FORBES & MANHATTAN COAL CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended November 30, 2013 and 2012

(Presented in Canadian dollars)

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

	Notes	November 30, 2013	February 28, 2013
ASSETS			
Current			
Cash		$ **2,225,084**	$ **3,025,664**
Restricted cash		**50,000**	**50,000**
Accounts and other receivables	24	**11,294,672**	**13,610,214**
Inventories	9	**9,372,263**	**10,153,759**
Other assets	13	**-**	**1,879,946**
Prepaid expenses		**44,765**	**83,235**
Total current assets		**22,986,784**	**28,802,818**
Property, plant and equipment	10	**60,599,915**	**68,951,509**
Intangibles	11	**4,021,913**	**4,561,205**
Goodwill	12	**13,879,944**	**15,239,856**
Other assets	13	**2,619,277**	**3,024,084**
Long-term restricted cash		**1,318,793**	**1,421,040**
Deferred income taxes		**1,532,313**	**428,109**
Total assets		$ **106,958,939**	$ **122,428,621**
LIABILITIES			
Current			
Accounts payable and accrued liabilities	14,22	$ **18,450,688**	$ **16,590,646**
Other financial liabilities	15	**5,638,417**	**10,674,912**
Asset retirement obligations	17	**277,343**	**305,317**
Loans payable		**22,360**	**24,616**
Total current liabilities		**24,388,808**	**27,595,491**
Convertible long-term loan	16	**4,896,294**	**-**
Other financial liabilities	15	**9,862,105**	**14,568,444**
Asset retirement obligations	17	**3,228,643**	**3,388,467**
Deferred income taxes		**7,476,310**	**9,852,429**
Total liabilities		**49,852,160**	**55,404,831**
SHAREHOLDERS' EQUITY			
Issued capital	19	**97,567,931**	**97,342,142**
Reserves	16, 20	**4,524,953**	**7,387,684**
Deficit		**(23,829,095)**	**(19,703,918)**
Currency translation reserve		**(21,796,022)**	**(18,641,130)**
Equity attributable to the owners of the Company		**56,467,767**	**66,384,778**
Non-controlling interest		**639,012**	**639,012**
Total shareholders' equity		**57,106,779**	**67,023,790**
Total liabilities and shareholders' equity		$ **106,958,939**	$ **122,428,621**

Commitments and contingencies 1, 23, 24, 25
Subsequent events 25

APPROVED ON BEHALF OF THE BOARD:

Signed *"Stephan Theron"*, Director

Signed *"Bernie Wilson"*, Director

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

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

	Notes	For the three months ended November 30, 2013	For the three months ended November 30, 2012	For the nine months ended November 30, 2013	For the nine months ended November 30, 2012
REVENUE		$ 16,639,389	$ 10,831,529	$ 55,797,170	$ 55,021,998
COST OF SALES					
Operating expenses	9	14,422,718	11,133,620	48,021,066	45,615,100
Amortization and depletion		2,187,127	1,992,563	7,945,138	7,538,013
Stock based compensation	20	-	-	146,000	-
		16,609,845	13,126,183	56,112,204	53,153,113
Gross profit (loss)		29,544	(2,294,654)	(315,034)	1,868,885
EXPENSES					
Consulting and professional fees	22	916,459	1,908,775	2,649,288	3,377,919
General and administration	22	839,161	1,248,314	2,918,799	4,458,659
Stock based compensation	20	-	6,447	229,790	35,229
Mineral properties investigation costs		-	1,629	-	16,052
		1,755,620	3,165,165	5,797,877	7,887,859
Net loss before other items		(1,726,076)	(5,459,819)	(6,112,911)	(6,018,974)
OTHER ITEMS					
Other income		225,419	213,998	768,408	702,792
Net accretion and interest (expense)	8,16	(577,856)	(587,882)	(1,626,481)	(1,577,353)
Foreign exchange gain (loss)		(1,236,050)	(128)	(1,235,860)	(2,383)
Unrealized (loss) on marked-to-market securities		(23,438)	(26,786)	(43,527)	(512,277)
Gain on disposition of equipment		-	-	7,458	-
NET LOSS before income tax		(3,338,001)	(6,133,510)	(8,242,913)	(7,681,088)
Income and other tax (expense) recovery		898,152	1,161,041	(144,414)	892,999
NET LOSS for the period		(2,439,849)	(4,972,469)	(8,387,327)	(6,788,089)
Other comprehensive loss items					
Unrealized gain (loss) on foreign currency translation		692,261	(3,302,740)	(3,154,892)	(11,982,957)
COMPREHENSIVE LOSS for the period		$ (1,747,588)	$ (8,275,209)	$ (11,542,219)	$ (18,771,046)
Net loss per share - basic and diluted		(0.07)	(0.14)	(0.24)	(0.19)
Headline loss per share - basic and diluted		(0.07)	(0.14)	(0.24)	(0.19)
Weighted average number:					
of common shares outstanding - basic		34,887,190	34,836,922	34,551,872	34,856,189
of common shares outstanding - diluted		34,887,190	34,836,922	34,551,872	34,856,189

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

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

	For the three months ended		For the nine months ended	
	November 30, 2013	November 30, 2012	November 30, 2013	November 30, 2012
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net loss for the period	$ (2,439,849)	$ (4,972,469)	$ (8,387,327)	$ (6,788,089)
Adjustments:				
Amortization and depletion	2,187,127	1,992,563	7,945,138	7,538,013
Fair value adjustment on financial assets	(132,906)	(139,501)	(346,590)	(470,601)
Deferred income taxes	(898,152)	(1,012,381)	168,978	(1,767,566)
Accretion	2,696	87,506	150,324	132,007
Unrealized foreign exchange (gain)	87,619	(68,959)	84,514	(69,365)
Unrealized loss on marked-to-market securities	23,438	26,785	43,527	512,276
Stock based compensation	-	6,447	375,790	35,229
Loan accretion	115,251	-	115,251	-
Interest on loan	125,883	-	125,883	-
Gain on disposition of equipment	-	-	(7,458)	-
	(928,893)	(4,080,009)	268,030	(878,096)
Net change in non-cash working capital	(442,581)	2,280,473	3,581,994	2,970,207
	(1,371,474)	(1,799,536)	3,850,024	2,092,111
INVESTING ACTIVITIES				
Deposit on cancelled acquisition	-	(5,524,418)	-	(5,524,418)
Prepaid financing costs	-	(2,039,394)	-	(2,039,394)
Changes in accounts payable attributable to prepaid financing costs	-	1,915,941	-	1,915,941
Long-term prepaid expenses	-	(30,734)	-	(275,293)
Additions to property, plant and equipment	(1,706,259)	(1,771,507)	(4,885,250)	(5,636,308)
Proceeds from disposition of equipment	-	-	30,093	-
Additional (contribution to) recovery from other financial assets	2,598,851	970,802	2,103,283	1,444,542
Restricted cash	(27,872)	(1,247,354)	(27,872)	296,850
	864,720	(7,726,664)	(2,779,746)	(9,818,080)
FINANCING ACTIVITIES				
Convertible long-term loan - drawdown net of costs	5,844,926	-	5,844,926	-
Investec loan facility - drawdowns	-	-	-	5,831,288
Investec loan facility - repayments	(3,180,958)	-	(5,427,636)	(2,043,576)
Instalment sale agreements - repayments	(1,819,928)	(124,422)	(2,061,319)	(378,573)
Other loans drawdowns (repayments)	-	4,840	-	(194,265)
Change in non-current accounts receivable	1,730	(1,363,872)	5,307	(402,155)
Payments to BEE partners	-	1,477	-	(59,275)
Repurchase of shares under NCIB	-	(243,365)	-	(243,365)
	845,770	(1,725,342)	(1,638,722)	2,510,079
Effect of exchange rate change on cash	10,076	347,306	(232,136)	(535,759)
CHANGE IN CASH	339,016	(11,251,542)	(568,444)	(5,215,890)
CASH, beginning of the period	1,875,992	14,633,665	3,025,664	9,481,078
CASH, end of the period	$ 2,225,084	$ 3,729,429	$ 2,225,084	$ 3,729,429

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

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

	Number of shares issued	Issued capital	Reserves					Deficit	Currency translation reserve	Shareholders' equity
			Warrant reserve	Option reserve	Equity portion of loan	BEE option reserve	Treasury shares			
Balance as at February 29, 2012	**34,865,717**	**$ 98,792,926**	**$ 2,149,853**	**$ 7,812,941**	**$ -**	**$ 1,245,529**	**$ -**	**$ (14,519,284)**	**$ (6,106,530)**	**$ 89,375,435**
Repurchase of shares							(243,365)			(243,365)
Cancellation of repurchased shares	(90,356)	(273,279)	-	-	-	-	61,672	211,607	-	-
Stock-based compensation	-	-	-	35,229	-	-	-	-	-	35,229
Stock options expired	-	-	-	(1,551,876)	-	-	-	1,551,876	-	-
Broker warrants expired	-	-	(993,053)	-	-	-	-	993,053	-	-
Dividends declared to BEE partners								(59,275)	-	(59,275)
Other comprehensive loss for the period	-	-	-	-	-	-	-	-	(11,982,957)	(11,982,957)
Net loss for the period	-	-	-	-	-	-	-	(6,788,089)	-	(6,788,089)
Balance as at November 30, 2012	**34,775,361**	**$ 98,519,647**	**$ 1,156,800**	**$ 6,296,294**	**$ -**	**$ 1,245,529**	**$ (181,693)**	**$ (18,610,112)**	**$ (18,089,487)**	**$ 70,336,978**
Repurchase of shares	-	-	-	-	-	-	(43,601)	-	-	(43,601)
Cancellation of repurchased shares	(389,326)	(1,177,505)	-	-	-	-	225,294	952,211	-	-
Stock-based compensation	-	-	-	3,075	-	-	-	-	-	3,075
Stock options expired	-	-	-	(157,214)	-	-	-	157,214	-	-
Broker warrants expired	-	-	(1,156,800)	-	-	-	-	1,156,800	-	-
Dividends declared to BEE partners	-	-	-	-	-	-	-	901	-	901
Other comprehensive loss for the period	-	-	-	-	-	-	-	-	(551,643)	(551,643)
Net loss for the period	-	-	-	-	-	-	-	(3,360,932)	-	(3,360,932)
Balance as at February 28, 2013	**34,386,035**	**$ 97,342,142**	**$ -**	**$ 6,142,155**	**$ -**	**$ 1,245,529**	**$ -**	**$ (19,703,918)**	**$ (18,641,130)**	**$ 66,384,778**
Shares issued related to loan	684,073	225,789	-	-	-	-	-	-	-	225,789
Stock-based compensation	-	-	-	375,790	-	-	-	-	-	375,790
Stock options expired	-	-	-	(4,262,150)	-	-	-	4,262,150	-	-
Equity portion of loan net of issue costs	-	-	-	-	1,023,629	-	-	-	-	1,023,629
Other comprehensive loss for the period	-	-	-	-	-	-	-	-	(3,154,892)	(3,154,892)
Net loss for the period	-	-	-	-	-	-	-	(8,387,327)	-	(8,387,327)
Balance as at November 30, 2013	**35,070,108**	**$ 97,567,931**	**$ -**	**$ 2,255,795**	**$ 1,023,629**	**$ 1,245,529**	**$ -**	**$ (23,829,095)**	**$ (21,796,022)**	**$ 56,467,767**

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

1) NATURE OF OPERATIONS AND GOING CONCERN

(a) Nature of operations

Forbes & Manhattan Coal Corp. (individually, or collectively with its subsidiaries, as applicable, "Forbes Coal" or the "Company") is a coal mining company. The Company is listed on the Toronto Stock Exchange ("TSX") and the Johannesburg Stock Exchange ("JSE"). The Company's head office is located at 65 Queen Street West, Suite 815, Toronto, Ontario, Canada. These consolidated financial statements were approved and authorized for issue by the Board of Directors on January 10, 2014.

The Company's subsidiary Forbes Coal (Pty) Ltd. (formerly known as Slater Coal (Pty) Ltd.) ("Forbes Coal Dundee"), a South African company, holds an interest in coal mines in South Africa ("Forbes Coal Dundee Properties"). The Forbes Coal Dundee Properties comprise of the operating Magdalena bituminous mine (the "Magdalena Property") and the Aviemore anthracite mine (the "Aviemore Property"). Forbes Coal Dundee is engaged in open-pit and underground coal mining.

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

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

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

(b) Going concern

These unaudited condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has a significant need for equity capital and financing for operations and working capital. Because of continuing operating losses and a working capital deficiency, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. The Company has not met certain debt Facility Covenants (see Note 15) and while the bank has waived the breach of the debt facility as at November 30, 2013 and the date of this report, it is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. During September 2013, the Company closed a secured US$ 6 million convertible loan facility (See Note 16). During December 2013, an additional financing, subject to various approvals and conditions was proposed (See Note 25). Should the additional financing as described in Note 25 not come to fruition there is significant uncertainty about the Company's ability to continue as a going concern.

The mining industry in South Africa has been experiencing tense labor relation issues including labour disruptions. During fiscal 2013, the Company experienced labour disruptions which negatively impacted its financial results While the dispute has been resolved and the disruption has ceased, if new labour disruptions were to take place at the Company's mines, they could have further and significant negative impacts on the operations and financial results of the Company.

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

2) BASIS OF PREPARATION

These condensed interim consolidated financial statements of the Company and its subsidiary were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and have been prepared in accordance with accounting policies based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations. The policies set out in the Company's annual consolidated financial statements for the year ended February 28, 2013 were consistently applied to all the periods presented unless otherwise noted below.

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

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as held-for-trading, which are stated at their fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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

3) NEW ACCOUNTING POLICIES

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 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 became effective for the Company for the period beginning on or after March 1, 2013. There was no significant impact on the consolidated financial statements as a result of this change.

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 adopted IFRS 11 in its consolidated financial statements for the period beginning on March 1, 2013. The Company currently has no joint ventures and therefore there is no impact of IFRS 11 to the Company's consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12") 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 became effective for the Company for the period beginning March 1, 2013. There was no significant impact of IFRS 12 to the Company's 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 became effective for the Company for the period beginning March 1, 2013. Adoption of this standard had no significant impact on the Company's consolidated financial statements.

3) NEW ACCOUNTING POLICIES (Continued)

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 became effective for the Company for the period beginning March 1, 2013. The Company is in compliance with IFRIC 20. There was no significant change to the consolidated financial statements as a result of this change.

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 became effective for the Company for the period beginning March 1, 2013. There was no significant impact to the Company's consolidated financial statements as a result of this change.

4) FUTURE ACCOUNTING CHANGES

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.

5) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, Forbes Coal Dundee, Zinoju, Corondale Prospecting and Mining Company Pty Ltd and Bowwood and Main No33 (Pty) Ltd ("Bowwood").

Subsidiaries

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

Business Combinations and Goodwill

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

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

5) PRINCIPLES OF CONSOLIDATION (Continued)

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

Transactions with non-controlling interests

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

6) SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values 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.

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

- 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.

- 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 Notes 1, 23 and 24.

(Presented in Canadian dollars)

7) SEGMENTS

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

	Current assets	Property, plant and equipment	Intangibles	Other non-current assets	Total assets
February 28, 2013					
Canada	$ 1,255,200	$ -	$ -	$ 60,268	$ 1,315,468
South Africa	27,547,618	68,951,509	4,561,205	20,052,821	121,113,153
	$ 28,802,818	**$ 68,951,509**	**$ 4,561,205**	**$ 20,113,089**	**$ 122,428,621**
November 30, 2013					
Canada	$ 568,054	$ -	$ -	$ 16,741	$ 584,795
South Africa	22,418,730	60,599,915	4,021,913	19,333,586	106,374,144
	$ 22,986,784	**$ 60,599,915**	**$ 4,021,913**	**$ 19,350,327**	**$ 106,958,939**

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

8) NET ACCRETION AND INTEREST (EXPENSE)

	Nine months ended November 30, 2013	Nine months ended November 30, 2012
Interest bearing borrowings	$ 1,606,799	$ 1,716,445
Unwinding of provisions	150,325	132,007
Loan accretion	115,250	-
Accretion and interest expense	**1,872,374**	**1,848,452**
Cash and restricted cash	245,893	271,099
Interest income	**245,893**	**271,099**
Net accretion and interest (expense)	**$ (1,626,481)**	**$ (1,577,353)**

9) INVENTORIES

	November 30, 2013	February 28, 2013
Consumables	$ 546,200	$ 338,164
Work in progress	555,464	808,126
Finished goods	8,270,599	9,007,469
	$ 9,372,263	**$ 10,153,759**

As at November 30, 2013, $7,268,208 of inventories are presented at cost and $2,104,055 of inventories are presented at net realizable value after recording a write-down of approximately $401,195. As at February 28, 2013, $5,988,941 of inventories are presented at cost and $4,164,818 of inventories are presented at net realizable value after recording a write-down of approximately $734,638.

The amount of inventories recognized as an expense during the nine months ended November 30, 2013 is $49,194,104 (November 30, 2012 - $45,615,100).

(Presented in Canadian dollars)

10) PROPERTY, PLANT AND EQUIPMENT

	Mining assets	Office equipment and fixtures	Land and buildings	Development costs	Mining rights	Total
Cost as at February 28, 2013	**$ 52,000,506**	**$ 693,332**	**$ 992,216**	**$ 6,421,292**	**$ 35,403,836**	**$ 95,511,182**
Effect of foreign currency exchange difference	(4,764,444)	(63,525)	(90,910)	(588,338)	(3,243,807)	**(8,751,024)**
Additions	3,378,069	15,779	13,386	204,850	1,249,200	**4,861,284**
Disposals	(33,230)	-	-	-	-	**(33,230)**
Cost as at November 30, 2013	**$ 50,580,901**	**$ 645,586**	**$ 914,692**	**$ 6,037,804**	**$ 33,409,229**	**$ 91,588,212**
Accumulated depreciation, depletion and impairment as at February 28, 2013	**$ (18,632,673)**	**$ (299,978)**	**$ (106,273)**	**$ (560,801)**	**$ (6,959,948)**	**$ (26,559,673)**
Effect of foreign currency exchange difference	1,707,181	27,485	9,737	51,382	637,692	**2,433,477**
Charge for the period	(5,276,000)	(148,274)	(49,742)	(308,233)	(1,090,375)	**(6,872,624)**
Disposals	10,523	-	-	-	-	**10,523**
Depreciation and depletion as at November 30, 2013	**$ (22,190,969)**	**$ (420,767)**	**$ (146,278)**	**$ (817,652)**	**$ (7,412,631)**	**$ (30,988,297)**
Net book value as at February 28, 2013	**$ 33,367,833**	**$ 393,354**	**$ 885,943**	**$ 5,860,491**	**$ 28,443,888**	**$ 68,951,509**
Net book value as at November 30, 2013	**$ 28,389,932**	**$ 224,819**	**$ 768,414**	**$ 5,220,152**	**$ 25,996,598**	**$ 60,599,915**

Land and building includes a net book value balance of approximately $72,000 for a property that is not directly used in production and operations. Office equipment includes a net book value balance of approximately $49,000 for fixtures that are not directly used in production and operations.

11) INTANGIBLES

	Richards Bay Coal Terminal entitlements	Mineral and prospecting rights	Total
Cost as at February 28, 2013	**$ 4,047,787**	**$ 859,500**	**$ 4,907,287**
Effect of foreign currency exchange difference	(370,871)	(78,750)	**(449,621)**
Cost as at November 30, 2013	**$ 3,676,916**	**$ 780,750**	**$ 4,457,666**
Accumulated depreciation and depletion as at February 28, 2013	**$ (331,195)**	**$ (14,887)**	**$ (346,082)**
Effect of foreign currency exchange difference	30,346	1,364	**31,710**
Charge for the period	(114,098)	(7,283)	**(121,381)**
Depreciation and depletion as at November 30, 2013	**$ (414,947)**	**$ (20,806)**	**$ (435,753)**
Net book value as at February 28, 2013	**$ 3,716,592**	**$ 844,613**	**$ 4,561,205**
Net book value as at November 30, 2013	**$ 3,261,969**	**$ 759,944**	**$ 4,021,913**

12) GOODWILL

Balance as at February 28, 2013	**$ 15,239,856**
Effect of foreign currency exchange difference	(1,359,912)
Balance as at November 30, 2013	**$ 13,879,944**

(Presented in Canadian dollars)

13) OTHER ASSETS

		November 30, 2013		February 28, 2013
Endowment policy and long-term investments		2,263,275	$	4,464,551
Security investments		16,741		60,268
Long-term receivables		339,261		379,211
	$	**2,619,277**	**$**	**4,904,030**

The other assets included an endowment policy held by the Company to fund payment requirements associated with its instalment sale agreement obligations. The endowment policy matured during the nine months ended November 30, 2013. The long-term investments are held by the company to fund rehabilitation and asset retirement obligation (See Note 17). The investment in this financial asset is classified as level 3 on the fair value hierarchy as the inputs required to determine fair value of the investment are actuarially determined and not supported by market activity.

		November 30, 2013		February 28, 2013
Current portion	$	-	$	1,879,946
Long-term portion		2,619,277		3,024,084
	$	**2,619,277**	**$**	**4,904,030**

The table below sets forth the summary of changes in the endowment policy and long-term investments for the period ended November 30, 2013:

Balance as at February 28, 2013	**$**	**4,464,551**
Effect of foreign currency exchange difference		(409,056)
Current year contributions		697,206
Fair value adjustment		333,818
Current year maturities		(2,823,244)
Balance as at November 30, 2013	**$**	**2,263,275**

14) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		November 30, 2013		February 28, 2013
Trade payables	$	8,295,932	$	5,003,629
Payroll and other statutory liabilities		2,033,946		832,228
Current tax payable		244,116		292,706
Unrecognized revenue		3,843,048		5,693,382
Other payables and accruals		4,033,646		4,768,701
	$	**18,450,688**	**$**	**16,590,646**

15) OTHER FINANCIAL LIABILITIES

		November 30, 2013		February 28, 2013
Instalment sale agreements(*)	$	208,104	$	2,496,344
Third party institutional loans (**)		15,292,418		22,747,012
Total interest bearing borrowings		15,500,522		25,243,356
Less:				
Current portion of instalment sale agreements		(208,104)		(2,403,690)
Current portion of third party institutional loans		(5,430,313)		(8,271,222)
Total current portion of interest bearing borrowings		(5,638,417)		(10,674,912)
Total long-term portion of interest bearing borrowings	**$**	**9,862,105**	**$**	**14,568,444**

(Presented in Canadian dollars)

15) OTHER FINANCIAL LIABILITIES (Continued)

(*) The instalment sale agreements related liabilities are payable over periods from three to five years, at interest rates linked to prime and are secured by mining assets with a book value of approximately $1,917,000 and an endowment policy.

(**) The Company, through its subsidiary Forbes Coal Dundee, has secured a ZAR 230 million (approximately $24 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 $21 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. 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 $10 million).

The loan is repayable in quarterly payments of ZAR 10,526,315 (approximately $1,100,000) commencing on March 1, 2012, with the first capital payment made in July 2012. On September 10, 2013 the Company made a repayment on its revolving loan facility in the amount of $2,082,000 (ZAR 20,000,000). As at November 30, 2013, an amount of $15,292,418 (ZAR 146,901,231) is recorded as owed under this facility and repayable as follows:

In the next		Amount
12 months	$	5,430,313
13-24 months		4,383,158
25-36 months		4,383,158
37-48 months		1,095,789
	$	**15,292,418**

The Investec loan is issued under the following terms:

Facilities

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

Cession in Security

- Secured property consists of bank account, insurances, trade receivables, 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.

(Presented in Canadian dollars)

15) OTHER FINANCIAL LIABILITIES (Continued)

Covenants
This loan is a subject to a Net Debt/EBITDA, EBITDA/Net Interest and Debt/Equity covenants. As at November 30, 2013, the Company was not in compliance with its covenants. The bank has waived the breaches that have taken place to November 30, 2013.

Investec agreed to release the security provided over the anthracite stockpile at July 31, 2013 in order for it to be pledged to Resource Capital Fund V L.P ("RCF") in terms of the convertible loan agreement.

The Company made the following drawdowns on the facility: in January 2012, the Company made a drawdown for ZAR 11,140,000 (approximately $1,160,000), in February 2012 for ZAR 142,000,000 (approximately $14,782,000) and in June 2012 for ZAR 46,860,000 (approximately $4,878,000). As at November 30, 2013, the senior term loan facility of ZAR 200,000,000 (approximately $21 million) was fully drawn and the working capital facility of ZAR 30,000,000 (approximately $3 million) with ZAR 20,000,000 (approximately $2 million) available to be drawn down.

See Cancelled Acquisition of Riversdale Holdings Proprietary Limited (Note 24) which discloses an additional loan facility, offered by Investec to fund this potential acquisition.

The other financial liabilities are repayable as follows:

In the next		Amount
12 months	$	5,638,417
13-24 months		4,383,158
25-36 months		4,383,158
37-48 months		1,095,789
	$	**15,500,522**

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

Instalment sale agreements at floating rates	$	208,104
Investec loan at 9.19%		15,292,418
	$	**15,500,522**

16) CONVERTIBLE LONG-TERM LOAN

On September 4, 2013, the Company closed a secured US$6,000,000 ($6,372,000) convertible loan facility from RCF (the "Transaction"). The loan facility matures on June 30, 2016. The principal on the loan facility is convertible into common shares of Forbes Coal at a price of $0.36 per common share.

Prior to receipt of shareholder approval, the loan had an interest rate of 10% per annum, payable on each calendar quarter. Upon receipt of shareholder approval on September 11, 2013, the interest rate decreased to 8% per annum.

The Company recorded the convertible long-term loan in its component liability (loan) and equity (conversion option) parts. The loan was recorded in the consolidated statements of financial position at the net present value of future payments using a discount rate of 16%. After discounting the liability to its estimated fair value, the liability and equity portion of the convertible debentures was US$4,930,000 ($5,172,556) and US$1,070,000 ($1,122,644), respectively. The liability portion will be accreted to its face value of US$6,000,000 ($6,372,000) using the effective interest rate method at approximately 20%. Accretion of both liability portion and loan issue costs totaled $115,250 for the nine months ended November 30, 2013 and was recorded as a finance cost in the consolidated statements of operations.

(Presented in Canadian dollars)

16) CONVERTIBLE LONG-TERM LOAN (Continued)

Loan proceeds, gross, September 4, 2013	**$**	**6,295,200**
Conversion option, equity		(1,122,644)
Loan issue costs, gross		(555,222)
Loan issue costs, attributable to conversion option		99,015
Loan accretion, liability portion		74,996
Loan accretion, issue costs portion		40,254
Effect of foreign currency exchange difference		64,695
Balance November 30, 2013	**$**	**4,896,294**

The issuance of common shares to RCF upon conversion of the loan, interest payments and for the establishment fee were subject to shareholder approval which was received at the annual and special meeting that was held on September 11, 2013. As a result of the Transaction, RCF received a 3% establishment fee payable in cash or common shares. Following shareholder approval, 517,450 common shares at a price of $0.36 per share were issued on September 19, 2013 to satisfy the establishment fee. Also 166,623 common shares at a price of $0.2371 per share were issued on October 15, 2013 to satisfy interest payment on the loan to September 30, 2013.

Provided that the loan is outstanding and RCF holds common shares or the right to acquire common shares equal to at least 15% of the issued and outstanding common shares of Forbes Coal, RCF has the right to participate in any future financings by Forbes Coal on a pro rata basis to its partially diluted shareholding. In addition, provided that the loan is outstanding or if RCF holds common shares or the right to acquire common shares equal to at least 15% of the issued and outstanding common shares, RCF will have the right to nominate one individual to the board of directors.

Prior to the Transaction RCF owned 6,867,443 (19.97%) of the issued and outstanding common shares of Forbes Coal on a non-diluted basis. Assuming an exchange rate of $1.00 = US$1.00 and a 20-day VWAP of $0.32 (being the 20 day VWAP as of August 9, 2013), if RCF converts the entire amount of the loan, receives the establishment fee in common shares, and receives all interest payments under the loan in common shares, RCF will be issued an aggregate of 21,427,284 common shares. Assuming no other issuances of shares by Forbes Coal, this would result in RCF holding an aggregate of 28,294,767 (50.1%) of the issued and outstanding common shares of Forbes Coal.

The closing of the US$6 ($6.372) million convertible loan facility with RCF triggered the change of control provision in certain consulting contracts. Whether certain consultants will request payment is not yet known or determinable and as such no amounts have been recorded in these financial statements (See Note 25).

17) ASSET RETIREMENT OBLIGATIONS

Balance as at February 28, 2013	**$**	**3,693,784**
Effect of foreign currency exchange difference		(338,436)
Accretion expense		8,112
Net additional provision		142,526
Balance as at November 30, 2013	**$**	**3,505,986**

Current portion	$	277,343
Long-term portion		3,228,643
	$	**3,505,986**

The provision for close down rehabilitation costs reflects the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the consolidated statements of financial position date and is generally expected to be paid out over 16 to 26 years. South African mining companies are required by law to undertake rehabilitation works as part of their ongoing operations. These environmental rehabilitation costs are funded by contributions into endowment policies.

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

(Presented in Canadian dollars)

18) SHARES IN ESCROW

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

i) 50% of the Escrowed Shares (the "First Tranche Escrowed Shares") to be released once the Company achieves US$22,000,000 in EBITDA from the Forbes Coal Dundee Properties over a 12 consecutive month period by July 20, 2013. During the year ended February 29, 2012, the US$22,000,000 in EBITDA from Forbes Coal Dundee Properties was achieved and the above mentioned Escrowed Shares were released on October 26, 2011;

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

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

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

19) ISSUED CAPITAL

Issued	Number of shares		Stated value
Balance as at February 28, 2013	**34,386,035**	**$**	**97,342,142**
Shares issued related to loan	684,073		225,789
Balance as at November 30, 2013	**35,070,108**	**$**	**97,567,931**

As a result of the Transaction, RCF received a 3% establishment fee payable in cash or common shares. Following shareholder approval, 517,450 common shares at a price of $0.36 per share were issued on September 19, 2013 to satisfy the establishment fee. Also 166,623 common shares at a price of $0.2371 per share were issued on October 15, 2013 to satisfy interest payment on the loan to September 30, 2013.

20) RESERVES

	No. of options	Weighted average exercise price	Value of options vested	No. of warrants	Weighted average exercise price	Value of warrants vested	Total value
Balance as at February 28, 2013	**2,730,000**	**$ 3.18**	**$ 7,387,684**	**-**	**$ -**	**$ -**	**$ 7,387,684**
Granted and vested	2,347,500	0.29	375,790	-	-	-	375,790
Expired	(1,795,000)	3.42	(4,262,150)	-	-	-	(4,262,150)
Equity portion of loan, net	-	-	1,023,629	-	-	-	1,023,629
Balance as at November 30, 2013	**3,282,500**	**$ 0.99**	**$ 4,524,953**	**-**	**$ -**	**$ -**	**$ 4,524,953**

(Presented in Canadian dollars)

20) RESERVES (Continued)

Employee share options plan

The Company has an ownership-based compensation scheme, to be administered by the board of directors of the Company, for directors, officers, employees and consultants. The plan provides for the issuance of share options to acquire up to 10% of the Company's issued and outstanding capital. The number of shares reserved for issuance pursuant to the grant of share options will increase as the Company's issued and outstanding share capital increases. In accordance with the terms of the plan, as approved by shareholders at a previous annual general meeting, directors, officers, employees and consultants of the Company may be granted options to purchase common shares at an exercise price determined by the board of directors, but which shall not be lower than the market price of the underlying common shares at the time of grant. Each employee share option converts into one common share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

During the nine months ended November 30, 2013, 2,347,500 (November 30, 2012 – nil) share options were granted to directors, officers, employees and consultants of the Company. The fair value of these stock options was estimated to be $375,600 (November 30, 2012 - $nil) using the Black-Scholes option pricing model and the following assumptions: expected dividend yield of 0% (November 30, 2012 – nil%); expected life of 5 years (November 30, 2012 – nil years); expected volatility of 65% (November 30, 2012 – nil%); and a risk-free interest rate of 1.88% (November 30, 2012 – nil%), vesting immediately. During the nine months ended November 30, 2013, an amount of $229,790 (November 30, 2012 – $35,229) is included in loss and comprehensive loss as stock based compensation expense related to the fair value of the portion of options vested during the period for directors, officers and consultants engaged at the corporate level. During the nine months ended November 30, 2013, an amount of $146,000 (November 30, 2012 – $nil) is included in loss and comprehensive loss as stock based compensation within cost of sales and is related to the fair value of the portion of options vested during the period for officers, employees and consultants engaged at the site level. The options expire five years from the date of issue, or 30 days after the resignation of the director, officer, employee or consultant.

The following share-based payment arrangements were in existence as at November 30, 2013:

Share options

Number of options outstanding	Number of options exercisable	Grant date	Expiration date	Exercise price	Grant date estimated fair value vested	Expected volatility	Expected life years at grant	Expected dividend yield	Risk-free interest rate
190,000	190,000	15-Mar-10	15-Mar-15	$ 2.80	$ 760,545	100%	5.00	0.00%	2.39%
25,000	25,000	13-Oct-10	13-Oct-15	$ 3.25	$ 60,750	100%	5.00	0.00%	1.74%
160,000	160,000	24-Mar-11	24-Mar-16	$ 4.10	$ 356,800	63%	5.00	0.00%	2.15%
100,000	100,000	6-Jun-11	6-Jun-16	$ 3.00	$ 160,000	61%	5.00	0.00%	2.23%
150,000	150,000	13-Jun-11	13-Jun-16	$ 2.77	$ 220,500	61%	5.00	0.00%	2.24%
320,000	320,000	25-Jan-12	25-Jan-17	$ 1.80	$ 323,200	67%	5.00	0.00%	1.36%
2,337,500	2,337,500	13-Aug-13	13-Aug-18	$ 0.29	$ 374,000	65%	5.00	0.00%	1.88%
3,282,500	**3,282,500**			**$ 0.99**	**$ 2,255,795**		**5.00**		

For the nine months ended November 30, 2013, the diluted weighted average number of common shares outstanding excluded 3,282,500 options, as they were anti-dilutive.

Restricted Share Unit

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. No RSU were issued as at November 30, 2013.

Equity portion of loan

Please refer to Note 16 for full description of convertible long-term loan and it's convertible option that was allocated into reserves less portion of loan issue costs associated with it.

(Presented in Canadian dollars)

21) 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 November 30, 2013 and February 28, 2013 were as follows:

	Cash, loans and receivables	Assets / (liabilities) at fair value through profit	Other financial assets/(liabilities)	Total
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)
November 30, 2013				
Cash	$ 2,225,084	$ -	$ -	$ 2,225,084
Restricted cash	50,000	-	-	50,000
Accounts and other receivables	11,294,672	-	-	11,294,672
Other assets	339,261	2,280,016	-	2,619,277
Long-term restricted cash	1,318,793	-	-	1,318,793
Accounts payable and accrued liabilities	-	-	(18,450,688)	(18,450,688)
Convertible long-term loan	-	-	(4,896,294)	(4,896,294)
Other financial liabilities - current	-	-	(5,638,417)	(5,638,417)
Other financial liabilities - long-term	-	-	(9,862,105)	(9,862,105)
Loan payable	-	-	(22,360)	(22,360)

At November 30, 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 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 Note 15.

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 nine months ended November 30, 2013 and 2012, except for the Investec loan as discussed in Note 15 and convertible long-term loan as discussed in Note 16.

As at November 30, 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 $56,467,767 (February 28, 2013 - $66,384,778) and interest bearing loans of $20,188,712 (February 28, 2013 - $22,747,012).

21) FINANCIAL INSTRUMENTS (Continued)

FINANCIAL RISK FACTORS

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

(a) Market risk

i. Foreign exchange risk

The Company's functional currency is the Canadian dollar. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the South African Rand and the US dollar. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. The Company's 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 $400,000 for the nine months ended November 30, 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 $2,500,000 for the period ended November 30, 2013, as only the export portion 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 $500,000 based on the net assets of the Company at November 30, 2013.

21) FINANCIAL INSTRUMENTS (Continued)

FINANCIAL RISK FACTORS (Continued)

(a) Market risk (continued)

The following assets and liabilities are presented in Canadian dollar values and denominated in different currencies as at November 30, 2013 and February 28, 2013:

	Canadian operations balances (*) presented in CAD and denominated in				South African operations balances (**) presented in CAD and denominated in		Total
	CAD	USD	GBP	ZAR	ZAR	USD	
Cash	$ 680,932	$ 463	$ -	$ -	$ 2,344,269	$ -	$ 3,025,664
Restricted cash	50,000	-	-	-	-	-	50,000
Accounts and other receivables	453,959	-	-	-	11,735,687	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	-	-	-	-	68,951,509	-	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)	(1,709)	(11,331,185)	(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)**	**$ (1,709)**	**$ 69,547,215**	**$ (3,086,360)**	**$ 67,023,790**
Cash	$ 86,938	$ 265,927	$ -	$ -	$ 1,872,219	$ -	$ 2,225,084
Restricted cash	50,000	-	-	-	-	-	50,000
Accounts and other receivables	131,078	-	-	-	11,163,594	-	11,294,672
Inventories	-	-	-	-	9,372,263	-	9,372,263
Prepaid expenses	34,111	-	-	-	10,654	-	44,765
Property, plant and equipment	-	-	-	-	60,599,915	-	60,599,915
Intangibles	-	-	-	-	4,021,913	-	4,021,913
Goodwill	-	-	-	-	13,879,944	-	13,879,944
Other assets - long-term	16,741	-	-	-	2,602,536	-	2,619,277
Long-term restricted cash	-	-	-	-	1,318,793	-	1,318,793
Deferred income taxes	-	-	-	-	1,532,313	-	1,532,313
Accounts payable and accrued liabilties	(1,077,747)	(89,005)	(1,238)	-	(16,906,666)	(376,032)	(18,450,688)
Convertible long-term loan	-	(4,896,294)	-	-	-	-	(4,896,294)
Other financial liabilities - current	-	-	-	-	(5,638,417)	-	(5,638,417)
Other financial liabilities - long-term	-	-	-	-	(9,862,105)	-	(9,862,105)
Asset retirement obligation - current	-	-	-	-	(277,343)	-	(277,343)
Asset retirement obligation - long-term	-	-	-	-	(3,228,643)	-	(3,228,643)
Loans payable	-	-	-	-	(22,360)	-	(22,360)
Deferred income taxes	-	-	-	-	(7,476,310)	-	(7,476,310)
Net exposure as at November 30, 2013	**$ (758,879)**	**$ (4,719,372)**	**$ (1,238)**	**$ -**	**$ 62,962,300**	**$ (376,032)**	**$ 57,106,779**

(*) Functional currency of Canadian operations is the Canadian dollar
(**) Functional currency of South African operations is the Rand

ii. <u>Interest rate risk</u>

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. <u>Price risk</u>

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 $5,580,000 for the nine months ended November 30, 2013.

(Presented in Canadian dollars)

21) FINANCIAL INSTRUMENTS (Continued)

FINANCIAL RISK FACTORS (Continued)

(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 $1,275,960 was on deposit with First National Bank to be released to a supplier if payments are not made to them. Also proceeds from a stockpile in the amount of $27,953 (ZAR 268,517) are recorded as long-term restricted cash and are held in a new bank account which is also pledged to RCF under the convertible long-term loan agreement (Note 16).

(c) Liquidity risk

As at November 30, 2013, the Company had net working capital (deficiency) of ($1,402,024) (February 28, 2013 – $1,207,327) which includes cash and restricted cash of $2,275,084 (February 28, 2013 – $3,075,664), accounts receivable and other receivables of $11,294,672 (February 28, 2013 – $13,610,214), inventories of $9,372,263 (February 28, 2013 – $10,153,759) and other assets of $nil (February 28, 2013 – $1,879,946), offset by current liabilities of $24,388,808 (February 28, 2013 – $27,595,491).

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

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

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

As at November 30, 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 November 30, 2013 and February 28, 2013:

<u>November 30, 2013</u>			
	Level 1	Level 2	Level 3
Endowment policy and investments	$ 16,741	$ -	$2,263,275
<u>February 28, 2013</u>			
	Level 1	Level 2	Level 3
Endowment policy and investments	$ 60,268	$ -	$4,464,551

(Presented in Canadian dollars)

22) RELATED PARTY DISCLOSURE

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

	Purchases of goods and services for the nine months ended	
	November 30, 2013	November 30, 2012
2227929 Ontario Inc.	$ 472,460	$ 540,469
Forbes & Manhattan Inc.	$ 288,150	$ 305,100

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. On May 1, 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. Also on May 1, 2013 a consulting agreement with Mr. Stan Bharti, a director of the Company and the Executive Chairman of Forbes & Manhattan, Inc. for a consulting fee of $15,000 per months was terminated.

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

	Amounts owed to related parties as at	
	November 30, 2013	February 28, 2013
2227929 Ontario Inc.	$ 105,168	$ 7,938

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.

Certain directors of the Company are related to RCF. See Note 16 and 25 related to certain financing arrangements and related transaction between RCF and the Company.

<u>Compensation of key management personnel</u>

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:

	Nine months ended	
	November 30, 2013	November 30, 2012
Short-term benefits	$ 1,122,430	$ 1,076,063
Share-based payments	256,000	-
	$ 1,378,430	**$ 1,076,063**

23) 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. Minimum commitments remaining under these contracts were approximately $445,000 all due within one year.

The closing of the US$6 ($6.372) million convertible long-term loan facility with RCF (Note 16) triggered the change of control provision in certain consulting contracts amounting up to $2.3 million.

Instalment sale agreements payment obligations

The Company is committed to minimum amounts under instalment sale agreements for plant and equipment. Minimum commitments remaining under these leases were $208,104 and are payable in the current period.

Environmental contingency

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

Guarantees and pledges

The Company and its subsidiaries have made certain guarantees and pledges in the aggregate of approximately ZAR 20 million ($2,082,000).

Operating commitments

The Company is party to an off-take agreement, terminating December 31, 2013 that requires the Company to deliver 800,000 metric tons of coal during 2013 (with 10% operational tolerance) on a price based upon the market price of coal. As at November 30, 2013, the remaining requirement is 355,386 tonnes. The Company has subsequently noted that upon the completion of this contract, there was a shortfall of 352,821 tonnes. The Company is currently in discussions with the other party involved in the off-take agreement regarding the resolution of this shortfall.

The Company is party to an agreement, terminating December 31, 2013 that requires the Company to export 60,000 metric tons of coal per month through the Navitrade Terminal. Should this requirement not be met, a penalty of ZAR 90 ($9) 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 ($590,000). The Company believes the claim is without merit and intends to defend itself against this claim. No amount has been provided for related to this claim in these condensed interim consolidated financial statements.

An appeal was lodged in terms of section 96 of the Mineral and Petroleum Resources Development Act 28 of 2002 ("MPRDA"), by the Avemore Trust challenging the Department of Mineral Resources ("DMR") in relation to the grant of Mining Right 174 MR ("Mining Right 174") to Zinoju Coal (Pty) Ltd. Zinoju has lodged its replying submission to the DMR and in the interim, pending the outcome of the process embarked upon by Avemore Trust, Zinoju remains the holder of Mining Right 174 and is entitled to continue mining activity in the mining area covered by Mining Right 174. The company is taking various steps to mitigate any potential risks in relation to the appeal.

Existing Investec loan facility and convertible long-term loan

Please refer to Notes 15 and 16.

23) COMMITMENTS AND CONTINGENCIES (Continued)

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

Zinoju entered into an agreement to acquire a prospecting right, for a total consideration of ZAR 14 million (approximately $1.4 million), of which ZAR 2 million, was paid as a deposit and the balance of ZAR12 million was paid by Zinoju to the seller in June 2013, on fulfilment of the conditions below:

- The granting of a mining right; and
- Zinoju obtaining the written consent of the Minister as required in terms of section 11 of the Mineral and Petroleum Resources Development Act, 2002 (the "Assignment Approval").

The mining right is included in property, plant and equipment as at November 30, 2013.

24) CANCELLED ACQUISITION OF RIVERSDALE HOLDINGS PROPRIETARY LIMITED

Proposed acquisition of Riversdale Holdings Proprietary 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, the performance of ZAC deteriorated materially. This deterioration, the Company believes, was attributable to a material breach by RML of its obligations under the agreement and the Company cancelled the contract. 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.

Flowing from the cancellation of the agreement between the company and RML two disputes have been declared with the company seeking the return of the ZAR 45,500,000 ($4,736,550) held in escrow in the one matter and both the Company and RML seeking damages in the amount of ZAR 299,500,000 ($31,177,950) resulting from the cancellation in the other. Arbitrators have been appointed and arbitration dates have been set for March 2014 and September 2014 for the two cases respectively.

The deposits made totalling ZAR 45,500,000 ($4,736,550) are expected to be recovered and are included on the consolidated statements of financial position as at November 30, 2013 in the line item accounts and other receivables.

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 $40.5 million) to Riversdale Mining Limited, and ultimately by providing debt funding for the same amount, for the payment of the purchase consideration.

As at November 30, 2013, no liability existed to Investec in respect of the transaction guarantees. The transaction guarantees expired on May 31, 2013.

See additional securities in respect of the Investec term loan facility and revolving loan facility as disclosed in Note 15.

25) SUBSEQUENT EVENTS

On December 31, 2013, the Company announced that, subject to certain conditions, it has secured the offer of a significant funding package by RCF into the Company, comprising up to a total of up to US$19.0 million (the "Transaction"). This funding package is comprised of a bridge loan of US$4.0 million (the "Bridge Loan") and a convertible loan of up to US$15.0 million (the "Convertible Loan").The Transaction is subject to, among other conditions, completion of definitive agreements, approval by Forbes Coal's senior lender, the successful closure of the Toronto office of Forbes Coal, negotiations with certain creditors and regulatory approvals, including without limitation, Toronto Stock Exchange approval and approval of the South African Reserve Bank.

Bridge Loan

The Company will incur a 5% establishment fee in connection with the Bridge Loan and the Bridge Loan will bear interest at a rate of 15% per annum, payable in arrears at the end of each calendar quarter. Subject to receipt of shareholder approval or an exemption therefrom, the establishment fee will be payable in common shares of Forbes Coal at a price of $0.14 per share and interest payments will be payable in cash or common shares of Forbes Coal at a price per share equal to the 20-day VWAP as at the date the payment is due. Provided that Forbes Coal receives all necessary regulatory and/or shareholder approvals, as may be required, the Bridge Loan will convert into a convertible loan with the same terms and conditions as the Convertible Loan. The Bridge Loan is expected to close on or around January 31, 2014 it matures on June 30, 2014.

Convertible Loan

Subject to receipt of shareholder approval or an exemption therefrom, the Convertible Loan is convertible into common shares of Forbes Coal at a price of $0.14 per common share. The Company will incur a 5% establishment fee based on the amount drawn under the Convertible Loan, and the Convertible Loan will bear interest at a rate of 12% per annum, payable in arrears at the end of each calendar quarter. Subject to receipt of shareholder approval or an exemption therefrom, the establishment fee will be payable in cash or common shares of Forbes Coal at a price of $0.14 per share and interest payments will be payable in cash or common shares at a price per share equal to the 20-day VWAP as at the date the payment is due. The Convertible Loan is expected to close on or around April 30, 2014 and it matures on June 30, 2017.

Subject to receipt of shareholder approval, the existing US$6.0 ($6.372) million convertible long-term loan (see Note 16) which closed on September 4, 2013 will be amended to contain the same terms and conditions as the Convertible Loan. As a result and upon conversion of the Bridge Loan, Forbes Coal will enter into a convertible loan facility with RCF for an aggregate amount up to US$25 million (which will include the Convertible Loan).

Payment of the establishment fees and interest to RCF in connection with the Bridge Loan and the Convertible Loan in cash or common shares of Forbes Coal, and the conversion of the principal amount of the Bridge Loan or the Convertible Loan into common shares of Forbes Coal is subject to shareholder approval pursuant to the policies of the Toronto Stock Exchange (the "TSX"). In connection with the Transaction and subsequent to November 30, 2013 the Company made an application to the TSX to rely on the financial hardship exemption in connection with such payments and share issuances. As a result TXS only approved application in connection with the Bridge Loan.

Upon completion of the Transaction, certain management changes are expected to take place and could result in certain changes of control provision payments being made pursuant to certain management contracts (See Note 23).

TSX Delisting Review

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