Forbes & Manhattan Coal Corp.
Management's Discussion and Analysis
For the three months ended May 31, 2011

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", or the "Company") for the three months ended May 31, 2011 and should be read in conjunction with the Unaudited Condensed Interim Consolidated Financial Statements for the three months ended May 31, 2011 and June 30, 2010. The financial statements and related notes have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain non-GAAP 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.

The Company has changed its year end to the last day of February in order to align with its South African subsidiaries. This MD&A reports our activities through August 4, 2011 unless otherwise indicated. References to Q1 2012 or the 1st quarter of 2012 mean the three months ended May 31, 2011. References to Q2 2010 or the 2nd quarter of 2011 mean the three months ended June 30, 2010.

The following table sets forth the length of the periods and the ending date of the periods, including the comparative periods, for the Company's interim and annual financial statements to be filed during its new financial year.

New Financial Year – March 1, 2011 – February 28, 2012:

Financial Statements to File	Comparison Financial Statements
3 months ended May 31, 2011	3 months ended June 30, 2010
6 months ended August 31, 2011	6 months ended September 30, 2010
9 months ended November 30, 2011	9 months ended December 31, 2010
12 months ended February 28, 2012 (annual audited financial statements)	14 months ended February 28, 2011 (annual audited financial statements)

Unless otherwise noted all amounts are recorded in Canadian dollars.

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board requires publicly accountable enterprises such as us to adopt IFRS for fiscal years beginning on or after January 1, 2011. Accordingly, the Company's condensed interim consolidated financial statements for the quarter ending May 31, 2011 have been prepared in accordance with IFRS as published by the International Accounting Standards Board.

For each reporting period in 2012, we will also present comparative information for 2011, both for condensed interim and annual financial statements, as applicable, on an IFRS basis. Our condensed interim consolidated financial statements for the year ending February 28, 2012, will be our first annual financial statements that comply with IFRS. As this will be our first year of reporting under IFRS, First time Adoption of IFRS (IFRS 1) is applicable. In accordance with IFRS 1, we have applied IFRS retrospectively as of March 1, 2010 (the Transition Date) for comparative purposes. In preparing our opening condensed interim consolidated statements of financial position in accordance with IFRS, we have adjusted amounts reported previously in our financial statements prepared in accordance with pre-conversion Canadian GAAP (for detailed information see Changes in Accounting Policies).

For further information, please refer to the Company's Condensed Interim Consolidated Financial Statements and Notes for the three months ended May 31, 2011.

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 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. entered into an agreement to acquire Slater Coal (Pty) Ltd. ("Slater Coal"), a South African company, and its interest in its coal mines in South Africa ("Slater Coal Properties"), as more fully described in below under the section "Acquisition of Slater Coal". The Slater Coal Properties comprise the operating Magdalena bituminous mine (the "Magdalena Property") and the Aviemore anthracite mine (the "Aviemore Property"). Slater Coal is engaged in open-pit and underground coal mining.

Forbes Coal holds a 76.75% interest in Slater Coal. Slater Coal indirectly holds a 70% interest in the Slater Coal Properties through its 70% interest in Zinoju Coal (Pty) Ltd. ("Zinoju Coal") which holds all of the mineral rights and prospecting permits with respect to the Slater Coal 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 African access to the South African economy by increasing African ownership in new South African enterprises.

FORBES & MANHATTAN COAL'S STRATEGY

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 Slater Coal operation and secondly through acquisition.

The Company's strategic goals are to advance and expand production at the Slater Coal Properties, as follows:

- Acquire an additional Continuous Miner for development at Magdalena
  - Double production capacity at Magdalena operation by further mechanising existing operations
  - Ramp-up saleable production up to 1,000,000 tonnes per year
  - Estimated capital expenditure of $18 million

- Increase wash plant recovery rates
  - Improve from current level of 68% to 70%
  - Investigate product upgrade potential

- Further develop Aviemore anthracite operations
  - Ramp-up saleable production up to 500,000 tonnes per year
  - Estimated capital expenditure of $5 million

- Improve operational efficiencies
  - Develop management team with international experience
  - Explore opportunities to increase sales and exports
  - Increase rail and port allocation to further gain exposure to seaborne bituminous and anthracite export markets

Furthermore, the Company intends to acquire high quality bituminous and metallurgical coal projects (both greenfield and early stage production) assets in the Southern African region. Part of the acquisition strategy is to seek opportunities to increase rail and export port allocation.

A key component of the Company's strategy involves Social Development and 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 and math literacy are enjoying success.

- 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.

EXECUTIVE SUMMARY AND OPERATIONAL OVERVIEW:

During the three months ended May 31, 2011, the Company:

- reported revenue of $19.6 million.
- reported gross profit of $4.2 million.
- generated consolidated EBITDA of $5.6 million and Slater Coal stand alone EBITDA of $6.2 million (see Non-GAAP measures).
- completed an updated NI 43-101 technical report.
- produced 311,002 t ROM combined which was 45% higher than the total ROM production during the three months ended February 28, 2011.
- produced 260,302 t ROM at Magdalena operations, underground and open pit combined.
- produced 50,700 tonnes at Aviemore, with average monthly ROM for the same period at 16,900 tonnes. This is a 29% improvement from Aviemore's average monthly production for the three months ended February 28, 2011.
- sold bituminous coal, anthracite and calcined products, totalling 190,827 tonnes.
- average combined monthly sales were 63,609 tonnes, which was 44% higher than the average combined monthly sales for Slater Coal's fiscal year ended February 28, 2011. When compared to the three months ended February 28, 2011, the average combined monthly sales increased by 8%.
- export sales for first quarter 2012 were 91,866 tonnes, 83% higher than average quarterly sales in Slater Coal's fiscal year ended February 28, 2011.
- domestic sales in first quarter 2012 were 98,961 tonnes, a 20% increase when compared to the quarterly average of the Slater Coal's fiscal year ended February 28, 2011. When compared to the three months ended February 28, 2011, domestic sales increased 14%.
- Forbes Coal transported 133,899 tonnes of saleable product to the Navitrade port between March and May 2011, and shipped 78,394 tonnes during this period.
- Forbes Coal signed a three year off-take agreement for 1.75 million tonnes (total) with Vitol, a leading energy trading company. Vitol will be purchasing thermal coal produced at the Magdalena property at market related prices.
- Forbes Coal launched Project Siyathuthuka (Zulu for "together we are growing and improving"), the second phase of the ramp-up programme.

TRANSACTION WITH NYAH RESOURCES CORP ("NYAH")

On September 20, 2010, following the receipt of regulatory and shareholder approval, Forbes & Manhattan (Coal) Inc. and Nyah completed a three-cornered amalgamation pursuant to which a wholly-owned subsidiary of Nyah amalgamated with Forbes & Manhattan (Coal) Inc., and all of the holders of common shares of Forbes & Manhattan (Coal) Inc. received one common share of Nyah (on a post-consolidation basis) for each one common share of Forbes & Manhattan (Coal) Inc. held (the "Transaction"). Following the completion of the Transaction, the newly amalgamated company held all of Forbes & Manhattan (Coal) Inc.'s assets and is a wholly-owned subsidiary of Forbes & Manhattan Coal Corp. (formerly, Nyah).

Prior to the effective time of the Transaction, Nyah consolidated its issued and outstanding common shares on the basis of one new Nyah common share for each 39.8 existing Nyah common shares (the "Consolidation"). Following the Consolidation, Nyah had 1,279,384 issued and outstanding common shares on a non-diluted basis immediately prior to the Transaction. Upon completion of the Transaction, the number of common shares of Forbes Coal (on a non-diluted basis) was 25,590,723 with Forbes & Manhattan (Coal) Inc. shareholders owning approximately 95% of the Company and the Nyah shareholders owning approximately 5% of the Company.

The Transaction was accounted for as a purchase of assets with Forbes & Manhattan (Coal) Inc. as the acquirer and Nyah as the acquired. The consolidated financial statements following the Transaction present a continuation of Forbes & Manhattan (Coal) Inc. and the acquisition of Nyah by Forbes & Manhattan (Coal) Inc.

The purchase price was allocated as follows:

Common shares issued	$	4,073,578
Replacement stock options issued		119,684
	$	4,193,262

Allocation of purchase price:

Cash and cash equivalents	$	968,356
Amounts receivable		1,015,574
Prepaid expenses		9,738
Current liabilities		(157,627)
Loss on share-based payments		2,357,221
	$	4,193,262

In accordance with IFRS 2, Share-Based Payments, any excess of the fair value of the shares issued by the Company over the value of the net monetary assets of Nyah is recognized in the statement of operations and comprehensive loss. As the estimated fair values of the identified net assets acquired from Nyah were less than the consideration paid, the difference has been charged to the statement of operations and comprehensive loss.

Following the completion of the Transaction, the board and management of Forbes & Manhattan (Coal) Inc. became the board and management of the combined entity which was renamed Forbes & Manhattan Coal Corp. and began trading on the TSX under the symbol "FMC" on September 27, 2010.

Nyah and Forbes & Manhattan (Coal) Inc. had certain directors and officers in common.

PURCHASE OF SLATER COAL

In November 2009, the Company entered into an agreement to acquire a 100% interest in Slater Coal. A deposit of $722,500 (ZAR 5,000,000) was made under the terms of this agreement. Slater Coal is a private South African coal mining company.

Slater Coal indirectly holds a 70% interest in the Slater Coal Properties through Zinoju which holds all of the mineral rights and prospecting permits with respect to the Slater Coal Properties. The remaining 30% interest in Zinoju is held by the South African Black Economic Empowerment partners. BEE is a statutory initiative on behalf of the South African government, enacted to increase African access to the South African economy by increasing African ownership in new South African enterprises.

The funding the BEE received to purchase the shares was sourced from Slater Coal. For accounting purposes BEE holds an option to acquire its 30% interest in Zinoju, and a non-controlling interest has been recorded to reflect this option related to BEE's interest upon repayment of the loan utilized to acquire the interest in Zinoju. The loan is being repaid from dividends issued by Zinoju.

On April 13, 2010, the Company and the shareholders of Slater Coal agreed on the terms for the acquisition of all of the issued and outstanding common shares of Slater Coal. Pursuant to the finalized terms of the agreement the Company is required to pay ZAR 600,000,000 (approximately $85,260,000) in cash and common stock to Slater Coal shareholders over a two year period:

- ZAR 5,000,000 deposit ($722,500 paid on November 25, 2009);
- ZAR 22,500,000 ($3,091,500 paid on June 29, 2010);
- ZAR 213,750,000 ($30,006,792 paid on July 23, 2010);
- Issue common shares of the Company with a value of ZAR 78,750,000 ($11,029,102) based on $2.80 per share (issued on July 30, 2010);

- Cash payment of ZAR 119,000,000 ($16,457,000 paid February 24, 2011); and
- Cash payment of ZAR 140,000,000 (approximately $19,894,000) payable by March 1, 2012.

The Company currently holds 76.75% of the outstanding shares of Slater Coal and will receive shares equivalent to 23.25% of the issued and outstanding shares after March 1, 2012 payment has been made. The March 2012 payment is based on a targeted production rate of 782,400 tonnes in 2012.

A variance of greater than 10% from such production targets shall either increase or decrease the amount payable by a corresponding percentage, subject to a maximum increase or decrease in payment of 15%. Cash payment of ZAR 119,000,000 was made before March 1, 2011 and was based on the greater than 10% variance from 781,200 tonnes production target and it was reduced by 15% from ZAR 140,000,000 to ZAR 119,000,000. The consideration for March 1, 2012 payment was valued using a probability-weighted approach and an amount of $18,887,787 has been included in the purchase price. The resulting liability related to this consideration has been recorded on the condensed interim consolidated statements of financial position.

As at December 31, 2010, based on revised estimates related to production targets, the Company adjusted the estimated fair value of the contingent consideration related to the payments. The current portion of the liability related to the March 1, 2011 payment was reduced by $3,150,154 and the long term portion of the liability related to the March 1, 2012 was increased by $425,443. These adjustments have resulted in a net recovery on the estimated fair value of the contingent liability of $2,724,711 being recorded to the condensed interim consolidated statements of operations and comprehensive income (loss) for the period ended December 31, 2010.

The purchase price is also subject to an adjustment pursuant to variations on the consolidated net short term assets ("CNSTA") of the Company to the extent that they exceed or fall short of ZAR14.9 million. An amount of $2,062,437 has been included the purchase price and included in accounts payable related to the CNSTA adjustment. This amount was paid on February 24, 2011.

The March 1, 2012 payment of ZAR 140 million has been recorded on the condensed interim consolidated statements of financial position as current acquisition obligation.

The Company received approval from the South African Reserve Bank ("SARB") for the acquisition by Forbes Coal of all of the issued and outstanding shares of Slater Coal. As part of granting the approval, Forbes Coal has agreed to undertake to list the common shares of the Company on the Johannesburg Stock Exchange within 12 months of the date hereof.

The allocation of the purchase price has been substantially finalized, however management is in the process of concluding the fair values of identifiable assets acquired and liabilities assumed and measuring the associated deferred income tax assets and liabilities. A provisional allocation of the purchase price is as follows:

The total cost of the shares acquired on July 29, 2010, was as follows:

Cash payments ZAR241 million	$ 34,122,898
Common shares issued (3,938,965 shares valued at ZAR 79 million)	11,029,102
Estimated fair value of ZAR280 million (discounted and probability weighted to payment dates)	37,568,157
Estimated fair value of CNSTA ZAR14 million	2,062,437
	$ 84,782,594

Fair value of net assets acquired was allocated as follows:

Cash and cash equivalents	$ 3,832,045
Other current assets	8,208,408
Inventories	6,341,912
Property, plant and equipment	73,341,190
Mine properties	6,042,044
Other long-term assets	6,726,162
Goodwill on acquisition	18,672,014
Current liabilities	(8,250,646)
Other long-term liabilities	(7,647,196)
Asset retirement obligation	(1,693,283)
Deferred income taxes	(19,192,527)
Non-controlling interest	(1,597,529)
	$ 84,782,594

Slater Coal 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 has an estimated production capacity of 100,000 tonnes of bituminous coal per month. The Aviemore Property is located 4 kilometers from the town of Dundee in KwaZulu-Natal and encompasses approximately 5,592 hectares. The Aviemore Property consists of the Aviemore underground mine and has an estimated 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 Aviemore underground mine has an estimated inferred mineral resource of approximately 16.8 million tonnes of *in situ* coal with an estimated volume of 11.2 million cubic metres. A specific gravity of 1.5 tonnes per cubic metre was applied for the volume-tonnage conversion. The Aviemore underground mine has an estimated production capacity of 25,000 tonnes of anthracite coal per month.

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 Slater Coal Properties.

2011 - Mineable in Situ Coal Resource for the Slater Coal 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	
			Mm³	t/m³	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**	
Area	Full Extraction of Seam Width					1.7 Float Qualities							
	Seam	Coal Resource Category	Volume	SG	Tonnes	ASH	FC	GCV	H2O	TS	VOL	YIELD	
			Mm³	t/m³	Mt	%	%	MJ/Kg	%	%	%	%	
Magdalena Opencast	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**	
Area	Full Extraction of Seam Width					1.7 Float Qualities							
	Seam	Coal Resource Category	Volume	SG	Tonnes	ASH	FC	GCV	H2O	TS	VOL	YIELD	
			Mm³	t/m³	Mt	%	%	MJ/Kg	%	%	%	%	
Aviemore Mine	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/m^3. A 0.8 m cut-off and geological loss factor of 15% was used in the declaration of the Magdalena and Aviemore Coal Resources. Effective Date: 31st March 2011.

OVERVIEW & OUTLOOK

The Bituminous coal market has been steadily improving since mid 2009. 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 Slater Coal operations. The Company continues to pursue opportunities to acquire high quality coal assets and increase port allocation. The near term outlook for bituminous coal remains healthy on both domestic and export front. API4 FOB Richards Bay Spot Coal Thermal prices have recently reached $120 per tonne. Severe weather conditions in Australia have resulted in further pressure on both Thermal and Metallurgical coal prices. 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 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. Slater Coal also exports its Anthracite products to global steel producers. The near term outlook in the export market remains strong and healthy. Slater Coal also produces a high quality calcine product that is in high demand in the domestic and export metallurgic market.

In summary, the outlook for Forbes Coal is 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. The Company is also constantly evaluating potential acquisitions in the region and is targeting to further increase its export port capacity.

SUMMARIZED FINANCIAL RESULTS OF SLATER COAL

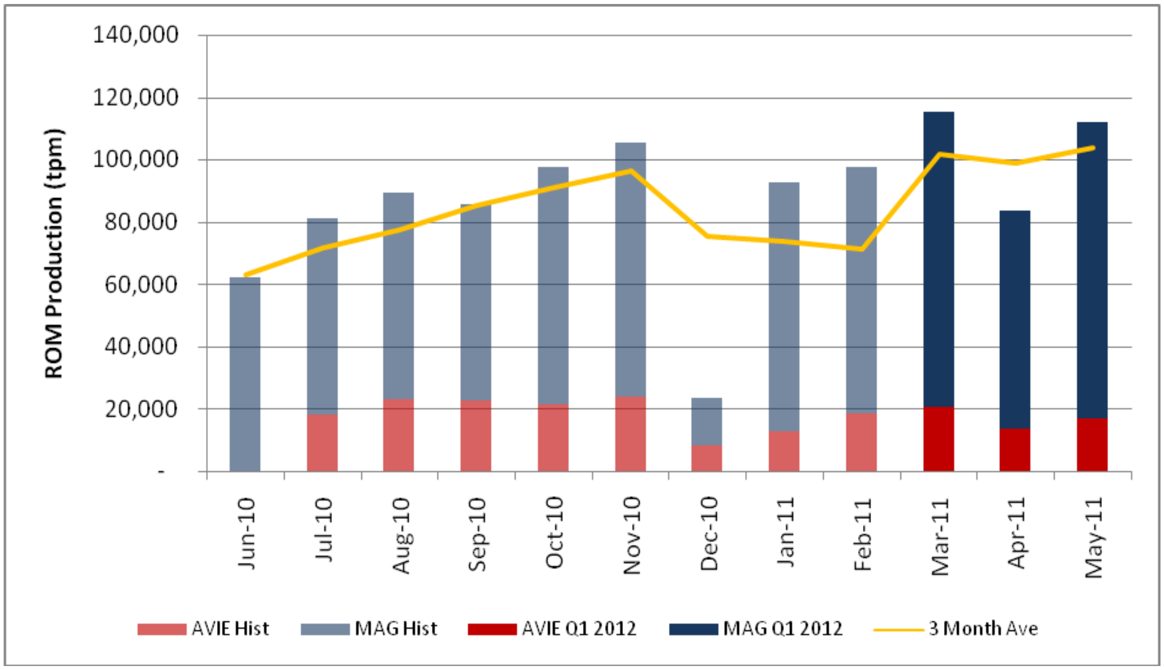
Summarized Financial Results (Actual)

Slater Coal

	March 1, 2011 May 31, 2011 3 months	**March 1, 2010 May 31, 2010 3 months ***
Run of Mine (ROM) (t)	311,002	197,744
Saleable production (t)	207,189	134,976
Plant feed (t)	303,069	207,359
Yield (%) on ROM	66.6%	68.3%
Yield (%) on Plant feed	68.4%	65.1%
Inventory tonnes balance open	189,778	86,742
Inventory tonnes balance close	204,396	107,145
Sales (t)	190,827	114,573
Revenue 000,000's ($)	19.6	9.7
EBITDA 000,000's ($)	6.2	3.3
CDN$: US$ (average)	0.97	1.02
ZAR: CDN (average)	7.06	7.30
Selling price (average) / sold production t (CAD$)	102.71	84.90
Selling price (average) / sold production t (US$)	106.12	83.24
Cash cost of sales and operating expenses CAD 000,000's ($)	12.5	5.8
Cash cost of sales and operating expenses / sold production t (CDN$)	65.47	50.20
Cash cost of sales and operating expenses / sold production t (US$)	67.64	49.21
Capital expenditures 000,000's (CAD$)	1.67	1.70
Capital expenditures per t of saleble production $	8.06	12.60

Numbers in this chart are derived from the Slater Coal stand alone financial statements
these are not affected by the adjustments related to the purchase price allocation
or consolidation adjustments
See non GAAP measures

(*) The Slater Coal results presented in the chat above for the three months ended May 31, 2010 have not been reported in the Consolidated Financial Statements the Company as they are attributable solely to Slater Coal on a stand-alone basis prior to its acquisition by Forbes Coal in late July 2010. They are presented here for comparative purposes only.



OPERATIONAL HIGHLIGHTS

Forbes Coal management team took control of the Slater Coal operations in August 2010. The first phase of the ramp-up programme, launched in the second quarter of fiscal 2011under guidance of the previous management team, was concluded during this reporting period. The following key points are noted:

ROM Production

- Total ROM production from all operations for the period March 2011 to May 2011 was 311,002 t ROM vs 367,772 t ROM target, 45% higher than total ROM production during December 2010 to February 2011. Main factors attributing to the difference in ROM actual vs target production were: underproducing equipment, high target tonnages for a stone section in Magdalena and lower number of working days in April.
- Magdalena Underground took delivery of new Sandvik ABM30 Continuous Miner for the development of the new Section 4. This section is expected add up to 330,000 tonnes per year in saleable production.
- Start-up activities for the new section commenced in December 2010, with the section ramp-up concluded by the end of the first quarter.
- Additional staffing and equipment were deployed at Magdalena underground to support the ramp-up programme including the successful commissioning of a new 2,500 KVA power supply to Magdalena underground operations.
- Produced 260,302 t ROM vs 309,772 t ROM planned for the period March 2011 to May 2011 at Magdalena operations, underground and open pit combined.
- Average monthly ROM production at Magdalena increased to 86,767 tonnes from 58,185 tonnes, a 49% improvement from December 2010 to February 2011. When compared to the twelve months ended February 2011 at Slater Coal monthly averages, Magdalena monthly ROM production increased 33%.
- Aviemore anthracite operation which was reopened in June 2010 is meeting targeted monthly output with an average of 19,081 t ROM produced per month between August 2010 and May 2011, excluding the December shut down period. The daily running rates during the April 2011 Easter Period were in line with targets.
- ROM production at Aviemore for the first quarter of 2012 was 50,700 tonnes, with average monthly ROM at Aviemore for the same period of the prior being 16,900 tonnes. This is a 29% improvement from Aviemore's average monthly production for the three months ended February 28, 2011. When compared to average ROM production for Slater Coal's 12 months ended February 28, 2011 and when averaged over 8 months of actual

production, the first quarter 2012 monthly production was slightly lower than the average monthly ROM production at Aviemore.

- The production ramp-up is generally going according to plan and the first phase, Phase 1, of the Forbes Coal initiated production ramp-up at the Magdalena and Aviemore operations is completed. A delay in the delivery and commissioning of the new Section 4 Continuous Miner as well as less than favourable geological conditions contributed to the downward adjustment in production for the period ending May 2011.
- Forbes Coal launched the second phase of the ramp-up programme. It has been named Project Siyathuthuka which is Zulu for "together we are growing and improving".

Saleable Production and Sales

- Saleable coal production for March 2011 to May 2011 was 207,189 t. This is an increase of 29% compared to the three months ended February 28, 2011. The total calculated yield from plant feed was 66.6% in this period.
- Total sales of bituminous coal, anthracite and calcined products from March 2011 to May 2011 are 190,827 t.
- Average combined monthly sales were 63,609 tonnes, 44% higher than average combined monthly sales for Slater Coal's year ended February 28, 2011. When compared to three months ended February 28, 2011, average combined monthly sales increased 8%.
- Export sales for first quarter 2012 were 91,866 tonnes, 83% higher than average quarterly sales in the Slater Coal's year ended February 28, 2011.
- Domestic sales in first quarter 2012 were 98,961 tonnes, a 20% increase when compared to the quarterly average of Slater Coal's year ended February 28, 2011. When compared to the three months ended February 28, 2011, domestic sales increased 14%.
- Coal is transported by rail and truck to domestic customers, while export coal reports to the Richards Bay Coal Terminal (RBCT) and the Grindrod Navitrade terminal by rail.
- Forbes Coal successfully negotiated an agreement with Grindrod Navitrade port terminal for incremental capacity of up to 960,000 tonnes per annum over a three year period.
  Highlights include:
  - Grindrod Terminals shall provide export capacity in the terminal for the shipment of coal products as follows:
    - 2011 – 600 000 metric tons (m/t) per annum
    - 2012 – 720 000 metric tons (m/t) per annum
    - 2013 – 960 000 metric tons (m/t) per annum
  - At current coal spot prices, the increased throughput of coal could potentially lead to incremental cash flows of up to $30 million per annum.
  - Grindrod terminals provide certain logistical, handling and stock piling services to shippers in connection with the shipment of bulk cargoes through the dry bulk coal terminal known as the Navitrade terminal (and its associated facilities), connected to berths in the Port of Richards Bay.
  - Grindrod terminals will provide up to 70,000 t in stockpile capacity to receive the coal at the terminal. Forbes Coal will deliver coal to the terminal by railand road.
- Forbes Coal transported 133,899 tonnes of saleable product to the Navitrade port between March and May 2011, and shipped 78,394 tonnes during this time.
- Forbes Coal signed a three year off-take agreement for 1.75 million tonnes (total) with Vitol, a leading energy trading company. Vitol will be purchasing thermal coal produced at the Magdalena property at market related prices.

Forbes Coal's management team is mobilized at site and have integrated very well with the Slater Coal management team.

RESULTS OF OPERATIONS

Total Comprehensive Income

The net loss for the three months ended May 31, 2011, was $1.00 million, compared to a net loss of $0.35 million for the three months ended June 30, 2010. Comprehensive income for the three months ended May 31, 2011, was $0.01 million compared to the comprehensive loss of $0.35 million for the period ended June 30, 2010. As described in the "Overview of the Company" section of this report Forbes & Manhattan (Coal) Inc., was incorporated in November 2009. Forbes & Manhattan Coal Corp, is the continuing combined entity following the September 2010 Transaction between Forbes & Manhattan (Coal) Inc. and Nyah whereby Nyah, a public company listed on the TSX-V, acquired all of the outstanding shares of the Company in exchange for common shares of Nyah. Also the, Company changed its year end to the end of February in order to align itself with its subsidiaries in South Africa. Consequently, three months ended June 30, 2010 is used for comparison, also Q1 and Q2 of 2011 results contain only minimal overhead expenses as the Company had recently been incorporated. Following completion of the Transaction, the Forbes & Manhattan (Coal) Inc board and management team became the board and management team of the combined entity, which was renamed Forbes & Manhattan Coal Corp. Forbes and Manhattan Coal Corp. began trading on the TSX under the symbol "FMC" as of September 27, 2010.

The Company completed the acquisition of Slater Coal at the end of July 2010. Consequently no Slater results are included in the comparative June 2010 statements.

Revenue

Coal sales during the three months ended May 31, 2011 were $19.61 million. The summary of Slater Coal's physical tonnages included in these sales numbers along with production tonnage outlined below:

	Three months ended	
	May 31, 2011	**June 30, 2010**
Sales from:		
-Aviemore operations (t)	9,387	-
-Calcine operations (t)	7,403	-
-Magdalena operations (t)	174,037	-
Total sales (t)	**190,827**	**-**
Saleable production from:		
-Aviemore operations (t)	31,776	-
-Magdalena operations (t)	175,413	-
Total saleable production (t)	**207,189**	**-**
Run of Mine production from:		
-Aviemore operations (t)	50,700	-
-Magdalena operations (t)	260,302	-
Total ROM production (t)	**311,002**	**-**

During the quarter, the Company produced 207,189 t of salable production and sold 190,827 t. During the prior year, the Company had been experiencing backlogs due to rail and port allocation availability, also historically Slater Coal had conducted the majority of its coal sales in the domestic market. The Company has taken initiatives to increase its export sales, port allocations and transportation capacity in order to move the backlogged inventory and provide increased capacity for the future.

The Company entered into agreements with Transnet Freight Rail ("TFR"), and Grindrod Terminals Richards Bay, a division of Grindrod South Africa (PTY) Ltd., to export coal produced by Forbes Coal from the Slater Coal operations in Dundee through the Port of Richards Bay. The Company has also signed a three year off-take agreement for 1.75 million tonnes (total) with Vitol, a leading energy trading company. Vitol will be purchasing thermal coal from the Slater Coal properties at market prices.

Highlights include:

- 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
- At current coal spot prices, the increased throughput of coal could potentially lead to incremental cash flows of up to $30 million per annum.
- Grindrod Terminals provide certain logistical, handling and stock piling services to shippers in connection with the shipment of bulk cargoes through the dry bulk coal Terminal known as the Navitrade Terminal (and its associated facilities), connected to berths in the Port of Richards Bay.
- Grindrod Terminals will provide up to 70,000 t in stockpile capacity to receive the coal at the terminal. We can deliver coal to the Terminal either by road or rail.

Cost of Sales and operating expenses

Operating expense for the three months ended May 31, 2011, was $12.49 million ($65.47 per tonne). This amount includes transportation, rail and port handling costs. Amortization and depletion amounted to $2.93 million for the three months. As previously discussed, the Company purchased Slater Coal in July of 2010, consequently there are no consolidated comparatives for the three months ended June 30, 2010.

Expenses

The Company recorded expenses of $3.37 million during the three months ended May 31, 2011 compared to $0.34 million during the comparable period of 2010. During the three months ended May 31, 2011 the Company recorded $1.84 million in stock based compensation related to the issuance 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, the Company may grant to directors, officers, employees and consultants options to purchase shares of the Company. 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 rates between 2.15%; expected volatility – 63%; and time to expiry – 5 years from the date of grant. No forfeiture rate consideration was applied.

The Company also recorded $0.73 million in consulting and professional fees and $0.76 million related to general and administrative expenses for the three months ended May 31, 2011. Consulting and professional and general and administrative expenses are significantly higher than the $0.17 million and $0.12 million recorded for the comparative period ended June 30, 2010. As previously discussed the Company acquired Slater Coal in July 2010, consequently the comparative expenses were relatively quite low. The Company is building its team in South Africa in order to facilitate the expansion and acquisition plans which has and will result in higher administration and consulting expenses.

Other items

During the three months ended May 31, 2011 and June 30, 2010, the Company recorded other items generating expenses of $0.94 million and $0.001 million respectively.

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

The Company recorded interest income of $0.08 million and interest expense of $0.39 million during the three months ended May 31, 2011. Investment revenue results primarily from interest bearing deposits held in banks. The Company invests its excess cash in liquid low risk investments.

The Company also recorded a foreign exchange loss of $0.31 million for the three months ended May 31, 2011. As previously discussed, the Company owes ZAR 140 million, payable in March 2012 related to the acquisistion obligation. Movements in the South African Rand against the Canadian dollar related to the debt from February 28, 2011 to May 31, 2011 are the primary reason for the foreign exchange loss.

The Company also recorded $0.54 related to accretion with respect to the acquisition obligation.

The Company recorded an income tax expense of $0.88 million during the three months ended May 31, 2011.

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 currencly 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, 2011 gain of $1.02 million has been recorded to other comprehensive income.

LIQUIDITY AND CAPITAL RESOURCES

On February 22, 2011, the Company closed a bought deal offering (the "Offering") of 8,000,000 common shares (the "Offered Shares") of the Company at a price of $4.55 per Offered Share for aggregate gross proceeds of $36,400,000. A syndicate of underwriters co-led by GMP Securities L.P. and Canaccord Genuity Corp. and including Fraser Mackenzie Limited, have also been granted an over-allotment option to purchase up to an additional 1,200,000 common shares of the Company at a price of $4.55 per common share which was exercised on March 3, 2011 for aggregate gross proceeds of $5,460,000 and bringing total gross proceeds of the Offering to $41,860,000.

As compensation for its services rendered in connection with the Forbes Coal Offering, the underwriters were paid a cash commission equal to 6% of the gross proceeds of the Offering and were issued 480,000 broker warrants exercisable to acquire the same number of common shares of the Company at a price of $4.55 per common share for a period of 24 months following the closing of the Slater Coal acquisition.

The Company used the net proceeds from the offering for the repayment of its vendor note from the acquisition of the Slater Coal, and intends to use the funds for expansion of capital expenditures at the Company's Magdalena and Aviemore coal mines in South Africa and for general corporate purposes.

The Company had working capital of $14.64 million as at May 31, 2011, compared to working capital of $29.64 million at February 28, 2011. The primary contributors to the working capital decrease is the reclassification of acquisition obligation from non-current to current liabilities, as $21.14 becomes payable with the next 12 months in March 2012.

CASH FLOWS AND INVESTING ACTIVITIES

Cash and cash equivalents increased from $15.25 million as at February 28, 2011, to $19.78 million as at May 31, 2011, representing an increase of $4.53 million.

Operating activities during the three months ended May 31, 2011 provided $4.57 million compared to a use of $0.28 million during the three months ended June 30, 2010. The net loss for the three months ended May 31, 2011 was $1.00 million compared to a net loss for the three months ended June 30, 2010 of $0.35 million as discussed under the Results of Operations section of this report. Non-cash items calculated into the net income and loss for the three months ended May 31, 2011 included: amortization and depletion of $2.93 million; gains on fair value adjustments on financial assets of $0.05 million; deferred income taxes of $0.03 million; accretion of $0.56 million; foreign exchange loss of $0.22 and stock based compensation of $1.84 million, of which the material items were discussed under the Results of Operations section of this report. The Company generated $0.11million during the three months ended May 31, 2011 and $0.07 million during the three months ended June 30, 2010 related to the net change in non-cash working capital. The net change in non-cash working capital reported on the cash flow statement identifies the changes in current assets and current liabilities that occurred during the period. An increase in a liability (or a decrease in an asset) is a source of funds; while a decrease in a liability (or an increase in an asset) account is a use of funds.

The Company used $2.03 million and $3.20 million respectively in investing activities during the three months ended May 31, 2011 and June 30, 2010. The Company added $1.67 million to Property, plant and equipment with significant items being mine development and equipment purchased at Slater Coal in South Africa for the Magdalena and Aviemore operations.

The Company made additional contribution $0.31 million into the endowment policy and also provided collateral for business credit cards in the amount of $0.05 million.

The Company generated $1.97 million and $3.20 million from financing activities during the three months ended May 31, 2011 and June 30, 2010 respectively. 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 a net proceeds of $4.83 million and repaid loans and borrowings totalling of $3.15. During the three months ended June 30, 2010, the Company completed a private placement in the amount of $3.19 million.

An amount of $0.02 is recorded on the consolidated statement of cash flows related to the effect of exchange on cash and cash equivalents for the three months ended May 31, 2011, compared to $nil June 30, 2010.

QUARTERLY INFORMATION IN IFRS

	Q1-2012	Q5-2011	Q4-2011	Q3-2011	Q2-2011	Q1-2011	Q4-2009
Revenue from mining operations (CAD $000's)	19,608	12,019	9,032	6,628			
Mine operating expense (CAD $000's)	12,495	8,936	7,599	3,390			
Amortization and depletion (CAD $000's)	2,928	1,540	179	1,791			
Net income (loss) (CAD $000's)	(1,005)	4,192	(5,166)	(13,343)	(345)	(379)	(37)
Net income (loss) per share, basic and diluted $	(0.03)	0.07	(0.20)	(0.76)	(0.13)	(0.14)	(0.02)
Cash provided by (used in) operations (CAD$ 000's)	4,574	320	(2,378)	(316)	(279)	(264)	(20)
Tonnes of coal produced, ROM	311,002	190,278	228,157	174,799			
Tonnes of coal sold	190,827	129,774	102,834	79,074			
Average realized coal price per tonne (CAD$)	103	93	88	84			
Average realized coal price per tonne ($USD)	106	93	87	81			
Total Assets (CAD $000's)	154,954	149,405	142,655	135,279	4,093	1,030	796
Long term financial liabilities (CAD $000's)	10,187	32,029	58,769	29,605			

The Company was incorporated in November 2009 and completed the acquisition of Slater Coal at the end of July 2010. Consequently there are only seven quarters/periods shown in the table above.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

In March 2010, a company with common directors solely participated in two private placements of common shares of the Company.

The Transaction with Nyah was a related party transaction because at the time of the Transaction certain directors and officers of the Company were also directors, officers and shareholders of Nyah.

During the Special Warrants offering certain directors, officers and a company with common directors subscribed to Special Warrants, which subsequently were converted into common shares of the Company.

The Company shares its premises with other companies that have common directors and officers and the Company reimburses the related companies for its proportional share of the expenses. At May 31, 2011 an amount of $nil (February 28, 2011 - $nil) was prepaid and $31,123 (February 28, 2011 – $33,718) was payable in relation to these expenses. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

As a result of the Nyah transaction, Forbes Coal acquired a receivable of $1,015,574 which consisted primarily of a receivable from Valencia Ventures Inc. ("Valencia") in the amount of $1,000,000 for the sale of the Agnew Lake Project. In October 2010, $500,000 of this amount was received from Valencia. Mr. Stan Bharti is a director of Valencia. Valencia and the Company have certain directors and or officers in common. Also as a result of the Nyah transaction Forbes Coal acquired a payable in the amount of $100,000 payable to Forbes & Manhattan Inc., a company of which Stan Bharti is an officer and director, which was paid in full as at February 28, 2011.

As a result of Slater Coal acquisition Forbes Coal acquired receivables and payables in the net amount of $121,394 owed from the former Slater Coal shareholders and their related parties to the Company. As at the date of these consolidated financial statements an amount of $182,689 in loans payable to directors and officers of Slater Coal was recorded. Also an amount of $791,118 in loans receivable from directors and officers of Slater Coal was recorded.

Also as a result of Slater Coal acquisition business relationships with certain related parties were inherited which resulted in total transactions for three months being for services purchased being $1,209,000 and for sales of goods being $852,000.
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, 2011	June 30, 2010
Short-term benefits	$ 314,973	$ 133,933
Share-based payments	1,617,000	-
	$ 1,931,973	**$ 133,933**

OTHER

On May 9, 2011, the Company announced that Malcolm Campbell has agreed to join the Company as Chief Operating Officer effective August 1, 2011. He will be based in South Africa and will oversee operations at the Magdalena and Aviemore mines. Mr Malcolm will be granted a total of 150,000 stock options.

Mr. Campbell is a Professional Certified Mining Engineer with 25 years industry experience and was most recently Chief Operating Officer for an exploration and development joint venture operating in Botswana. Prior to this, he spent more than twenty years with Anglo Coal, a wholly-owned subsidiary of Anglo American.

With Anglo Coal, Mr. Campbell spent time as the Regional Manager for New Business Development and Strategy where he headed up the team developing conceptual, pre-feasibility and feasibility studies for all Southern African greenfields projects as well as brownfield expansions at existing operations. He also oversaw the company's strategy for coal in Africa. Mr. Campbell was also General Manager at a number of collieries, both opencast and underground, for Anglo Coal, including Kriel Colliery, Bank Colliery, Greenside Colliery and Kleinkopje Colliery which produced thermal coal for domestic and export markets and produces approximately seven million tonnes run of mine per annum.

Mr. Campbell received his B.Sc. in Mining Engineering from the University of Witwatersrand in 1985 and is currently a member of the South African Institute of Mining and Metallurgy and the South African Colliery Managers Association - having served on the Council for two terms. Malcolm has also completed a number of career enhancing courses at globally recognised institutions in both the engineering and business fields.

COMMITMENTS AND CONTINGENCIES

Management contracts

The Corporation is party to certain management contracts. These contracts require that additional payments of approximately $2,390,000 be made upon the occurrence of a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Minimum commitments remaining under these contracts were approximately $475,000 all due within one year.

Lease and installment payment obligations

The Company is committed to minimum amounts under long-term capital lease and installment payment agreements for plant and equipment. Minimum commitments remaining under these leases were $11,442,873 over the following years:

Year		Amount
2012	$	1,561,399
2013		8,647,179
2014		1,206,820
2015		27,475
	$	**11,442,873**

Environmental contingency

The Company's mining and exploration activities are subject to various federal, provincial and international laws and regulations governing of 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 these consolidated financial statements.

Stock exchange listing

As part of the South African regulatory approval process in connection with the purchase of Slater Coal, the Company agreed to complete a listing of the Company's common shares on the Johannesburg Stock Exchange ("JSE") by August 2011. Subsequent to the end of the quarter, the Company successfully listed on the JSE and started trading on July 28, 2011.

SUBSEQUENT EVENTS

Subsequent to the end of the quarter, the Compnay granted 137,500 common stock options to certain officers and consultants.

On July 11, 2011, the Company announced that its common shares have received approval for secondary trading on the Johannesburg Stock Exchange under the symbol "FMC" effective July 28, 2011.

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, 2011 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, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures and internal control over financial reporting.

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, 2011, and the Company's board of directors approved these documents prior to their release.

CRITICAL ACCOUNTING ESTIMATES

The preparation of these condensed interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed interim consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Information about critical judgments and estimates in applying accounting policies that have most significant effect on the amounts recognized in the consolidated financial statements are as follows:

- Asset carrying values and impairment charges
- Estimation of asset lives
- Determination of ore reserve estimates
- Recognition of deferred taxes
- Capitalization of exploration and evaluation costs
- Contingencies
- Acquisitions
- Determination of economic viability of a project
- Valuation of inventory
- Warrants
- Income tax accounts

Future accounting changes

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2011 or later periods. Updates are not applicable or are not consequential to the Company have been excluded thereof.

IFRS 9, Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2013, and the Company is currently assessing the impact of this standard.

IFRS 7 Financial instruments - Disclosures ("IFRS 7") was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company has not yet determined the impact of the amendments to IFRS 7 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.

CHANGES IN ACCOUNTING POLICIES

TRANSITION TO IFRS

The Company's financial statements for the year ending February 29, 2012 will be the first annual financial statements that comply with IFRS and these condensed interim financial statements were prepared as described in Note 2, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its 2012 annual financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be February 29, 2012. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

Initial elections upon adoption

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

IFRS Exemption Applied

(a) *Share-based payments* - IFRS 2, Share-based Payments, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date.

(b) *Business combinations and Consolidated and Separate Financial Statements,* IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The Company has elected to apply

IFRS 3 prospectively. The Company did not apply IFRS 3 retrospectively to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. In accordance with IFRS 1, if a Company elects to apply IFRS 3 Business Combinations retrospectively, IAS 27 Consolidated and Separate Financial Statements must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

IFRS Mandatory Exceptions

Estimates - Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile its equity, comprehensive loss and cash flows for prior periods. The changes made to the condensed interim statements of financial position and condensed interim statements of comprehensive (loss) income have resulted in reclassifications of various amounts on the statements of cash flows.

Adjustments on transition to IFRS:

In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by the Company.

(a) Share-based compensation - Forfeitures

Canadian GAAP - Forfeitures of awards are recognized as they occur

IFRS – An estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. No adjustments were required.

(b) Reverse Acquisition

Canadian GAAP - The reverse acquisition was treated as a capital transaction with the cost of the transaction measured at the fair value of the consideration given or the assets acquired, whichever is more reliably measured. As the valuation of the consideration is calculated using the Black Scholes option pricing model which requires assumptions to be used, the Company measured the transaction based on the fair value of the net assets acquired, which was in a deficit position and therefore, recorded the transaction directly into deficit.

IFRS – The substance of the transaction is a reverse acquisition of a non-operating company which does not constitute a business combination as Cronus does not meet the definition of a business. The transaction is accounted for as a capital transaction with the consideration paid by the Company measured with the excess over the fair value of the assets being recognized in the statement of operations and comprehensive income (loss). As the purchase price paid exceeded the fair value of the identified net assets acquired, the difference was recorded in the statement of operations and comprehensive income (loss).

Impact on Interim Statements of Financial Position and Statements of Operations

	February 28, 2011	June 30, 2010
Increase in share capital	$ 2,537,221	$ -
Loss on share-based payments	$ (2,537,221)	$ -

(c) Deferred Income Taxes

Canadian GAAP – Future income tax liabilities are presented as either current or long term

IFRS – Deferred income tax liabilities are presented as long-term.

The reconciliations between the previously reported financial results under Canadian GAAP and the current reported financial results under IFRS are provided as follows:

Transitional reconciliations

(i) Reconciliation of the condensed interim statement of financial position and equity as at January 1, 2010;
(ii) Reconciliation of the condensed interim statement of financial position and equity as at June 30, 2010;
(iii) Reconciliation of the condensed interim statement of operations for the three months ended June 30, 2010;
(iv) Reconciliation of the condensed interim consolidated statement of financial position and equity as at February 28, 2011 and
(v) Reconciliation of the condensed interim consolidated statement of operations for the fourteen months ended February 28, 2011

(i) Reconciliation of the condensed interim statement of financial position and equity as at January 1, 2010

Canadian GAAP accounts	Note 27	Canadian GAAP balances	IFRS adjustments	IFRS balances
ASSETS				
Current				
Cash and cash equivalents		$ 52,177	$ -	$ 52,177
Accounts and other receivables		600	-	600
Prepaid expenses		7,144	-	7,144
		59,921	-	59,921
Deferred charges		735,706	-	735,706
		$ 795,627	$ -	$ 795,627
LIABILITIES				
Current				
Accounts payable and accrued liabilities		$ 32,355	$ -	$ 32,355
		32,355	-	32,355
SHAREHOLDERS' EQUITY				
Share capital		800,160	-	800,160
Deficit		(36,888)	-	(36,888)
		763,272	-	763,272
		$ 795,627	$ -	$ 795,627

(ii) Reconciliation of the condensed interim statement of financial position and equity as at June 30, 2010

Canadian GAAP accounts	Note 27	Canadian GAAP balances	IFRS adjustments	IFRS balances
ASSETS				
Current				
Accounts and other receivables		$ 57,862	$ -	$ 57,862
Prepaid expenses		79,862	-	79,862
		137,724	-	137,724
Deferred charges		3,954,812	-	3,954,812
		$ 4,092,536	$ -	$ 4,092,536
LIABILITIES				
Current				
Accounts payable and accrued liabilities		$ 249,824	$ -	$ 249,824
Bank overdraft		5,172	-	5,172
		254,996	-	254,996
SHAREHOLDERS' EQUITY				
Share capital		1,300,160	-	1,300,160
Commitment to issue special warrants		3,194,550	-	3,194,550
Contributed surplus		104,000	-	104,000
Deficit		(761,170)	-	(761,170)
		3,837,540	-	3,837,540
		$ 4,092,536	$ -	$ 4,092,536

(iii) Reconciliation of the condensed interim statement of operations for the three months ended June 30, 2010

Canadian GAAP accounts	Note 27	Canadian GAAP balances	IFRS adjustments	IFRS balances
EXPENSES				
Consulting and professional fees		$ 170,060	$ -	$ 170,060
General and administration		115,573	-	115,573
Mineral properties investigation costs		58,217	-	58,217
		343,850	-	343,850
Net loss before other items		(343,850)	-	(343,850)
OTHER ITEMS				
Foreign exchange gain (loss)		(1,263)	-	(1,263)
NET LOSS before income tax		(345,113)	-	(345,113)
Income tax expense		-	-	-
NET LOSS for the period		(345,113)	-	(345,113)
Other comprehensive income items				
Unrealized gain on foreign currency translation		-	-	-
COMPREHENSIVE LOSS for the period		$ (345,113)	$ -	$ (345,113)
Net loss per share - basic and diluted		(0.13)	-	(0.13)
Weighted average number of common shares outstanding - basic and diluted		2,700,000	2,700,000	2,700,000

(iv) Reconciliation of the condensed interim consolidated statement of financial position and equity as at February 28, 2011

Canadian GAAP accounts	Note 27	Canadian GAAP balances	IFRS adjustments	IFRS balances
ASSETS				
Current				
Cash and cash equivalents		$ 15,252,651	$ -	$ 15,252,651
Restricted cash		1,736,000	-	1,736,000
Accounts and other receivables		12,410,375	-	12,410,375
Inventories		10,526,681	-	10,526,681
Prepaid expenses		60,301	-	60,301
		39,986,008	-	39,986,008
Property, plant and equipment		79,316,581	-	79,316,581
Intangibles		5,911,567	-	5,911,567
Goodwill		18,672,014	-	18,672,014
Other assets		5,398,825	-	5,398,825
Deferred income taxes		120,061	-	120,061
		$ 149,405,056	$ -	$ 149,405,056
LIABILITIES				
Current				
Accounts payable and accrued liabilities		$ 7,031,196	$ -	$ 7,031,196
Other financial liabilities		2,660,467	-	2,660,467
Deferred income taxes	c	2,200,000	(2,200,000)	-
Asset retirement obligation		389,177	-	389,177
Loans payable		261,934	-	261,934
		12,542,774	(2,200,000)	10,342,774
Acquisition obligation		20,300,925	-	20,300,925
Asset retirement obligation		2,665,329	-	2,665,329
Other financial liabilities		11,727,930	-	11,727,930
Deferred income taxes	c	16,454,227	2,200,000	18,654,227
		63,691,185	-	63,691,185
SHAREHOLDERS' EQUITY				
Share capital	b	91,315,650	2,357,221	93,672,871
Warrants		2,149,853	-	2,149,853
Contributed surplus		6,263,430	-	6,263,430
Deficit	b	(15,077,393)	(2,357,221)	(17,434,614)
Currency translation reserve		(535,198)	-	(535,198)
Equity attributable to the owners of the company		84,116,342	-	84,116,342
Non-controlling interest		1,597,529	-	1,597,529
		85,713,871	-	85,713,871
		$ 149,405,056	$ -	$ 149,405,056

(v) Reconciliation of the condensed interim consolidated statement of operations for the fourteen months ended February 28, 2011

Canadian GAAP accounts	Note 27	Canadian GAAP balances	IFRS adjustments	IFRS balances
REVENUE		$ 27,677,608	$ -	$ 27,677,608
COST OF SALES				
Operating expense		19,925,113	-	19,925,113
Amortization and depletion		3,509,727	-	3,509,727
		23,434,840	-	23,434,840
Gross profit		4,242,768	-	4,242,768
EXPENSES				
Consulting and professional fees		1,813,024	-	1,813,024
General and administration		2,729,598	-	2,729,598
Directors' fees		72,500	-	72,500
Stock based compensation		13,522,096	-	13,522,096
Mineral properties investigation costs		111,686	-	111,686
		18,248,904	-	18,248,904
Net loss before other items		(14,006,136)	-	(14,006,136)
OTHER ITEMS				
Other income		454,504	-	454,504
Business combination transaction costs		(1,340,196)	-	(1,340,196)
Accretion		(2,241,896)	-	(2,241,896)
Change of estimates on contingent acquisition liability		2,724,711	-	2,724,711
Interest income (expense)		(576,753)	-	(576,753)
Foreign exchange gain (loss)		630,924	-	630,924
Loss on share-based payments	b	-	(2,357,221)	(2,357,221)
NET LOSS before income tax		(14,354,842)	(2,357,221)	(16,712,063)
Income tax expense		(685,663)	-	(685,663)
NET LOSS for the period		(15,040,505)	(2,357,221)	(17,397,726)
Other comprehensive income items				
Unrealized loss on foreign currency translation		(535,198)	-	(535,198)
COMPREHENSIVE LOSS for the period		$ (15,575,703)	$ (2,357,221)	$ (17,932,924)
Net loss per share - basic and diluted		(1.06)	(0.17)	(1.23)
Weighted average number of common shares outstanding - basic and diluted		14,187,763	14,187,763	14,187,763

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 of the financial statements.

The Company's financial assets and financial liabilities as at March 31, 2011, December 31, 2010 and January 1, 2010 were as follows:

	Cash, loans and receivables	Assets / (liabilities) at fair value through profit	Available for sale	Other financial assets/ (liabilities)	Total
January 1, 2010					
Cash	$ 52,177	$ -	$ -	$ -	$ 52,177
Receivables	600	-	-	-	600
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 32,355	$ 32,355
February 28, 2011					
Cash	$ 15,252,651	$ -	$ -	$ -	$ 15,252,651
Restricted cash	1,736,000	-	-	-	1,736,000
Receivables	12,410,375	-	-	-	12,410,375
Other financial assets non-current	1,081,997	4,316,828	-	-	5,398,825
Accounts payable and accrued liabilities	-	-	-	7,031,196	7,031,196
Acquisition obligation	-	-	-	20,300,925	20,300,925
Other financial liabilities - current	-	-	-	2,660,467	2,660,467
Other financial liabilities - long term	-	-	-	11,727,930	11,727,930
Loan payable	$ -	$ -	$ -	$ 261,934	$ 261,934
May 31, 2011					
Cash	$ 19,782,871	$ -	$ -	$ -	$ 19,782,871
Restricted cash	1,812,040	-	-	-	1,812,040
Receivables	9,809,660	-	-	-	9,809,660
Other financial assets non-current	1,463,520	4,743,489	-	-	6,207,009
Accounts payable and accrued liabilities	-	-	-	6,791,714	6,791,714
Acquisition obligation	-	-	-	21,142,698	21,142,698
Other financial liabilities - current	-	-	-	1,703,125	1,703,125
Other financial liabilities - long term	-	-	-	10,187,423	10,187,423
Loan payable	$ -	$ -	$ -	$ 184,351	$ 184,351

At May 31, 2011, there are no significant concentrations of credit risk for loans and receivables designated at fair value through the condensed interim consolidated statement of operations and comprehensive income (loss). The carrying amount reflected above represents the Company's maximum exposure to credit risk for such loans and receivables.

CAPITAL MANAGEMENT

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

The Company manages and adjusts its capital structure based on available funds in order to support the acquisition, exploration and operation of mineral properties. 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.

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.

As at May 31, 2011, the capital structure of the Company consists of shareholders' equity totaling $91,087,317 (February 28, 2011 - $84,116,342).

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 in the Rand against the Company's functional currency, the Canadian dollar would have increased (decreased) the Company's income by approximately ($200,000). A 10% increase in the United States Dollar would have increased (decreased) the Company's income by $900,000.

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

The following assets and liabilities were denominated in foreign currencies as at May 31, 2011, February 28, 2011 and January 1, 2010:

	Denominated in				Total
	CAD	ZAR	AUD	USD	
Cash and cash equivalents	52,177	-	-	-	52,177
Amounts receivable	600	-	-	-	600
Prepaid expenses	7,144	-	-	-	7,144
Deferred charges	735,706	-	-	-	735,706
Accounts payable and accrued liabilties	(23,553)	-	-	(8,802)	(32,355)
Net balance sheet exposure as at January 1, 2010	**$ 772,074**	**$ -**	**$ -**	**$ (8,802)**	**$ 763,272**
Cash and cash equivalents	13,786,713	1,455,408	-	10,530	15,252,651
Restricted cash	-	1,736,000	-	-	1,736,000
Amounts receivable	905,161	5,766,954	-	5,738,260	12,410,375
Inventories	-	10,526,681	-	-	10,526,681
Prepaid expenses	54,434	5,867	-	-	60,301
Property, plant and equipment	-	79,316,581	-	-	79,316,581
Mine properties	-	5,911,567	-	-	5,911,567
Goodwill	18,672,014	-	-	-	18,672,014
Other assets	-	5,398,825	-	-	5,398,825
Deferred income taxes	-	120,061	-	-	120,061
Accounts payable and accrued liabilties	(789,749)	(6,078,926)	-	(162,521)	(7,031,196)
Acquisition obligation	-	(20,300,925)	-	-	(20,300,925)
Other financial liabilities - current	-	(2,660,467)	-	-	(2,660,467)
Other financial liabilities - long term	-	(11,727,930)	-	-	(11,727,930)
Asset retirement obligation - current	-	(389,177)	-	-	(389,177)
Asset retirement obligation - long term	-	(2,665,329)	-	-	(2,665,329)
Loans payable	-	(261,934)	-	-	(261,934)
Deferred income taxes	1,289,802	(19,944,029)	-	-	(18,654,227)
Net balance sheet exposure as at February 28, 2011	**$33,918,375**	**$46,209,227**	**$ -**	**$ 5,586,269**	**$85,713,871**
Cash and cash equivalents	14,395,057	5,380,947	-	6,867	19,782,871
Restricted cash	50,000	1,762,040	-	-	1,812,040
Amounts receivable	994,608	4,602,466	-	4,212,586	9,809,660
Inventories	-	13,340,637	-	-	13,340,637
Prepaid expenses	97,503	18,402	-	-	115,905
Property, plant and equipment	-	79,203,221	-	-	79,203,221
Mine properties	-	5,955,580	-	-	5,955,580
Goodwill	18,672,014	-	-	-	18,672,014
Other assets	-	6,207,009	-	-	6,207,009
Deferred income taxes	-	54,827	-	-	54,827
Accounts payable and accrued liabilties	(344,817)	(6,320,553)	(3,948)	(122,396)	(6,791,714)
Acquisition obligation	-	(21,142,698)	-	-	(21,142,698)
Other financial liabilities - current	-	(1,703,125)	-	-	(1,703,125)
Other financial liabilities - long term	-	(10,187,423)	-	-	(10,187,423)
Asset retirement obligation - current	-	(401,272)	-	-	(401,272)
Asset retirement obligation - long term	-	(2,854,154)	-	-	(2,854,154)
Loans payable	-	(184,351)	-	-	(184,351)
Deferred income taxes	1,289,802	(20,293,983)	-	-	(19,004,181)
Net balance sheet exposure as at May 31, 2011	**$35,154,167**	**$53,437,570**	**$ (3,948)**	**$ 4,097,057**	**$92,684,846**

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 an additional income of approximately $36,000.

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 $2,000,000.

(b) Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents and amounts receivable. Cash equivalents consist of guaranteed investment certificates and bankers acceptances, which have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Amounts receivable primarily consist of goods and services tax due from the Federal Government of Canada and amounts owing from coal sales. Management believes that the credit risks concentration with respect to these amounts receivables are remote.

(c) Liquidity risk

As May 31, 2011, the Company had net working capital of $14,637,953 (February 28, 2011 – $29,643,234) which included cash and cash equivalents and restricted cash of $21,594,911 (February 28, 2011 – $16,988,651), accounts receivable and other receivables of $9,809,660 (February 28, 2011 – $12,410,375), and inventories of $13,340,637 (February 28, 2011 – $10,526,681), offset by current liabilities of $30,223,160 (February 28, 2011 – $10,342,774).

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, 2011, 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, 2011 and February 28, 2011:

May 31, 2011	Level 1	Level 2	Level 3
Endowment policy and investments	$ -	$ -	$4,743,489

February 28, 2011	Level 1	Level 2	Level 3
Endowment policy and investments	$ -	$ -	$4,316,828

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 Slater Coal Agreement requires the Company to make deferred payments one and two years following the signing of the Slater Coal Agreement. Although the Slater Coal Properties are producing coal, such revenues may be inadequate to make the deferred payments pursuant to the Slater Coal Agreement In addition, the continued development of the Slater Coal 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 Slater Coal 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 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. 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 condition.

Environmental Risks and other Hazards

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

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

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 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

Slater Coal requires licenses and permits from various governmental authorities. Slater Coal believes that it holds all necessary licenses and permits under applicable laws and regulation in respect of the Slater Coal 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

NON-GAAP PERFORMANCE MEASURES

The Company has included in this document certain non-GAAP performance measures that are detailed below. These non-GAAP performance measures do not have any standardized meaning prescribed by GAAP 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 GAAP, 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 GAAP. The definition for these performance measure and reconciliation of the non-GAAP measure to reported GAAP measures are as follows:

Working Capital

	May 31, 2011 $000's	February 28, 2011 $000's
Current Assets		
Cash and cash equivalents	19,782.87	15,252.65
Restricted cash	1,812.04	1,736.00
Accounts receivable and other receivables	9,809.66	12,410.38
Inventories	13,340.64	10,526.68
Prepaid expenses	115.91	60.30
	44,861.12	39,986.01
Current Liabilities		
Accounts payable and accrued liabilities	6,791.71	7,031.20
Acquisition obligation	21,142.70	-
Other financial liabilities	1,703.13	2,660.47
Future income taxes	-	-
Provisions	401.27	389.18
Loans payable	184.35	261.93
	30,223.16	10,342.78
Working capital (deficiency)		
Current assets less current liabilities	14,637.96	29,643.23

EBITDA - Forbes Coal consolidated

	Three months ended May 31, 2011 $000's
Net income (loss) for the period	(1,005)
add back	
Amortization and depletion	2,928
Income tax expense	878
Foreign exchange gain/loss	308
Interest and dividend income	312
Accretion	537
Business combination transaction costs	19
Stock based compensation	1,840
EBITDA Forbes Coal Consolidated	5,817

EBITDA - Slater Coal stand alone

	Three months ended May 31, 2011 $000's
Net income (loss) for the period	(1,005)
add back	
Amortization and depletion	2,928
Income tax expense	878
Foreign exchange gain/loss	308
Interest and dividend income	312
Accretion	537
Business combination transaction costs	19
Stock based compensation	1,840
General and administration (Non Slater)	432
EBITDA Slater Coal	6,249

SUMMARY OF SECURITIES AS AT AUGUST 4, 2011

As at August 4, 2011 the following common shares, common shares purchase options, share purchase warrants and special performance shares were issued and outstanding:

- 34,865,717 common shares:
- 3,445,298 common share purchase options with exercise prices ranging from $2.39-$13.93 expiring between February 27, 2012 and June 13, 2016:
- 1,243,887 share purchase warrants with exercise prices ranging from $2.80-$4.55 expiring between January 23, 2012 and February 22, 2013.
- 2,700,000 Special Performance Shares outstanding are deposited in escrow to be released when certain conditions are met.

Special Performance Shares

At May 25, 2011 there were 2,700,000 Special Performance Shares outstanding. The Special Performance Shares were deposited in escrow to be released when certain conditions are met.

LIST OF DIRECTORS AND OFFICERS

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
Johan Louw	Vice President, Africa Operation
Deborah Battiston	Chief Financial Officer
Jennifer Wagner	Corporate Secretary

August 4, 2011