

Forbes & Manhattan Coal Corp. Management's Discussion and Analysis For the three months ended May 31, 2012

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 months ended May 31, 2012 and should be read in conjunction with the Unaudited Condensed Interim Consolidated Financial Statements for the three months ended May 31, 2012, as well as the Company's Audited Annual Consolidated Financial Statements and related Notes and Management's Discussion and Analysis for the periods ended February 29, 2012 and February 28, 2011. 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 July 12, 2012 unless otherwise indicated. References to Q1 2013 or the 1st quarter of 2013 mean the three months ended May 31, 2012, references to Q1 and Q4 2012 or the 1st and 4th quarter of 2012 mean the three months ended May 31, 2011 and the three months ended February 29, 2012.

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.Eng. (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

Except for statements of historical fact relating to Forbes Coal certain information contained herein constitutes forward-looking information. Forward-looking information includes, but is not limited to, statements with respect to the development potential of the Company's properties; the future price of coal; the estimation of coal reserves and coal resources; conclusions of economic evaluation; the realization of 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; and environmental risks. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "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, and they are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Forbes Coal to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: unexpected events and delays during construction, expansion and start-up; variations in quality and recovery rates; delay or failure to receive government approvals; timing and availability of external financing on acceptable terms; actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of coal; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry. 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 statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.

OVERVIEW OF THE COMPANY

Forbes & Manhattan Coal Corp. (individually, or collectively with its subsidiaries, as applicable, "Forbes Coal" or the "Company") is a coal mining company. Forbes Coal is the continuing combined entity following a September 2010 transaction between Forbes & Manhattan (Coal) Inc. and Nyah Resources Corp. ("Nyah") whereby Nyah, a public company listed on the TSX Venture Exchange ("TSX-V"), acquired all of the outstanding shares of the Company in exchange for

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common shares of Nyah (the "Transaction"). The Transaction was accounted for as a purchase of assets with Forbes & Manhattan (Coal) Inc. as the acquirer and Nyah as the acquiree. As such, the consolidated financial statements are a continuation of the consolidated financial statements of Forbes & Manhattan (Coal) Inc. Following the Transaction, the combined company is now known as Forbes & Manhattan Coal Corp. and is listed on the Toronto Stock Exchange ("TSX"). Forbes Coal began trading under the symbol "FMC" on September 27, 2010. Additional details regarding the Transaction are provided below under the section entitled, "Transaction with Nyah Resources Corp ("NYAH")".

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

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

FORBES & MANHATTAN COAL'S FISCAL 2013 STRATEGY AND FUTURE PLANS

Forbes Coal's vision is to build a high quality bituminous and metallurgical coal 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.

The Company's strategic goals in fiscal 2013 are to advance and expand production at the Forbes Coal Dundee Properties, as follows:

- Further development at Magdalena
 - Continuing exploration program on the recently granted Hilltop exploration licence
 - Increasing productivity and production capacity at Magdalena by further mechanisation, coupled with operational efficiency initiatives
 - Ramp-up saleable production up to 1,000,000 tonnes for the year
 - Extension of the Magdalena opencast life of mine by a number of months
 - Introduce a third shift in mining sections
 - Estimated capital expenditure of \$7 million
- Increase wash plant recovery rates
 - Improve from current level of 65% to 68%
 - Investigate product upgrade potential
- Further develop Aviemore anthracite operations
 - Achieve saleable production up to 300,000 tonnes for the year
 - Progress exploration program and feasibility study for the expansion of Aviemore to a 1,000,000 ROM tonnes per year producer
 - Estimated capital expenditure of \$5 million
- Improve operational efficiencies
 - Further develop management team with international experience

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- Explore opportunities to increase sales and exports
- Explore new market opportunities for the Avimore product
- Increase rail and port allocation to further gain exposure to seaborne bituminous and anthracite export markets

FUTURE PLANS

The Company is focused on the acquisition of further high quality bituminous and metallurgical coal projects (both greenfield and producing) assets in the Southern African region. Part of the acquisition strategy is to seek opportunities to increase rail and port allocation.

The Company is also targeting 1.3 million saleable tonnes at the Forbes Coal Dundee operations and a 10% reduction in cash cost per tonne for fiscal 2013. Continuing exploration programs are to be carried out at both mines to determine expansion potential:

- At Magdalena: drilling for potential opencast mine expansion has been completed, Hilltop exploration drilling license has been recently granted,
- At Avimore: a feasibility study for the expansion of Avimore, potentially to 1 million tonnes of ROM per annum, will be undertaken.

EXECUTIVE SUMMARY AND OPERATIONAL OVERVIEW:

During the three months ended May 31, 2012, the Company:

- Reported revenue of \$20.80 million, compared to revenue of \$19.61 million in Q1 2012.
- Reported gross profit of \$1.81 million, compared to gross profit of \$3.96 million in Q1 2012.
- Generated consolidated EBITDA of \$2.45 million, compared to consolidated EBITDA of \$5.82 million in Q1 2012 (see Non-IFRS measures).
- Generated Forbes Coal Dundee stand alone EBITDA of \$3.15 million, compared to stand alone EBITDA of \$6.25 million in Q1 2012 (see Non-IFRS measures).
- Total ROM production from all operations for Q1 2013 was 387,075 tonnes, a 28% increase compared to 303,029 tonnes produced in Q4 2012.
- Saleable coal production for Q1 2013 was 245,675 tonnes, a 10% increase compared to 223,901 saleable tonnes in Q4 2012.
- The total calculated yield from plant feed was 64.7% for Q1 2013, compared to 63.5% for Q4 2012.
- Total sales of bituminous coal and anthracite products for Q1 2013 were 234,997 tonnes, a 7% increase compared to 219,889 tonnes sold in Q4 2012.

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 pit, has an estimated measured and indicated mineral resource of 54.2 million tonnes of *in situ* coal with an estimated volume of 36.1 million cubic metres. A specific gravity of 1.5 tonnes per cubic metre was applied for the volume-tonnage conversion. The Magdalena opencast pit and underground mine have an estimated production capacity of 100,000 tonnes of bituminous coal per month. The Avimore Property is located 4 kilometers from the town of Dundee in KwaZulu-Natal and encompasses approximately 5,592 hectares. The Avimore Property consists of the Avimore underground mine and has an estimated measured and indicated mineral resource of 35.9 million tonnes of *in situ* coal with an estimated volume of 23.9 million cubic metres. A specific gravity of 1.5 tonnes per cubic metre was applied for the volume-tonnage conversion. The Avimore underground mine had an estimated production capacity of 25,000 tonnes of anthracite coal per month. Post the successful commissioning of the second production section underground at Avimore, this capacity has increased to 45,500 tonnes per month.

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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.

2011 - Mineable in Situ Coal Resource for the Forbes Coal Dundee Project as at 31 March 2011												
Area	Full Extraction of Seam Width					1.7 Float Qualities						
	Seam	Coal Resource Category	Volume	SG	Tonnes	ASH	FC	GCV	H2O	TS	VOL	YIELD
			Mm ³	t/m ³	Mt	%	%	MJ/Kg	%	%	%	%
Magdalena Underground	Gus Seam	Measured	8.481	1.50	12.722	14.89	65.79	29.46	1.23	1.62	17.76	77.52
	Alfred Seam	Measured	10.840	1.50	16.260	15.61	66.18	30.20	1.39	1.49	16.80	79.10
	Combined Seam	Measured	14.884	1.50	22.326	14.78	67.61	29.26	1.40	1.56	15.55	82.98
	Total Measured		34.206	1.50	51.308	15.07	66.71	29.61	1.35	1.55	16.49	80.40
Magdalena Opencast	Full Extraction of Seam Width					1.7 Float Qualities						
	Seam	Coal Resource Category	Volume	SG	Tonnes	ASH	FC	GCV	H2O	TS	VOL	YIELD
			Mm ³	t/m ³	Mt	%	%	MJ/Kg	%	%	%	%
Gus Seam	Measured	0.104	1.50	0.156	15.59	59.62	29.24	1.36	1.57	23.46	82.08	
Alfred Seam	Measured	0.137	1.50	0.206	15.16	62.15	29.23	1.48	1.47	21.22	80.92	
Total Measured		0.241	1.50	0.362	15.35	61.06	29.23	1.43	1.51	22.18	81.42	
Aviormore Mine	Full Extraction of Seam Width					1.7 Float Qualities						
	Seam	Coal Resource Category	Volume	SG	Tonnes	ASH	FC	GCV	H2O	TS	VOL	YIELD
			Mm ³	t/m ³	Mt	%	%	MJ/Kg	%	%	%	%
Gus Seam	Measured	1.055	1.50	1.583	13.45	77.68	30.12	1.81	2.04	7.20	74.02	
Total Measured		1.055	1.50	1.583	13.44	77.68	30.13	1.81	2.03	7.20	74.04	
Leeuw Mining & Exploration	Gus Seam	Indicated	9.719	1.50	14.579	13.55	77.53	29.00	2.21	1.80	6.73	63.51
Zinoju Coal	Gus Seam	Indicated	13.029	1.50	19.544	13.46	75.51	28.93	2.59	1.60	8.28	57.00
	Total Indicated		22.748	1.50	34.123	13.50	76.37	28.96	2.43	1.69	7.62	59.78
	Total Measured & Indicated		23.803	1.50	35.706	13.50	76.43	29.01	2.40	1.70	7.60	60.41
Leeuw Mining & Exploration	Gus Seam	Inferred	1.087	1.50	1.631	14.97	74.78	27.29	1.77	1.41	8.50	55.98
Zinoju Coal	Gus Seam	Inferred	8.989	1.50	13.484	14.14	74.72	28.85	2.49	1.71	8.64	59.60
	Total Inferred		10.076	1.50	15.115	14.23	74.73	28.68	2.41	1.68	8.63	59.21

Notes:

Resource Statement: The Inferred Coal Resources have a large degree of uncertainty as to their existence and whether they can be mined economically or legally. It cannot be assumed that all or any part of the Inferred Resource will be upgraded to a higher confidence category. The current Coal Resource model is based on available sampling data collected over the history of the Project area. The Coal Resources model and estimation parameters were reviewed by R Barends who is independent of the Project. The independent QP who reviewed the Coal Resource estimates is Mr C Muller, Director of Minxcon (Pty) Ltd., who is a National Instrument 43-101 Qualified Person, with professional registration with SACNASP (SA). The technical aspects of the report were sourced from the 2010 Coal Resource estimation conducted by Minxcon, and these aspects have been reviewed by R Barends in 2011. The Resource estimate is based on a 2D computer block model with estimation parameters estimated into 100X100 metre blocks using full seam width composite data. The Qualities models were constructed from inverse square distance estimates. The Coal Resource estimates were not diluted. The quality models were verified by visual and statistical methods and deemed to be globally unbiased. The blocks were classified into Inferred and Indicated and Measured Resource categories using the following and not limited thereto: data spacing, geological confidence, number of samples used to inform a block, etc. No environmental, permitting, legal, taxation, socio-political, marketing or other issues are expected to materially affect the above Coal Resource estimate and hence have not been used to modify the Coal Resource estimate. Only the Coal resource lying within the identified target areas are reported. These fall within the legal boundaries. All figures are in Metric Tonnes. SG: 1.5t/m³. A 0.8 m cut-off and geological loss factor of 15% was used in the declaration of the Magdalena and Aviormore Coal Resources. Effective Date: 31st March 2011.

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OVERVIEW & OUTLOOK

The demand for South African seaborne bituminous coal is largely driven by a continued increase in thermal coal imports from India. On the domestic industrial front, bituminous coal prices have 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 very high quality export bituminous coal product at the Forbes Coal Dundee operations. The near term outlook for bituminous coal remains healthy on the domestic front, with softening in the export front. API4 FOB Richards Bay Spot Coal Thermal prices have softened to levels of around \$85 per tonne. It is anticipated that prices will remain soft in the short to medium term.

The anthracite coal market is highly correlated with the metal industry as anthracite coal is used in a metallurgical coal application. 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. As the global economy recovers, anthracite prices are expected to remain robust. Forbes Coal Dundee also exports its anthracite products to global steel producers. The near term outlook in the anthracite export market remains strong and healthy.

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 the 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 and is targeting to further increase its export port capacity.

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SUMMARIZED FINANCIAL RESULTS OF FORBES COAL DUNDEE

	Three months ended		
	February 29, 2012	May 31, 2012	May 31, 2011
Run of Mine (ROM) (t)	303,029	387,075	311,002
Run of Mine (ROM) coal purchased (t)	10,685	1,569	-
Saleable production (t)	204,310	244,605	207,189
Saleable coal purchased (t)	19,591	1,070	-
Plant feed (t)	321,502	379,920	303,069
Yield (%) on ROM	65.1%	62.9%	66.6%
Yield (%) on plant feed	63.5%	64.7%	68.4%
Inventory tonnes balance open	82,425	41,109	189,778
Inventory tonnes balance close	41,109	73,144	204,396
Sales (t)	219,889	234,997	190,827
Revenue 000,000's (CAD)	18.5	20.8	19.6
EBITDA 000,000's (CAD)	2.9	3.1	6.2
CAD: USD (average)	1.01	1.00	0.97
ZAR: CAD (average)	7.86	7.87	7.06
Selling price (average) / sold production tonnes (CAD)	84.11	88.51	102.71
Selling price (average) / sold production tonnes (USD)	83.19	88.60	106.12
Cash cost of sales and operating expenses 000,000's (CAD)	14.0	16.2	12.5
Cash cost of sales and operating expenses / sold production tonnes (CAD)	63.71	68.86	65.47
Cash cost of sales and operating expenses / sold production tonnes (USD)	63.01	68.92	67.64
Capital expenditures 000,000's (CAD)	2.95	1.95	1.67
Capital expenditures per t of saleable production (CAD)	14.46	7.98	8.06

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

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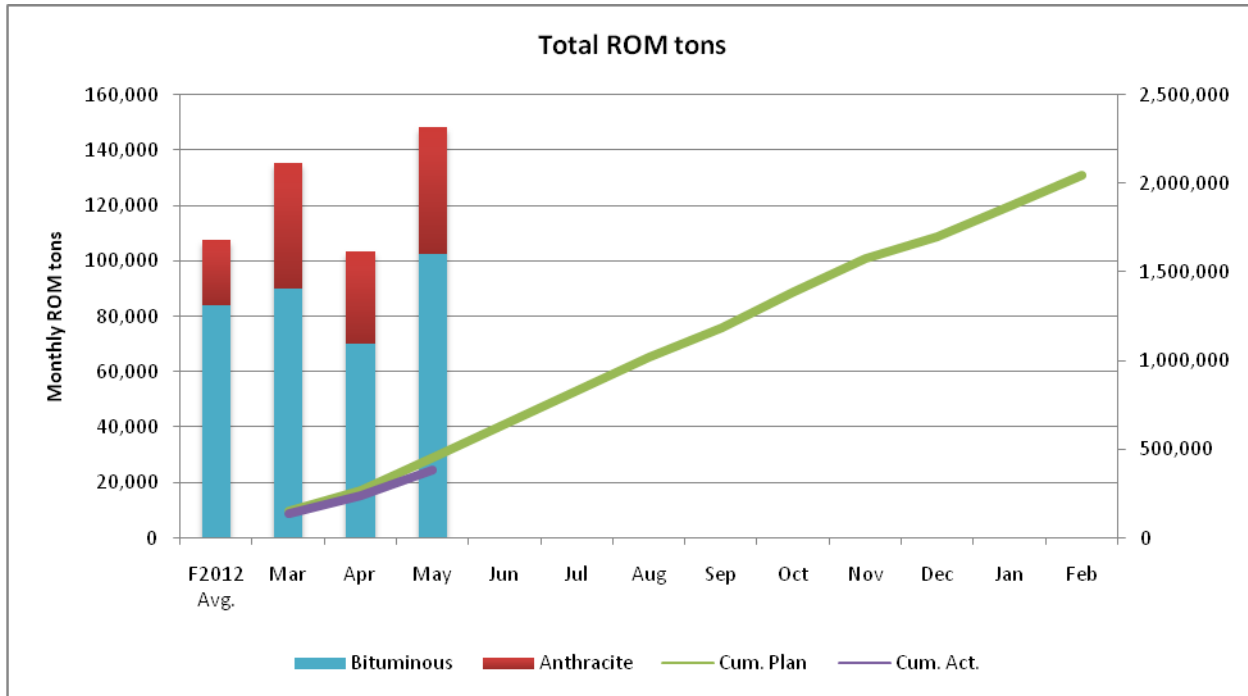
OPERATIONAL HIGHLIGHTS

	Three months ended		
	February 29, 2012	May 31, 2012	May 31, 2011
Sales from:			
-Avimore operations (t)	65,239	56,065	9,387
-Calcine operations (t)	682	-	7,403
-Magdalena operations (t)	139,123	178,932	174,037
Total sales (t)	219,889	234,997	190,827
Saleable production from:			
-Avimore operations (t)	52,610	78,333	31,776
-Magdalena operations (t)	144,427	166,272	175,413
-Purchased (t)	26,864	1,070	-
Total saleable production (t)	223,901	245,675	207,189
Run of Mine production from:			
-Avimore operations (t)	88,241	124,659	50,700
-Magdalena operations (t)	214,788	262,416	260,302
Total ROM production (t)	303,029	387,075	311,002

ROM Production

- Total ROM production from all operations for Q1 2013 was 387,075 tonnes, a 28% increase compared to 303,029 tonnes produced in Q4 2012.
- Total ROM production for Q1 2013 was below targeted ROM production of 456,000 tonnes, as a result of difficult geology, overloading of the underground conveyor system, interruptions in the power supply and high target tonnages for a stone section in Magdalena. In an effort to spread load over the conveyor system and distribute the peak loading pattern, it is planned to operate both the ABM30 continuous miners' sections on a more effective shift roster from Q2 2013.
- ROM production from Magdalena operations, underground and open pit combined, for Q1 2013 was 262,416 tonnes, a 22% increase compared to 214,788 tonnes produced in Q4 2012. The extension of the life of mine of the opencast operations is currently under review.
- ROM production from Avimore operations for Q1 2013 was 124,659 tonnes, a 41% increase compared to 88,241 tonnes produced in Q4 2012. Avimore introduced a second shift in section two in February 2012.

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Saleable Production

- Saleable coal production for Q1 2013 was 245,675 tonnes, a 10 % increase compared to 223,901 saleable tonnes in Q4 2012.
- Saleable coal bought in for Q1 2013 was 1,070 tonnes, compared to 26,864 tonnes for Q4 2012.
- The total calculated yield from plant feed was 64.7% for Q1 2013, compared to 63.5% for Q4 2012.

Sales

- Total sales of bituminous coal and anthracite products for Q1 2013 were 234,997 tonnes, a 7% increase compared to 219,889 tonnes sold in Q4 2012.
- The majority of product sold to local and overseas markets continues to be thermal coal with domestic sales slightly higher than export sales for Q1 2013.
- Export sales for Q1 2013 were 96,625 tonnes, a 9% decrease compared to 105,972 tonnes sold in Q4 2012.
- Domestic sales in Q1 2013 were 138,372 tonnes, a 21% increase compared to 113,917 tonnes sold in Q4 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 successfully negotiated an agreement with Navitrade for incremental capacity of up to 960,000 tonnes per annum over a three year period. Grindrod Terminals shall provide export capacity in the terminal for the shipment of coal products as follows:

- 2012 – 720 000 metric tons (m/t) per annum
- 2013 – 960 000 metric tons (m/t) per annum

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Forbes Coal transported 91,206 tonnes of saleable product to Navitrade in Q1 2013, an increase of 2% compared to Q4 2012 and shipped 72,787 tonnes during the quarter, a decrease of 21% compared to Q4 2012. Coal inventory at Navitrade at the end of Q1 2013 was 82,926 tonnes, an increase of 18,418 tonnes compared to Q4 2012.

Social Development, Health and Safety

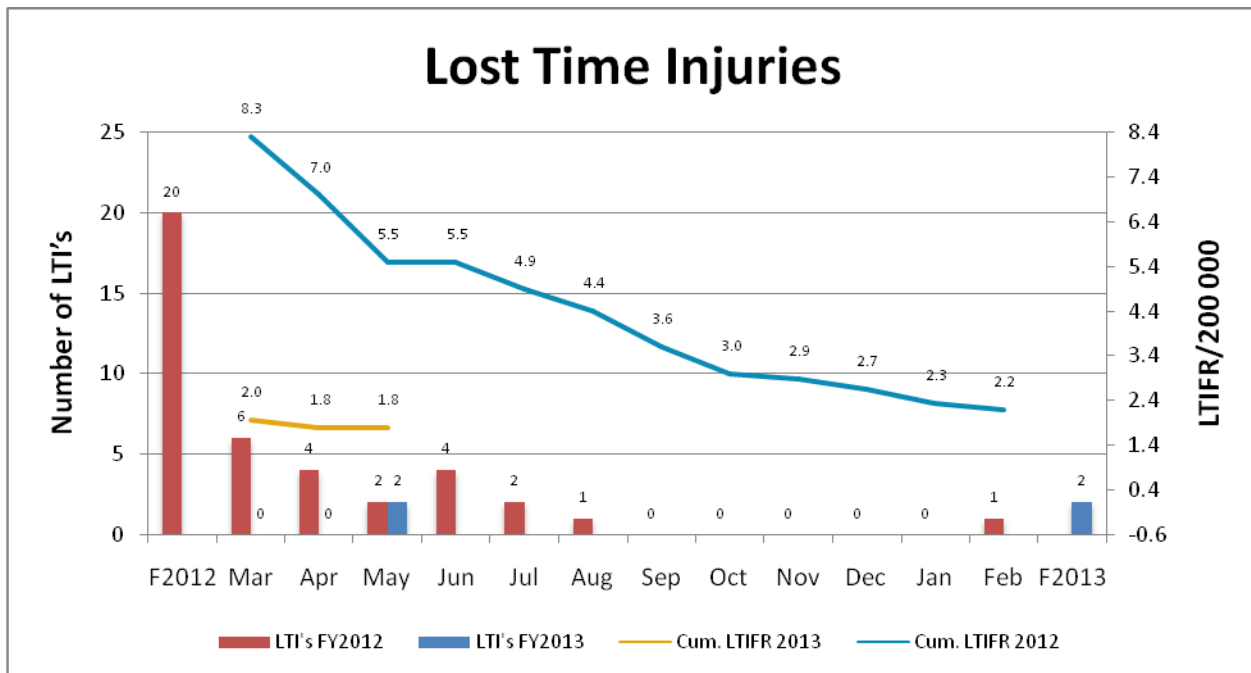
A key component of the Company's strategy involves Social Development, Health and Safety.

Forbes Coal supports a number of Social Development projects through the activities of Zinoju Coal. These projects have had 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 just been engaged full time at the 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 our operations. This review has resulted in the following focus areas:

- Identifying and eliminating at risk behaviour;
- Implementing an integrated SHE management system;
- Demonstrating visible felt leadership in the workplace;
- Managing contract workers more effectively;
- Transforming the safety culture.

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 encouraging thus far 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:



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RESULTS OF OPERATIONS

Total Comprehensive Income

The net loss before income taxes for the three months ended May 31, 2012, was \$1.31 million, compared to net loss of \$0.13 million for the three months ended May 31, 2011. Comprehensive income (loss) for the three months ended May 31, 2012, was a loss of \$8.04 million compared to the comprehensive income of \$0.01 million for the comparable period ended May 31, 2011.

Revenue

Coal sales revenues during the three months ended May 31, 2012 were \$20.80 million compared to \$19.61 million for the three months ended May 31, 2011.

During the three months ended May 31, 2012, the Company's saleable production was 245,675 tonnes and sales were 234,997 tonnes compared to saleable production of 207,189 tonnes and sales of 190,287 tonnes for the three months ended May 31, 2011. Average selling price per tonne decreased in Q1 2013 when compared to Q1 2012 due to softening export coal sale pricing which also affected domestic coal sale pricing (\$88.51 per tonne versus \$102.71 per tonne).

Cost of Sales and Operating Expenses

Operating expenses for the three months ended May 31, 2012 were \$16.18 million (\$68.86 per tonne) compared to \$12.49 million (\$65.47 per tonne) for the three months ended May 31, 2011. This amount includes transportation, rail and port handling costs. Amortization and depletion for the three months ended May 31, 2012 amounted to \$2.81 million (\$11.94 per tonne) and \$2.93 million (\$15.34 per tonne) for the three months ended May 31, 2011. Such decrease in per tonne depreciation is directly attributable to production from newly added opencast coal portion. Included in \$2.81 million Amortization and depletion expense for the three months ended May 31, 2012 are charges related to the property plant and equipment of \$2.80 million, charges related to the intangible assets of \$0.04 million and negative charges related to the coal and work in progress inventory movement of \$0.03 million.

The Magdalena underground production costs were higher on a per ton basis due to decreased production. The lower production was due to difficult geology, overloading of the underground conveyor system and interruptions in the power supply.

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 standards. Particularly, as part of the health and safety initiatives and investigations done over the last year, focusing on a vastly improved safety performance at Magdalena underground, 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 and contributes to dilution of the ROM coal and which has negatively affected washing plant yields.

Rail performance is steadily improving and off-take and throughput commitments are expected to be met.

Expenses

The Company recorded expenses of \$2.23 million during the three months ended May 31, 2012 compared to \$3.15 million during the three months ended May 31, 2011. During the three months ended May 31, 2012 the Company recorded \$0.02 million in stock based compensation related to vesting of previously granted options. Comparatively, the Company recorded \$1.62 million in stock based compensation during the three months ended May 31, 2011 related to the estimated fair value of 825,000 options.

The Company adopted a stock option plan (the "Plan") to be administered by the directors of the Company. Under the Plan,

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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 5 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 of 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.

Included in expenses are \$0.76 million for the three months ended May 31, 2012 for consulting and professional fees compared to \$0.77 million in consulting and professional fees for the three months ended May 31, 2011. These numbers are fairly consistent on year over year basis.

General and administrative expenses of \$1.45 million for the three months ended May 31, 2012 were higher when compared to general and administrative expenses of \$0.76 for the three months ended May 31, 2011. Of the \$1.45 and \$0.76 million, \$1.32 million and \$0.62 million originate from the South African offices and \$0.13 and \$0.14 million are related to the head office.

The Company acquired Forbes Coal Dundee in July 2010, consequently the comparative expenses were on the lower side, as we were starting to build our team in South Africa in order to facilitate the expansion and acquisition plans which has and will result in higher general and administration and consulting expenses. Increases were incurred in all areas of expenditures including listing and sustaining fees, staff, training fees, communication and travel.

Other items

During the three months ended May 31, 2012 the Company recorded an expense from other items totalling \$0.89 million compared to \$0.94 million for the three months ended May 31, 2011.

The Company recorded other income of \$0.04 million during the three months ended May 31, 2012 compared to \$0.24 million during the three months ended May 31, 2011. Other income and expense, results primarily from small scrap sales, discounts received, commissions paid and certain fair value adjustments.

The Company also recorded \$nil related to accretion with respect to the acquisition obligation for the three months ended May 31, 2012 compared to \$0.54 million for the three months ended May 31, 2011. The Company made its final payment on the Forbes Coal Dundee acquisition on February 29, 2012 and does not anticipate any accretion and change of estimate related expenses or recoveries to be recognized in the current financial year and going forward.

The Company recorded a net interest expense of \$0.58 million during the three months ended May 31, 2012 compared to a net interest expense of \$0.31 million for the three months ended May 31, 2011. The Company incurs interest expense primarily on borrowings which totaled \$0.67 million and \$0.39 million for the three months ended May 31, 2012 and 2011 respectively, relating to the Investec loan facility and certain instalment 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 months ended May 31, 2012 and 2011 and generated \$0.08 million and \$0.08 million respectively related to interest earned.

The Company also recorded a foreign exchange gain of \$0.01 million during the three months ended May 31, 2012 compared to a loss of \$0.31 million for the three months ended May 31, 2011. As previously discussed, the Company had a liability of ZAR 140 million related to the acquisition obligation, which was settled on February 29, 2012 and generated the majority of

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foreign exchange gains and losses in the year ended February 29, 2012. Foreign exchange gain recorded in Q1 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 an income and other tax expense of \$0.28 million during the three months ended May 31, 2012. This amount includes \$0.36 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. Income tax is payable at a rate of 28% on taxable income earned in South Africa. Also a dividend tax expense of \$0.43 million payable in South Africa was recorded due to an intercompany dividend of \$8.64 million being declared and paid from Forbes Coal Dundee to head office.

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. Accordingly, the results are translated 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 months ended May 31, 2012 and 2011 a loss of \$6.45 million and a gain of \$1.02 million have been recorded to other comprehensive income in the respective periods. There was a significant movement in the value of South African rand in relation to Canadian dollar from 7.57 on February 29, 2012 to 8.24 on May 31, 2012.

LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of \$12.28 million as at May 31, 2012, compared to working capital of \$13.71 million at February 29, 2012 (see Non-IFRS Measures). The primary reason for the working capital decrease is a decrease in accounts receivable and cash. The Company also made investments in property, plant and equipment totalling \$1.95 million during the three months ended May 31, 2012.

Investec loan facility

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

Investec loan facility is issued under the following terms:

Facilities

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

Cession in Security

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

Mortgage bond

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- 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 had two drawdowns in the period ended February 29, 2012. In January 2012, the Company made a drawdown for ZAR 11,140,000 (approximately \$1,350,000) and in February 2012 for ZAR 142,000,000 (approximately \$17,220,000). Also as at May 31, 2012, the Company had available for drawdown facility of ZAR 76,860,000 (approximately \$9,320,000). (See Subsequent Events section)

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

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

As at May 31, 2012, an amount of \$18,722,562 (ZAR 154,258,551) has been recorded as owed under this facility is repayable as follows:

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

CASH FLOWS AND INVESTING ACTIVITIES

Cash and cash equivalents decreased from \$9.48 million as at February 29, 2012, to \$8.11 million as at May 31, 2012, representing a decrease of \$1.37 million.

Operating activities during the three months ended May 31, 2012 provided \$1.32 million compared to \$4.57 million being provided during the three months ended May 31, 2011. The net loss for the three months ended May 31, 2012 was \$1.59 million compared to a net loss of \$1.00 million for the three months ended May 31, 2011 as discussed under the Results of Operations section of this report. Non-cash items included in the net income and loss for the three months ended May 31, 2012 and 2011 included: amortization and depletion of \$2.81 million and \$2.93 million respectively; gains on fair value adjustments on financial assets of \$0.01 million and \$0.05 million respectively; deferred income taxes of \$0.50 million and \$0.03 million respectively; accretion of \$0.03 million and \$0.57 million respectively; foreign exchange loss of \$nil and \$0.22 million respectively and stock based compensation of \$0.02 million and \$1.84 million respectively, of which the material items were discussed under the Results of Operations section of this report. The Company generated \$0.21 million during the three months ended May 31, 2012 and \$0.11 million during the three months ended May 31, 2011 related to the net change in

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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.

The Company used \$2.32 million and \$2.03 million in investing activities during the three months ended May 31, 2012 and 2011 respectively. During the three months ended May 31, 2012 the Company added \$1.95 million to property, plant and equipment related to the Magdalena and Aviemore operations.

The Company also made additional contributions of \$0.24 million into its endowment policy which is used to fund equipment instalment sale agreements in a tax effective manner. The large use during the prior period related to the additions to property, plant and equipment in the amount of \$1.67 million.

Financing activities used \$0.03 million during three months ended May 31, 2012 and generated \$1.97 million during the three months ended May 31, 2011. During the three months ended May 31, 2011, the Company 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 and decreased borrowings by \$3.15 million related to its instalment sales agreements.

Negative effect of \$0.33 million and positive effect \$0.02 million are recorded on the consolidated statement of cash flows related to the effect of foreign exchange on cash and cash equivalents for the three months ended May 31, 2012 and 2011 respectively.

QUARTERLY INFORMATION

	Q1-2013	Q4-2012	Q3-2012	Q2-2012	Q1-2012	Q5-2011	Q4-2011	Q3-2011	Q2-2011
Revenue from mining operations (CAD 000's)	20,800	18,495	31,152	35,243	19,608	12,019	9,031	6,627	-
Mine operating expense (CAD 000's)	16,181	14,009	20,459	24,098	12,495	8,936	7,599	3,390	-
Amortization and depletion (CAD 000's)	2,807	3,427	3,907	5,521	2,928	1,540	179	1,791	-
Net income (loss) (CAD 000's)	(1,590)	1,193	3,523	(1,421)	(1,005)	1,836	(5,166)	(13,344)	(345)
Net income (loss) per share, basic and diluted \$	(0.05)	0.03	0.10	(0.04)	(0.03)	0.07	(0.20)	(0.76)	(0.13)
Cash provided by (used in) operations (CAD 000's)	1,323	(1,830)	6,662	10,530	4,574	320	(2,378)	(316)	(279)
Tonnes of coal produced, ROM	387,075	303,029	354,003	322,765	311,002	190,278	228,157	174,799	-
Tonnes of coal sold	234,997	219,889	331,296	339,802	190,827	129,774	102,834	79,074	-
Average realized coal price per tonne (CAD)	89	84	94	104	103	93	88	84	-
Average realized coal price per tonne (USD)	89	83	93	107	106	93	87	81	-
Total Assets (CAD 000's)	128,180	140,551	140,922	155,894	154,954	149,405	142,655	135,279	4,093
Long term financial liabilities (CAD 000's)	18,389	20,031	8,333	9,966	10,187	11,728	8,307	7,760	-

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

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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.

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

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

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

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

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

OTHER

On March 26, 2012, the Company announced that Mrs. Sarah Williams is joining the Company as Vice President Finance, effective April 1, 2012. Mrs. Williams is a Chartered Accountant (SA) with nine years experience in the corporate finance industry. Her expertise is in the resource sector where she played key roles in company listings and IPOs, mergers and acquisitions, restructurings and debt and equity capital raisings. She has advised on numerous transactions in the coal, gold, diamonds and iron ore sectors. Prior to joining Forbes Coal, Mrs. Williams was with Sasfin Bank, a South African bank listed on the Johannesburg Stock Exchange. Before Sasfin Bank, Mrs. Williams held positions with boutique and major finance advisory groups.

COMMITMENTS AND CONTINGENCIES

Management contracts

The Corporation is party to certain management contracts. These contracts require that additional payments of approximately \$2,400,000 be made upon the occurrence of a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in the condensed interim consolidated financial statements. Minimum commitments remaining under these contracts were approximately \$420,000 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 \$3,071,788 over the following years:

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

Environmental contingency

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

Throughput, transportation and sales contracts

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

Investec loan facility

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

SUBSEQUENT EVENTS

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

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 May 31, 2012 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.

Changes to accounting policies or business processes as a result of the IFRS conversion did not materially affect the Company's internal controls over financial reporting. 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 May 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures and internal control over financial reporting.

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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 May 31, 2012.

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 condensed interim consolidated financial statements for the three months ended May 31, 2012, 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 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 judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.
- **Mineral reserve estimates**
The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.
- **Impairment of mineral interests**
While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which

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exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

- **Estimation of decommissioning and restoration costs and the timing of expenditure**
The cost estimates are updated annually during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.
- **Income taxes and recoverability of potential deferred tax assets**
In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.
- **Share-Based Payments**
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.
- **Allocation purchase price related to reverse acquisition, asset acquisition and business combination**
The fair value of assets acquired and liabilities assumed and the resulting goodwill, if any, requires that management make estimates based on the information provided by the acquiree. Changes to the provisional values of assets acquired and liabilities assumed, deferred income taxes and resulting goodwill, if any, will be retrospectively adjusted when the final measurements are determined (within one year of acquisition date).
- **Contingencies**
Refer to Commitments and contingencies section of this MD&A.

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Future accounting changes

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

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

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

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

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

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

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

IAS 1, Presentation of Financial Statements ("IAS 1"), has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

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The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company has not yet determined the impact of the amendments to IAS 1 on its financial statements.

FINANCIAL INSTRUMENTS

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

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

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

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

CAPITAL MANAGEMENT

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

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

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

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procedures in the three months ended May 31, 2012 or 2011, except for the Investec loan as discussed in the Investec loan section of this MD&A.

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

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 purchased its South African Company in Rand and is required to make future payments in Rand. In addition, coal is priced on international markets in United States dollars and converted to Rand to support operations in South Africa.

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

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

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

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

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

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

(*) Functional currency of Forbes Coal parent company is Canadian dollar

(**) Functional currency of Forbes Coal Dundee is South African rand

ii. Interest rate risk

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

iii. Price risk

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

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(b) Credit risk

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

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

(c) Liquidity risk

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

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

(d) Fair value of financial instruments

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

<u>May 31, 2012</u>	Level 1	Level 2	Level 3
Endowment policy and investments	\$ 200,893	\$ -	\$5,530,500
<u>February 29, 2012</u>	Level 1	Level 2	Level 3
Endowment policy and investments	\$ 569,196	\$ -	\$5,758,197

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RISKS AND UNCERTAINTIES

Price of Coal

The Company's profits are 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 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, furnaces and boilers; 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 of any of the Company's operations 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.

Additional Capital

The Forbes Coal Dundee Agreement requires the Company to make deferred payments one and two years following the signing of the Forbes Coal Dundee Agreement. Although the Forbes Coal Dundee Properties are producing coal, such revenues may be inadequate to make the deferred payments pursuant to the Forbes Coal Dundee Agreement. In addition, the continued development of the Forbes Coal Dundee Properties, including the expansion of mining operations, will require additional financing. Failure to obtain sufficient financing will result in a delay or indefinite postponement of development or production on the Forbes Coal Dundee Properties or even a loss of a property interest. Additional financing may not be available when needed or if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to then existing shareholders. Failure to raise capital when needed would have a material adverse effect on the Company business, financial condition and results of operations.

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 which are explored are ultimately developed into producing mines. Major expenses may be required to establish ore 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.

Mineral Reserve and Mineral Resource Estimates

Mineral reserve and mineral resource estimates are imprecise and depend partially on statistical inference drawn from drilling and other data, which may prove to be unreliable. Future production could differ dramatically from mineral reserve estimates.

Production

The Company currently has two operating mines. No assurance can be given that the intended or expected production schedules or the estimated direct operating cash costs will be achieved at the two mines or any future mining operations. The Company's level of production will be dependent on a number of factors including the grade of reserves and recovery. The cash cost of production at any particular mining location is frequently subject to great variation from one year to the next due to a number of factors such as changing grades, labour costs, and the cost of supplies and services, such as electricity and

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fuel. Many factors may cause delays or cost increases including labour issues, disruptions in power and mechanical failures. These variances can have a negative impact on the profitability of operations.

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.

Remote Locations

The Company operates in remote locations and will depend on an uninterrupted flow of materials, supplies and services to those locations. As a result, the Company depends primarily on rail and shipping ports to transport materials, supplies and products over long distances between its facilities and their final destination. In some cases these transport services may potentially constitute a logistical constraint to the Company's planned increased production rates. Any interruptions to the procurement of equipment or the flow of materials, supplies and services to the Company's properties could have an adverse impact on its future cash flows, earnings, results of operations and financial conditions.

Power Supply

The Company's operations depend upon the reliable and continuous delivery of sufficient quantities of power to its mines and facilities. While the Company currently has power supply to its existing facilities, power supply disruptions and rolling blackouts risk interfering with the Company's operations. Failure to secure continuous power and electricity in the future could have a material adverse effect on the Company's business, operating results and financial position.

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. These risks may also result in personal injury, delays in mining, increased production costs, monetary losses and possible legal liability.

Political 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. Employees of the Company may have or could contract this potentially deadly virus. The prevalence of HIV could cause substantial lost

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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 and the Black Economic Empowerment ("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.

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, taxation, 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.

Hedging and Commodity Prices

The profitability of the Company is directly related to the market price of the commodities it produces. The Company can reduce price risk by using hedging tools for a portion or all of its coal production. The main hedging tools available to protect against price risk are forward contracts and put options. Various strategies are available using these tools. Slater does not currently have any hedging arrangements in place.

Title to Mineral Holdings

Forbes Coal Dundee requires licenses and permits from various governmental authorities. Forbes Coal Dundee believes that it holds all necessary licenses and permits under applicable laws and regulation in respect of the Forbes Coal Dundee Properties and that it is presently complying in all material respects with the terms of such licenses and permits. Such licenses 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 licenses 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 the Company has attempted to acquire satisfactory title to its properties, risk exists that some titles, particularly titles to undeveloped properties, may be defective.

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.

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

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Insurance

The Company believes that it currently maintains insurance in such amounts as it considers to be reasonable to protect against certain risks and hazards related to its operations. However, no assurance can be given that the current insurance coverage will continue to be available at economically reasonable premiums in the future or that the current insurance coverage provides sufficient coverage against all potential losses. Any deficiency in insurance coverage could result in the Company incurring significant costs that could have a material adverse effect upon its financial performance and results of operations.

Reliance on Limited Number of Properties

Currently, the Company relies on a limited number of property interests. As a result, unless the Company acquires additional property interests, any adverse developments affecting any of the current properties could have a material adverse effect upon the Company and would materially and adversely affect the potential production, profitability, financial performance and results of operations.

Conflicts of Interest

Certain of the directors and officers of the Company may serve from time to time as directors, officers, promoters and members of management of other companies involved in natural resource exploration and development and therefore it is possible that a conflict may arise between their duties as a director or officers of the Company and their duties as a director, officer, promoter or member of management of such other companies.

The directors and officers of the Company are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with applicable laws and the directors and officers will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

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:

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Working Capital

	May 31, 2012	February 29, 2012
	\$000's	\$000's
Current Assets		
Cash and cash equivalents	8,114	9,481
Restricted cash	1,864	1,985
Accounts receivable and other receivables	11,086	12,921
Inventories	4,481	3,444
Prepaid expenses	131	96
	25,675	27,926
Current Liabilities		
Accounts payable and accrued liabilities	9,011	9,234
Other financial liabilities	3,394	3,896
Provisions	968	1,054
Loans payable	27	28
	13,400	14,211
Working capital (deficiency)		
Current assets less current liabilities	12,275	13,714

EBITDA - Forbes Coal consolidated

	Three months ended	Three months ended	Three months ended
	February 29, 2012	May 31, 2012	May 31, 2011
	\$000's	\$000's	\$000's
Net income (loss) for the period	1,193	(1,590)	(1,005)
add back			
Amortization and depletion	3,428	2,807	2,928
Income tax (recovery) expense	(1,704)	278	878
Foreign exchange (gain)	578	(12)	308
Interest and dividend income	(105)	582	312
Change in estimates on contingent acquisition liability	(545)	-	-
Accretion	(1,856)	-	537
Business combination transaction costs	-	-	19
Stock based compensation	590	18	1,840
Loss on share-based payments	(26)	-	-
Unrealized (gain) on marked-to-market securities	(15)	368	-
EBITDA Forbes Coal Consolidated	1,538	2,451	5,817

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EBITDA - Forbes Coal Dundee stand alone

	Three months ended February 29, 2012 \$000's	Three months ended May 31, 2012 \$000's	Three months ended May 31, 2011 \$000's
Net income (loss) for the period	1,193	(1,590)	(1,005)
add back			
Amortization and depletion	3,428	2,807	2,928
Income tax (recovery) expense	(1,704)	278	878
Foreign exchange (gain)	578	(12)	308
Interest and dividend income	(105)	582	312
Change in estimates on contingent acquisition liability	(545)	-	-
Accretion	(1,856)	-	537
Business combination transaction costs	-	-	19
Mineral properties investigation costs (Non-Slater)	127	7	-
Stock based compensation	590	18	1,840
Loss on share-based payments	(26)	-	-
Unrealized loss (gain) on marked-to-market securities	(15)	368	-
General and administration (Non Slater)	1,240	690	432
EBITDA Forbes Coal Dundee	2,905	3,148	6,249

General and administration (Non Forbes Coal Dundee)

	Three months ended February 29, 2012 \$000's	Three months ended May 31, 2012 \$000's	Three months ended May 31, 2011 \$000's
Consulting, general and administration (Non Slater)	51	(66)	(340)
Consulting and professional fees (Non Slater)	1,189	756	772
General and administration (Non Slater)	1,240	690	432

SUMMARY OF SECURITIES AS AT JULY 12, 2012

As at July 12, 2012 the following common shares, common shares purchase options, share purchase warrants and special performance shares were issued and outstanding:

- 34,865,717 common shares:
- 3,443,260 common share purchase options with exercise prices ranging from \$1.80-\$7.96 expiring between January 4, 2013 and January 25, 2017:
- 480,000 share purchase warrants with exercise price \$4.55 expiring on February 22, 2013.
- 1,350,000 Special Performance Shares outstanding are deposited in escrow to be released when certain conditions are met.

Special Performance Shares

As at July 12, 2012 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.

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LIST OF DIRECTORS AND OFFICERS

Stephan Theron	Director, President and Chief Executive Officer
Stan Bharti	Director, Executive Chairman
David Stein	Director
Grant Davey	Director
Ryan Bennett	Director
David Gower	Director
Deborah Battiston	Chief Financial Officer
Neil Said	Corporate Secretary
Malcolm Campbell	Chief Operating Officer
Sarah Williams	Vice-President, Finance

July 12, 2012