of these instruments. The following table illustrates the classification of the Company's financial instruments within the fair-value hierarchy as at February 28, 2013 and February 29, 2012:

February 28, 2013	Level 1	Level 2	Level 3
Endowment policy and investments	$ 60,268	$ -	$4,464,551

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

RISKS AND UNCERTAINTIES

Price of Coal

The Company's profits will be directly related to the volume and price of coal sold. Price volatility could have a significant impact on the future revenues and profitability of the Company. Coal demand and price are determined by numerous factors that will be beyond the control of the Company including the demand for electricity: the supply and demand for domestic and foreign coal; interruptions due to transportation delays; air emission standards for coal-fired power plants; regulatory, administrative and judicial decisions; the price and availability of alternative fuels, including the effects of technology developments; the effect of worldwide energy conservation efforts, future limitations on utilities' ability to use coal as an energy source due to the regulation and/or taxation of greenhouse gases; proximity to, capacity of, and cost of transportation facilities; and political and economic conditions and production costs in major coal producing regions. The combined effects of any or all of these factors on coal price or volume are impossible for the Company to predict. If realized coal prices fall below the full cost of production and remain at such level for any sustained period, the Company will experience losses, which may be significant, and may decide to discontinue affected operations forcing the Company to incur closure or care and maintenance costs, as the case may be.

The Company's Securities May Experience Price Volatility

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies have experienced wide fluctuations in price that have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Factors unrelated to the financial performance or prospects of the Company include macroeconomic developments in North America and globally, and market perceptions of the attractiveness of particular industries. There can be no assurance that continued fluctuations in coal prices will not occur. As a result of any of these factors, the market price of the securities of the Company may not accurately reflect the long term value of the Company.

Production Estimates

Forbes Coal has prepared estimates of future coal production for its existing and future mines. Forbes Coal cannot give any assurance that it will achieve its production estimates. The failure by Forbes Coal to achieve its production estimates could have a material adverse effect on any or all of its future cash flows, profitability, results of operations and financial conditions. The realization of production estimates are dependent on, among other things, the accuracy of mineral reserve and resource estimates, the accuracy of assumptions regarding ore grades and recovery rates, ground conditions (including hydrology), the physical characteristics of ores, the presence or absence of particular metallurgical characteristics, and the accuracy of the estimated rates and costs of mining, ore haulage and processing. Actual production may vary from estimates for a variety of reasons, including the actual ore mined varying from estimates of grade or tonnage; dilution and metallurgical and other characteristics (whether based on representative samples of ore or not); short-term operating factors such as the need for sequential development of ore bodies and the processing of new or adjacent ore grades from those planned; mine failures or stope failures; industrial accidents; natural phenomena such as inclement weather conditions, floods, droughts, rock slides and earthquakes; encountering unusual or unexpected geological conditions; changes in power costs and potential power shortages; shortages of principal supplies needed for mining operations; including explosives, fuels, chemical reagents, water, equipment parts and lubricants; plant and equipment failure; the inability to process certain types of ores; labour shortages or strikes; and restrictions or regulations imposed by government agencies or other changes in the regulatory environment. Such occurrences could also result in damage to mineral properties or mines, interruptions in production, injury or death to persons, damage to property of Forbes Coal or others, monetary losses and legal liabilities in addition to adversely affecting mineral production. These factors may cause a mineral deposit that has been mined profitably in the past to become unprofitable forcing Forbes Coal to cease production.

Cost Estimates

Capital and operating cost estimates made in respect of Forbes Coal's mines and development projects may not prove accurate. Capital and operating cost estimates are based on the interpretation of geological data, feasibility studies, anticipated climatic conditions, other factors and assumptions regarding foreign exchange currency rates. Any such events could affect the ultimate accuracy of such estimates; unanticipated changes in grade and tonnage of ore to be mined and processed; incorrect data on which engineering assumptions are made; delay in construction schedules, unanticipated transportation costs; the accuracy of major equipment and construction cost estimates; labour issues; changes in government regulation (including regulations regarding prices, cost of consumables, royalties, duties, taxes, permitting and restrictions on production quotas on exportation of minerals) and title claims.

Depletion of Mineral Reserves

The Company must continually replace mining reserves depleted by production to maintain production levels over the long term. There is no assurance that the Company's exploration programs will result in any new commercial mining operations or yield new reserves to replace or expand current reserves.

Power Supply

The supply of electric power is not guaranteed in South Africa. Currently the public supply is sufficient to power all of the operations at the Forbes Coal Properties, however South African power supply is limited, with less than 1% reserve capacity. The Company therefore has procured two diesel power generators for backup power to the various sub-stations that have been installed on the surface and underground at the Forbes Coal Properties. Moreover, the current production expansion plan for the Forbes Coal Dundee operations is dependent on this additional electrical supply, and the majority of new build projects in the country are behind schedule. While the Company has taken steps to meet the need for additional supply of electricity from the public utility (Eskom), there can be no assurance that the Forbes Coal Properties will not be negatively affected by the power supply situation on either an operating or cost basis.

South Africa Country Risks

The operations of the Company are subject to risks normally associated with the conduct of business in South Africa. Risks may include, among others highlighted herein, problems relating to labour disputes, delays or invalidation of governmental orders and permits, corruption, uncertain political and economic environments, civil disturbances and crime, arbitrary changes in laws or policies, foreign taxation and exchange controls, opposition to mining from environmental or other non-governmental organizations or changes in the political attitude towards mining, limitations on foreign ownership, limitations on repatriation of earnings, infrastructure limitations and increased financing costs. There have been recent calls in South Africa for the nationalization and expropriation without compensation of domestic mining assets. Any such development would have a significant adverse effect on the Company. In addition, HIV is prevalent in Southern Africa and tuberculosis is prevalent in the Kwa-Zulu Natal Province of South Africa, where the Company's operations are situated. Employees of the Company may have or could contract either of these potentially deadly viruses. The prevalence of HIV and tuberculosis could cause substantial lost employee man-hours and may make finding skilled labour more difficult. The above risks may limit or disrupt the Company's business activities. Also, the Company's mining operations must remain compliant with South African mining laws, including, *inter alia*, the Mineral and Petroleum Resources Development Act ("MPRDA") and the Mining Charter, the conditions imposed by the licences held by the Company, and the BEE participation requirements. However, no assurance can be given that the Company will be able to meet the objectives of South African mining laws going forward, including the 26% historically disadvantaged South Africans ownership objective. There is also no guarantee that the interests of the Company will be wholly aligned with the interests of its (direct or indirect) BEE shareholders.

Environmental Risks and Other Hazards

All phases of the Company's operations will be subject to environmental regulation in South Africa. Environmental legislation in many countries is evolving and the trend has been toward stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and increasing responsibility for companies and their officers, directors and employees. Compliance with environmental laws and regulations may require significant capital outlays on behalf of the Company and may cause material changes or delays in the Company's intended activities. There can be no assurance that future changes in environmental regulations will not adversely affect the Company's business, and it is possible that future changes in these laws or regulations could have a significant adverse impact on some portion of the Company's business, causing the Company to re-evaluate those activities at that time.

Mining involves various other types of risks and hazards, including: industrial accidents; processing problems; unusual or unexpected rock formations; structural cave-ins or slides; flooding; fires; and periodic interruptions due to inclement or hazardous weather conditions. These risks could result in damage to, or destruction of, mineral properties, production facilities or other properties, personal injury, delays in mining, increased production costs, monetary losses and possible legal liability.

Additional Capital

The continued development of the Forbes Coal Properties, including the expansion of mining operations, will require additional capital expenditures and may require additional financing. Failure to obtain sufficient financing may result in a delay or indefinite postponement of development or production on the Forbes Coal Properties. Additional financing may not be available when needed or if available, the terms of such financing might not be favourable to them and might involve substantial dilution to shareholders. Failure to raise capital when needed may have a material adverse effect on the Company business, financial condition and results of operations of the Company.

Mineral Legislation

The business of mineral exploration, development, mining and processing is subject to various national and local laws and plans relating to permitting and maintenance of title, environmental consents, employee relations, health and safety, royalties, land acquisitions and other matters.

There is a risk that the necessary permits, consents, authorizations and agreements to implement planned exploration, development or mining may not be obtained under conditions or within the time frames that make such plans economic, that applicable laws, regulations or the governing authorities will change or that such changes will result in additional material expenditures or time delays.

In addition, the MPRDA is currently under review and the proposed amendments, if passed by Government, could have a material impact on the Company's operations.

Foreign Mining Tax Regimes

Mining tax regimes in foreign jurisdictions are subject to differing interpretations and are subject to constant change. The Company's interpretation of taxation law as applied to its transactions and activities may not coincide with that of the tax authorities. As a result, transactions may be challenged by tax authorities and the Company's operations may be assessed, which could result in significant additional taxes, penalties and interest. In addition, proposed changes to mining tax regimes in foreign jurisdictions could result in significant additional taxes payable by the Company, which would have a negative impact on the financial results of the Company.

Title to Mineral Holdings

Forbes Coal requires licences and permits from various governmental authorities. Forbes Coal believes that it holds all necessary licences and permits under applicable laws and regulation in respect of the Forbes Coal Properties and that it is presently complying in all material respects with the terms of such licences and permits. Such licences and permits, however, are subject to change in various circumstances. There can be no guarantee that the Company will be able to obtain or maintain all necessary licences and permits that may be required to explore and develop or mine its properties. The validity of ownership of property holdings can be uncertain and may be contested. Although Forbes Coal Dundee has attempted to acquire satisfactory title to its properties, risk exists that some titles, particularly titles to undeveloped properties, may be defective.

Exploration and Development

The exploration and development of coal deposits involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of a mineable deposit may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to establish additional reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration programs planned by the Company will result in profitable commercial mining operations, and significant capital investment is required to achieve commercial production from successful exploration efforts. There is no certainty that exploration expenditures made by the Company will result in discoveries of commercial mineable quantities. Exploration for coal is highly speculative, involves substantial expenditures, and is frequently non-productive.

Insurance and Uninsured Risks

The Corporation's business is subject to a number of risks and hazards generally, including: adverse environmental conditions; industrial accidents; labour disputes; unusual or unexpected geological conditions; ground or slope failures; cave-ins; changes in the regulatory environment; and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Corporation's properties or the properties of others, delays in mining, monetary losses and possible legal liability. The businesses and properties of the Corporation are insured against loss or damage, subject to a number of limitations and qualifications. Such insurance will not cover all the potential risks associated with a mining company's operations. The Corporation may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Corporation or to other companies in the mining industry on acceptable terms. The Corporation might also become subject to liability for pollution or other hazards that may not be insured against or that the Corporation may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Corporation to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Competition

The mining industry is intensely competitive. Significant competition exists for the acquisition of properties producing or capable of producing coal. The Company may be at a competitive disadvantage in acquiring additional mining properties because it must compete with other individuals and companies, many of which have greater financial resources, operational experience and technical capabilities than the Company. The Company may also encounter increasing competition from other mining companies in its efforts to hire experienced mining professionals. Increased competition could adversely affect the Company's ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

Foreign Assets

All of the assets of the Company are located in jurisdictions outside of Canada. As a result, it may be difficult for shareholders resident in Canada or other jurisdictions to enforce judgments obtained against the Company in Canada.

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants that affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

Dependence on Key Personnel

The Company is dependent on a relatively small number of key personnel. The Company currently does not have key person insurance on these individuals. Due to the Company's relatively small size, the loss of these persons or the Company's inability to attract and retain additional highly skilled employees required for the operation of the Company's activities may have a material adverse effect on the Company's business or future operations.

Dependence on Outside Parties

The Corporation has relied upon consultants, engineers, contractors and others and intends to rely on these parties for exploration, extraction, development, construction and operating expertise. Substantial expenditures are required to develop coal properties, to establish mineral reserves through drilling, to carry out environmental and social impact assessments, to develop processes to extract coal and, in the case of new properties, to develop the exploration and infrastructure at any particular site. If such parties' work is deficient or negligent or is not completed in a timely manner, it could have a material adverse effect on the Corporation.

Labour and Employment Matters

While the Company believes that it has good relations with both its unionized and non-unionized employees, production at the Company's mining operations is dependent upon the efforts of the Company's employees. For example, in November 2012 the Company and its employees engaged in a wage-related labour disruption which resulted disruption at its mines. In addition, relations between the Company and its employees may be impacted by changes in the scheme of labour relations that may be introduced by the relevant governmental authorities in whose jurisdictions the Company carries on business. Adverse changes in labour and employment legislation or in the relationship between the Company with its employees may have a material adverse effect on the Company's business, results of operations and financial condition.

Currency Fluctuations

Currency fluctuations may affect the Corporation's costs and margins. Adverse fluctuations in the South African Rand and the Canadian dollar relative to the U.S. dollar and other currencies could materially and adversely affect the Corporation's profitability, results of operation and financial position.

Litigation

All industries, including the mining industry, are subject to legal claims, with and without merit. Legal proceedings may arise from time to time in the course of the Company's business. Such litigation may be brought against the Company or one or more of its subsidiaries in the future from time to time or the Company or one or more of its subsidiaries may be subject to another form of litigation. Defense and settlement costs of legal claims can be substantial, even with respect to claims that have no merit. As of the date hereof, other than (1) a claim by Sasfin Bank Limited against the Company in relation to the Riversdale Mining Acquisition, (2) a dispute with the Avemore Trust in relation to, inter alia, the access to infrastructure by Zinoju of certain properties in the conduct of its mining activities and (3) a potential dispute with RML in relation to the right of Forbes Coal to cancel the agreement in relation to the Riversdale Mining Acquisition (all as more fully detailed under Legal Proceedings and Regulatory Actions), no material claims have been brought against the Company, nor has the Company received an indication that any claims are forthcoming**.** . Due to the inherent uncertainty of the litigation process, the process of defending such claims (or any other claims that may be brought against the Company), could take away from management time and effort and the resolution of any particular legal proceeding to which the Company or one or more of its subsidiaries may become subject could have a material effect on the Company's financial position and results of operations.

The Company's Directors and Officers may have Conflicts of Interests

Certain of the Company's directors and officers also serve as directors and/or officers of other companies involved in natural resource exploration, development and production. Consequently there exists the possibility that such directors may be in a position of conflict in respect of proposed transactions or the operation of the Company.

The directors and officers of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interests that they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors of the Company, any director in a conflict will be required to disclose his or her interest and abstain from voting on such matter.

NON-IFRS PERFORMANCE MEASURES

The Company has included in this document certain non-IFRS performance measures that are detailed below. These non-IFRS performance measures do not have any standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures presented by other companies. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors use this information to evaluate the Company's performance. Accordingly, they are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared with IFRS. The definition for these performance measure and reconciliation of the non-IFRS measure to reported IFRS measures are as follows:

Working Capital

	February 28, 2013 $000's	February 29, 2012 $000's
Current Assets		
Cash and cash equivalents	3,026	9,481
Restricted cash	50	1,985
Accounts receivable and other receivables	13,610	12,921
Inventories	10,154	3,444
Other assets	1,880	-
Prepaid expenses	83	96
	28,803	27,927
Current Liabilities		
Accounts payable and accrued liabilities	16,591	9,234
Other financial liabilities	10,675	3,896
Provisions	305	1,054
Loans payable	25	28
	27,596	14,212
Working capital		
Current assets less current liabilities	1,207	13,715

EBITDA - Forbes Coal consolidated

	Three months ended			Twelve months ended	
	November 30, 2012 $000's	February 28, 2013 $000's	February 29, 2012 $000's	February 28, 2013 $000's	February 29, 2012 $000's
Net income (loss) for the period	(4,972)	(3,361)	1,193	(10,149)	2,290
add back					
Amortization and depletion	1,993	1,436	3,428	8,974	15,783
Income tax (recovery) expense	(1,161)	(3,215)	(1,704)	(4,108)	968
Foreign exchange (gain)	-	1	578	3	(553)
Fair value adjustment on endowment policy	(140)	(117)	-	(588)	-
Interest and dividend expense (income)	588	20	(105)	1,597	722
Change in estimates on contingent acquisition liability	-	-	(545)	-	(425)
Accretion	-	-	(1,856)	-	(316)
Business combination transaction costs	273	2,660	-	2,933	24
Stock based compensation	6	3	590	38	2,586
Loss on share-based payments	-	-	(26)	-	1,462
Unrealized (gain) on marked-to-market securities	27	(3)	(15)	509	(69)
EBITDA Forbes Coal Consolidated	(3,386)	(2,576)	1,538	(791)	22,472

EBITDA - Forbes Coal Dundee stand alone

	Three months ended			Twelve months ended	
	November 30, 2012	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
	$000's	$000's	$000's	$000's	$000's
Net income (loss) for the period	(4,972)	(3,361)	1,193	(10,149)	2,290
add back					
Amortization and depletion	1,993	1,436	3,428	8,974	15,783
Income tax (recovery) expense	(1,161)	(3,215)	(1,704)	(4,108)	968
Foreign exchange (gain)	-	1	578	3	(553)
Fair value adjustment on financial assets	(140)	(117)	-	(588)	-
Interest and dividend expense (income)	588	20	(105)	1,597	722
Change in estimates on contingent acquisition liability	-	-	(545)	-	(425)
Accretion	-	-	(1,856)	-	(316)
Business combination transaction costs	273	2,660	-	2,933	24
Mineral properties investigation costs (Non FC Dundee)	2	598	127	614	317
Stock based compensation	6	3	590	38	2,586
Loss on share-based payments	-	-	(26)	-	1,462
Unrealized loss (gain) on marked-to-market securities	27	(3)	(15)	509	(69)
General and administration (Non FC Dundee)	1,957	364	1,240	3,619	4,560
EBITDA Forbes Coal Dundee	(1,427)	(1,614)	2,905	3,442	27,349

General and administration (Non Forbes Coal Dundee)

	Three months ended			Twelve months ended	
	November 30, 2012	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
	$000's	$000's	$000's	$000's	$000's
Consulting, general and administration (Non FC Dundee)	48	(429)	51	(552)	(475)
Consulting and professional fees (Non FC Dundee)	1,909	793	1,189	4,171	5,035
General and administration (Non FC Dundee)	1,957	364	1,240	3,619	4,560

SUMMARY OF SECURITIES AS AT MAY 29, 2013

As at May 29, 2013 the following common shares, common shares purchase options, share purchase warrants and special performance shares were issued and outstanding:

- 34,386,035 common shares;
- 1,060,000 common share purchase options with exercise prices ranging from $1.80-$4.10 expiring between March 15, 2015 and January 25, 2017;
- 1,350,000 Special Performance Shares outstanding are deposited in escrow to be released when certain conditions are met.

Special Performance Shares

As at May 29, 2013 there were 1,350,000 Special Performance Shares outstanding. The Special Performance Shares were deposited in escrow to be released when certain conditions are met.

LIST OF DIRECTORS AND OFFICERS

Craig Wiggill	Director, Chairman of the Board of Directors
Stephan Theron	Director, President and Chief Executive Officer
Stan Bharti	Director
Mike Price	Director
Quinn Roussel	Director
John Dreyer	Director
Bernard Wilson	Director
Deborah Battiston	Chief Financial Officer
Neil Said	Corporate Secretary
Malcolm Campbell	Chief Operating Officer
Sarah Williams	Vice-President, Finance

May 29, 2013