



FORBES COAL

FORBES & MANHATTAN COAL CORP.

MANAGEMENTS DISCUSSION AND ANALYSIS

For the three and twelve months ended February 28, 2014
(Presented in Canadian Dollars)

FORBES & MANHATTAN COAL CORP.

Management's Discussion and Analysis

For the three and twelve months ended February 28, 2014

The following Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of Forbes & Manhattan Coal Corp. and its subsidiaries ("we", "our", "us", "FMC", the "Company" or collectively the "Group") for the three and twelve months ended February 28, 2014 and should be read in conjunction with the Audited Annual Consolidated Financial Statements for the years ended February 28, 2014 and 2013. The financial statements and related notes have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain non-IFRS measures are discussed in this MD&A which are clearly disclosed as such. Additional information and press releases have been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and are available online under the Forbes & Manhattan Coal Corp. profile at www.sedar.com.

This MD&A reports our activities through May 29, 2014 unless otherwise indicated. References to Q1, Q2, Q3 and Q4 2014 or the 1st, 2nd, 3rd and 4th quarters of 2014 mean the three months ended May 31, 2013, August 31, 2013, November 30, 2013 and February 28, 2014, and references to Q1, Q2, Q3 and Q4 2013 or the 1st, 2nd, 3rd and 4th quarters of 2013 mean the three months ended May 31, 2012, August 31, 2012, November 30, 2012 and February 28, 2013.

Unless otherwise noted all amounts are recorded in Canadian Dollars ("C\$"). References to "R" mean South African Rands and to "US\$" mean United States Dollars. Amounts stated in South African Rands have been translated to Canadian Dollars at R1:\$0.1032 and amounts stated in US Dollars have been translated to Canadian Dollars at US\$1: \$1.1074, unless otherwise stated.

NJ Odendaal B.Sc. (Geol.), B.Sc. (Hons) (Min. Econ.), M.Sc. (Min. Eng.) Pr. Sci. Nat., FSAIMM, GSSA, MAusIMM and D Van Heerden B.Eng. (Min. Eng.), M.Comm. (Bus. Admin.), are qualified persons as defined in National Instrument 43-101 and have reviewed the technical information presented in the table on page 4 of this MD&A.

SECTION 1.01 CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking information under Canadian securities legislation. Forward-looking information includes, but is not limited to, information with respect to the Company's expected production from, and further potential of, the Company's properties; the Company's ability to raise additional funds; the future price of minerals, particularly coal; the estimation of mineral reserves and mineral resources; conclusions of economic evaluations; the realization of mineral reserve estimates; the timing and amount of estimated future production; costs of production; capital expenditures; success of exploration activities; mining or processing issues; currency exchange rates; government regulation of mining operations; labour relations and future collective agreements; and environmental risks. In general, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking information is based on the opinions and estimates of management as of the date such statements are made. Estimates regarding the anticipated timing, amount and cost of exploration, and development and production activities are based on assumptions underlying mineral reserve and mineral resource estimates and the realization of such estimates. Capital and operating cost estimates are based on extensive research of the Company, purchase orders placed by the Company to date, recent mining costs and other factors. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements

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expressed or implied by the forward-looking information. Such factors include: the price of coal; the Company's securities may experience price volatility; production estimate risks; cost estimate risks; risks relating to the depletion of mineral reserves; power supply risks; South Africa country risks; environmental risks and other hazards; risks relating to the requirement for additional capital; mineral legislation risks; risks relating to foreign mining tax regimes; title to mineral holdings risks; infrastructure risks; exploration and development risks; competition risks; currency fluctuation risks; risks relating to owning foreign assets; risks relating to dependence on key personnel; dependence on outside parties; labour and employment risks; insurance and uninsured risks; litigation risks; and the Company's directors and officers may have conflicts of interests. Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

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OVERVIEW OF THE COMPANY

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

In July 2010, the Company completed an agreement to acquire Forbes Coal Proprietary Limited ("FC Dundee"), a South African company, and its interest in its coal mines in South Africa ("FC Dundee Properties"). The FC Dundee Properties comprise the operating Magdalena bituminous mine, including the recently established Alleen bituminous mine (collectively "Magdalena") and the Aviemore anthracite mine ("Aviemore"). FC Dundee is engaged in opencast and underground coal mining.

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

FC DUNDEE PROPERTIES

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

On January 20, 2014, the Company announced that it had entered into an agreement with Ikwezi Mining Proprietary Limited ("Ikwezi") for the acquisition of a portion of the Ikwezi mining right over the property known as Alleen No. 2, located adjacent to the current Magdalena opencast operations ("Alleen No. 2"). The agreement is subject to the Company receiving written consent from the Minister of Mineral Resources in terms of section 102 of the Mineral and Petroleum Resources Development Act ("MPRDA") on or before June 30, 2014.

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

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

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FMC RESOURCES

Mr. NJ Odendaal B.Sc. (Geol.), B.Sc. (Hons) (Min. Econ.), M.Sc. (Min. Eng.) Pr. Sci. Nat., FSAIMM, GSSA, MAUSIMM 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 mineable coal resource estimate effective October 1, 2012 for the FC Dundee Properties.

Mineable Coal Resources for the Dundee Operations as at 1 October 2012														
Area	Seam	Resource Seam Width	Resource Classification	Seam Width	Volume	RD	Tonnage	Ash	Fixed	CV	Inherent	Sulphur	Volatiles	Yield
		Cut-Off m	Category	m	Mm ³	t/m ³	Mt	%	%	MJ/Kg	%	%	%	%
Magdalena Underground	Gus	0.8	Measured	1.90	8.48	1.5	12.72	14.89	65.79	29.46	1.23	1.62	17.76	77.52
	Alfred	0.8	Measured	2.10	10.72	1.5	16.08	15.62	66.21	30.16	1.39	1.48	16.76	79.02
	Combined	0.8	Measured	4.10	13.98	1.5	20.97	14.77	67.84	29.25	1.39	1.55	15.27	82.98
	Total Measured					33.18	1.5	49.77	15.08	66.79	29.60	1.35	1.55	16.39
Area	Seam	Resource Seam Width	Resource Classification	Seam Width	Volume	RD	Tonnage	Ash	Fixed	CV	Inherent	Sulphur	Volatiles	Yield
		Cut-Off m	Category	m	Mm ³	t/m ³	Mt	%	%	MJ/Kg	%	%	%	%
Hilltop	Gus	0.8	Inferred	1.50	1.97	1.5	2.96	21.24	-	22.11	0.98	1.84	13.19	100
	Alfred	0.8	Inferred	1.60	5.64	1.5	8.46	21.07	-	22.24	0.94	1.86	13.47	100
	Total Inferred					7.61	1.5	11.42	21.11	-	22.21	0.95	1.85	13.40
Area	Seam	Resource Seam Width	Resource Classification	Seam Width	Volume	RD	Tonnage	Ash	Fixed	CV	Inherent	Sulphur	Volatiles	Yield
		Cut-Off m	Category	m	Mm ³	t/m ³	Mt	%	%	MJ/Kg	%	%	%	%
Magdalena Opencast	Gus	0.8	Measured	1.90	0.10	1.5	0.16	22.35	54.28	25.63	1.83	1.68	21.52	89.01
	Alfred	0.8	Measured	2.00	0.24	1.5	0.36	26.58	51.97	23.53	1.93	1.90	19.51	95.04
	Total Measured					0.34	1.5	0.52	25.30	52.67	24.16	1.90	1.83	20.12
Area	Seam	Resource Seam Width	Resource Classification	Seam Width	Volume	RD	Tonnage	Ash	Fixed	CV	Inherent	Sulphur	Volatiles	Yield
		Cut-Off m	Category	m	Mm ³	t/m ³	Mt	%	%	MJ/Kg	%	%	%	%
Aviemore Mine	Gus	0.8	Measured	1.80	0.82	1.5	1.23	13.34	77.76	30.15	1.84	2.01	7.19	74.31
	Total Measured					0.82	1.5	1.23	13.34	77.76	30.15	1.84	2.01	7.19
Leeuw Mining & Exploration	Gus	0.8	Indicated	1.72	9.72	1.5	14.58	13.55	77.53	29.00	2.21	1.80	6.73	63.51
	Zinoju Coal	0.8	Indicated	1.72	13.03	1.5	19.54	13.46	75.51	28.93	2.59	1.60	8.28	57.00
Total Indicated					22.75	1.5	34.12	13.50	76.37	28.96	2.43	1.69	7.62	59.78
Total Measured & Indicated					23.57	1.5	35.35	13.49	76.42	29.00	2.41	1.70	7.60	60.29
Leeuw Mining & Exploration	Gus	0.8	Inferred	1.72	1.09	1.5	1.63	14.97	74.78	27.29	1.77	1.41	8.50	55.98
	Zinoju Coal	0.8	Inferred	1.72	8.99	1.5	13.48	14.14	74.72	28.85	2.49	1.71	8.64	59.60
Total Inferred					10.08	1.5	15.11	14.23	74.75	28.69	2.41	1.68	8.63	59.23

Notes:

- Coal Resources are inclusive of Coal Reserves.
- Coal Resources inclusive of tonnes mined since effective date.
- Tonnes and qualities have been rounded and this may result in minor adding discrepancies.
- The coal qualities are stated for the ash content (“Ash”), fixed carbon, calorific value (“CV”), inherent moisture, sulphur content (“Sulphur”), volatile matter (“Volatiles”) and yield.
- The coal qualities assays were determined on an air-dried moisture basis.
- A 15% geological loss has been applied to the Gross *in situ* tonnes.
- The declared tabulation of coal resources prepared by Minxcon has been prepared in accordance with the NI 43-101 reporting code and is compliant with this Code.
- A cut-off seam thickness of 0.8 m has been applied to the Gross *in situ* Coal Resource statements.
- The Coal Resources for the Magdalena and Aviemore Areas are calculated on 1.7 t/m³ float density coal quality values and the Hilltop Coal Resources are calculated on Raw coal quality values.
- The coal density for all areas is 1.5 t/m³
- The Hilltop data received from the Client did not include fixed carbon values.
- The mining right to Leeuw Mining & Exploration properties has been transferred to Zinoju.

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OVERVIEW OF FISCAL 2014 AND OUTLOOK FOR THE COMPANY

From late 2012, a number of factors, including market conditions outside of the control of the Group, and various operational, logistical and contractual issues, led to FMC being in financial difficulty by the end of 2013.

The Group has therefore undertaken a significant restructuring of various aspects of its business, both corporate and operational, during the 2014 fiscal year, a summary of which is set out below.

Funding secured from Resource Capital Fund V L.P. ("RCF")

The Company's largest shareholder is RCF which owned 6,867,443 common shares of FMC ("Common Shares"), representing 19.97% of the issued and outstanding Common Shares on a non-diluted basis prior to the funding transactions detailed below. As at May 29, 2014, RCF owns 12,568,684 Common Shares, representing 31.4% of the issued and outstanding Common Shares. The increase in shareholding is due to the establishment fees on the RCF Original Loan (defined below) and RCF Bridge Loan (defined below) as well as interest on both facilities being settled in Common Shares (Refer below under *RCF Original Loan* and *RCF Bridge Loan*). RCF has the right to convert the RCF Original Loan, at its sole discretion, up to 18,240,000 Common Shares (As of April 30, 2014, assuming an exchange rate of US\$1 = \$1.094 and excluding any Common Shares that may be issued on conversion of any accrued interest). Assuming full conversion of the RCF Original Loan, RCF would hold approximately 30,808,684 Common Shares, representing 52.8% of the then issued and outstanding Common Shares on a partially diluted basis (assuming no other Common Shares are issued by the Company other than in respect of this conversion).

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

On August 9, 2013, the Group announced that it had secured a US\$6,0 million (\$6,6 million) convertible loan facility (the "RCF Original Loan") from RCF to be used for general working capital in relation to FMC's operations and exploration properties in Dundee as well as to actively pursue the acquisition of additional South African coal properties. The RCF Original Loan has a maturity date of June 30, 2016 and shareholder approval was obtained on September 11, 2013 for conversion into common shares of FMC at a price of \$0.36 per share.

On December 31, 2013, the Group announced that it had secured a funding package of up to US\$25,0 million (approximately \$27,7 million) from RCF (the "RCF US\$25 million Facility"), comprising a bridge loan of US\$4,0 million (\$4,4 million) (the "RCF Bridge Loan"), a convertible loan of up to US\$15,0 million (approximately \$16,6 million) (the "RCF Convertible Loan") and a refinancing of the RCF Original Loan of US\$6,0 million (\$6,6 million).

Refer to the *Liquidity and Capital Resources* section of this MD&A for further information

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The RCF Bridge Loan, which closed on February 5, 2014, is to be used for general working capital in relation to FMC's operations and exploration properties in Dundee as well as to facilitate the closing of the Company's Toronto office, as set out below. The RCF Bridge Loan has a maturity date of June 30, 2014 and subject to shareholder approval will convert into a convertible loan with the same terms and conditions as the RCF Convertible Loan. The TSX allowed FMC to rely on the financial hardship exemption from shareholder approval in connection with the RCF Bridge Loan.

The RCF Convertible Loan is to be used to provide further funds for general working capital which will allow the Company to enact strategies to improve its operations in Dundee, as well as to provide for further capital investment. The RCF Convertible Loan has a maturity date of June 30, 2019 (and subject to shareholder approval will be convertible into Common Shares of FMC at a price of \$0.1446 per share).

The RCF Original Loan will, subject to shareholder approval, be amended to contain the same terms and conditions as the RCF Convertible Loan, resulting in FMC entering into the RCF US\$25 million Facility with RCF for an aggregate amount up to US\$25,0 million (approximately \$27,7 million).

Investec Loan Facilities

In late 2011, FC Dundee secured a senior term loan facility (the "Investec Term Loan") and a revolving loan facility (the "Investec Revolving Facility") from Investec Bank Limited ("Investec") (collectively, the "Investec Loan Facilities"). The Investec Loan Facilities were, at that time, appropriate for the business and proceeds were used to expand operations. However in current coal markets, a restructuring of these facilities has become a necessity (the "Investec Restructuring"). The restructuring of the credit facilities goes hand in hand with the RCF funding, in order to ensure that the Company is fully funded to move forward, and will be implemented together with the closing of the RCF Convertible Loan. It is highlighted that the Investec Restructuring is subject to the closing of the RCF Convertible Loan and vice versa.

In addition, FC Dundee has been in breach of certain of its debt covenants, including net debt/EBITDA and EBITDA/net interest, for several quarters and a restructuring is required to bring these covenants back to levels where the Company is able to achieve compliance. Up to this juncture, Investec has agreed to a waiver of the breach of covenants as at February 28, 2014 and May 31, 2014.

Refer to the *Liquidity and Capital Resources* section for further detail regarding the Investec Restructuring.

Toronto office

Together with the ongoing cost cutting initiatives implemented by FC Dundee, the Group conducted a review of its corporate costs. This review has led to the closure of the Company's Toronto office and the transfer of all management and corporate functions to the Group's Johannesburg office.

Management restructure and rebranding

Various Board and management changes were effected subsequent to the closing of the RCF Bridge Loan, with Mr. Stan Bharti and Mr. Stephan Theron stepping down from the Board on February 5, 2014, and Mr. Robert Francis being appointed to the Board, which now comprises five independent directors, out of a total of six Board members.

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Craig Wiggill assumed an interim executive role as Executive Chairman and Chief Executive Officer and in consequence, Mr John Dreyer assumed the role of lead independent director of the Company.

Mr. Malcolm Campbell, former Chief Operating Officer, stepped up as Chief Executive Officer on May 1, 2014.

Ms. Sarah Williams has replaced Ms. Deborah Battiston as Chief Financial Officer.

Mr. Neil Said will resign from his position as Corporate Secretary following the closing of the funding transactions with RCF.

The Group will also be implementing a rebranding strategy including, subject to shareholder and regulatory approvals, a name change to "Buffalo Coal Corp.", which reflects the strong South African brand underlying the business and a fresh start for the Group in terms of the restructuring processes.

Operational and marketing

Cost cutting initiatives have been implemented in all aspects of FMC's business over the past two years as coal markets have deteriorated. During the 3rd and 4th quarters of fiscal 2014, difficult mining conditions were experienced, particularly at Magdalena underground where geological difficulties were encountered in one continuous miner section along with poor roof conditions in a second continuous miner section. This meant that the implementation of operational cost reduction initiatives was insufficient to offset the lower than planned production tonnages arising from the difficult geological conditions.

Despite the cost cutting measures, FC Dundee has experienced severe cash limitations, and capital investment has not been maintained at adequate levels, resulting in certain major capital items now requiring urgent maintenance and/or replacement.

On December 31, 2013, the Company's agreement with Grindrod Terminal Richards Bay, a division of Grindrod South Africa Proprietary Limited. ("Grindrod"), to export coal through the dry bulk terminal in Richards Bay (the "Navitrade Terminal") (the "Grindrod Contract") terminated and has not been renewed. The Company will utilize the Navitrade Terminal only on a spot basis or alongside other strategic marketing partners when profitable.

In calendar year 2013, FMC held an export allocation of 960,000 tonnes at the Navitrade Terminal. In terms of the Grindrod Contract, the Company was contracted into minimum performance thresholds, under which it incurred take or pay penalties. Taking into consideration various factors, including a declining API 4 coal price index, the depressed export market, and geological issues resulting in lower production, FMC was unable to deliver contracted export quantities and accordingly incurred take or pay penalties of approximately \$2,7 million during fiscal 2014.

On December 31, 2013, the Company's offtake agreement with Vitol S.A. ("Vitol"), a leading energy trading company, to purchase bituminous coal from FC Dundee expired. The Company has renegotiated a new two year offtake contract for a portion of the Company's production and exports, with more favourable contract terms and significantly lower pricing risk to the Company.

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Markets

The Group supplies bituminous and anthracite coal to both the export and domestic markets.

Bituminous

The weak coal prices on international seaborne markets, which have prevailed since early 2012, have exacerbated the Group's financial difficulties. The API 4 coal price index dropped from an average of US\$114 per tonne in fiscal 2012, to US\$89 per tonne in fiscal 2013, and further to an average of US\$79 per tonne in fiscal 2014. Over the past three years, between 40% and 50% of the Group's sales have comprised export thermal sales which have been priced against the API 4 coal price index. The Group has now significantly mitigated its exposure to this index based risk through the restructuring of one of its major thermal export contracts. The short- to medium-term outlook for the API 4 coal price index remains relatively flat.

On the domestic industrial front, the bituminous coal market has remained steady, with marginal growth on a year on year basis over the past four years, with a continued healthy outlook for the following year. Domestic coal supply contracts are typically structured at a fixed coal price over a twelve month period.

Anthracite

The anthracite coal market is highly correlated with the metals industry where anthracite is primarily used as a reductant.

Export anthracite markets have been depressed over the past two years, which resulted in the Group building stock of certain anthracite products, again with a negative impact on the working capital position of the Group. In fiscal 2014, the Group contracted with a customer which purchased both the stockpile plus the product fraction arising from the anthracite operations which led to the creation of this stockpile. The Group is now considering an expansion of its anthracite operations to meet further potential demand opportunities.

South Africa is one of the world's largest ferrochrome and ferroalloy producers and the domestic demand for anthracite remains strong. South Africa is also a large steel producer and continues to be a net importer of metallurgical coal and coke products.

In summary, in an uncertain global economic environment, the outlook for the Group remains positive as the Group has a portfolio of high quality products and services both the domestic and global thermal and metallurgical coal markets.

Cancellation of Riversdale Acquisition

On September 24, 2012, the Company and Rio Tinto PLC ("Rio Tinto") announced that they had entered into a definitive agreement whereby the Company was expected to acquire 100% ownership of the shares and shareholder claims of Riversdale Mining Limited ("RML") in Riversdale Holdings Proprietary Limited ("RHPL") (the "Riversdale Acquisition"), as a result of which, the Company would have acquired RHPL's 74% interest in the Zululand Anthracite Colliery ("ZAC"), a current producing anthracite mine, and RHPL's 74% interest in the Riversdale Anthracite Colliery ("RAC"), an undeveloped anthracite resource.

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A deposit, totaling R45,5 million (approximately \$4,7 million) was paid into an escrow account to be applied against the purchase consideration for the Riversdale Acquisition ("the Escrow Funds").

In February 2013, FMC notified RML of the cancellation of the Riversdale Acquisition, as a result of a deterioration in the performance of the ZAC mine, which, in the opinion of FMC, constituted a breach of certain provisions of the agreement.

The parties attempted to reach agreement on a mutually beneficial way forward in respect of the Riversdale Acquisition, but such discussions were unsuccessful and two disputes were declared, with the Company seeking the return of the Escrow Funds in the one matter and RML seeking damages in the amount of R299,5 million (approximately \$30,9 million) resulting from the cancellation in the other. Both disputes were settled during March 2014, by way of the Escrow Funds (including interest) being shared between the parties as to R19,4 million (approximately \$2,0 million) to RML and the balance to FMC.

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

Investec had agreed to underwrite the funding for the Riversdale Acquisition, by the way of the provision of guarantees of R394,5 million (approximately \$40,7 million) to RML, and ultimately by providing debt funding for the same amount, for the payment of the purchase consideration. As at February 28, 2014, no liability existed to Investec in respect of the transaction guarantees, which expired on May 31, 2013.

Going concern

As a result of a combination of the above factors, the Company has a significant need for equity capital and financing for operations and working capital. Because of continuing operating losses and a working capital deficiency, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. FC Dundee has not met certain debt facility covenants (see *Liquidity and Capital Resources* section of this MD&A) and while Investec has waived the breach of the covenants as at February 28, 2014 and as at May 31, 2014, it is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. Should the additional financing and debt restructuring as described above not come to fruition there is significant uncertainty about the Company's ability to continue as a going concern.

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

Change in year-end

From March 1, 2014, the Company and its subsidiaries have changed their financial year-end from February 28 to December 31. The next fiscal period will therefore be the ten months ending December 31, 2014.

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DECEMBER 2014 STRATEGY AND FUTURE PLANS

The Group's vision is to build a high quality bituminous and metallurgical coal mining and supply company. Future production growth is set to be twofold, firstly through expansion of the existing FC Dundee operation and secondly through acquisition in the Southern African region. The ability of the Company to increase production amounts has not been the subject of a feasibility study and there is no certainty that the proposed expansion will be economically feasible.

The Group has engaged with an independent consultant to conduct a full operational review of FC Dundee, including a risk management plan (the "Risk Management Plan"). This will assist the Company in ensuring optimal allocation of the funding to be received from RCF, in terms of the replacement and/or acquisition of major capital items.

The Company's strategic goals for the ten months ending December 31, 2014 are to finalise and close the various restructuring items as set out above, and to advance and expand production at the FC Dundee Properties, as follows:

General

- Closure of the RCF funding and Investec Restructuring;
- Implementation of the Risk Management Plan, including the introduction of major capital items, utilizing the funding received from RCF and continued improvement of operational efficiencies;
- Continued focus on cost cutting initiatives and cost containment at both an operational and corporate level;
- Explore opportunities to increase revenue;
- Explore new market opportunities for the anthracite product; and
- Increase rail and port allocation to further gain exposure to seaborne bituminous and anthracite export markets, where feasible.

Magdalena

- Increasing productivity and production capacity at Magdalena through operational efficiency initiatives;
- Achieve saleable production of 785,000 tonnes for the ten months ending December 31, 2014;
- Extension of the Magdalena opencast life of mine through the acquisition of Alleen No. 2 and other opencastable resources in the area;
- Generate pitroom for future mining expansion; and
- Estimated capital expenditure of R100,0 million in terms of the implementation of the Risk Management Plan as referred to above.

Aviemore

- Achieve saleable production of 250,000 tonnes for the ten months ending December 31, 2014;
- Progress exploration program and feasibility study for the expansion of Aviemore to a 1,000,000 run of mine ("ROM") tonnes per year producer ("Aviemore 2"); and
- Estimated capital expenditure of R5,9 million.

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Wash plants

- Improve wash plant recovery rates from current levels by improving efficiencies of the wash plant and reducing contamination at source;
- Investigate product upgrade potential; and
- Estimated capital expenditure of R13,3 million

Expansion opportunities

- A feasibility study for the expansion of Aviemore has been undertaken and the scoping study in this regard has been completed internally.
- The Company is exploring various opportunities to secure additional opencast reserves in the northern Kwa-Zulu Natal region.
- The Company will also explore the potential for acquisition of further high quality bituminous and metallurgical coal projects (both greenfield and producing) in the Southern African region.

CONSOLIDATED OPERATIONAL AND FINANCIAL HIGHLIGHTS FOR THE 2014 FISCAL YEAR AND Q4 2014

The operational highlights and summarised financial results for fiscal 2014 and Q4 2014 are presented below. The Group achieved ROM production of 1,562Mt, saleable production (excluding calcine) of 922kt and sales of 955kt in fiscal 2014.

	Three months ended			Twelve months ended	
	February 28, 2014	February 28, 2013	November 30, 2013	February 28, 2014	February 28, 2013
Operational results					
Run of Mine (ROM) (t)	308 880	364 145	359 557	1 562 187	1 411 773
- Aviemore (t)	101 509	85 591	122 889	486 929	402 593
- Magdalena (t)	207 371	278 554	236 668	1 075 258	1 009 180
Saleable production (excluding calcine) (t)	184 858	214 044	246 368	922 274	867 245
- Anthracite (t)	59 751	57 502	90 305	304 256	255 309
- Bituminous (t)	125 107	156 542	156 063	618 018	611 936
Yield on plant feed (excluding calcine) (%)	61.96%	58.60%	59.50%	58.78%	62.10%
Sales (t)	223 174	168 913	216 430	955 401	836 655
- Anthracite (t)	97 351	39 369	41 686	279 930	189 376
- Bituminous (t)	116 580	129 544	166 035	639 482	647 279
- Calcine (t)	9 243	-	8 709	35 990	-
Inventory tonnes	115 966	162 479	158 965	115 966	162 479

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	Three months ended			Twelve months ended	
	February 28, 2014	February 28, 2013	November 30, 2013	February 28, 2014	February 28, 2013
Financial results					
Revenue (CAD millions)	16.55	13.47	16.64	72.34	68.50
EBITDA (CAD millions) (*)	(0.57)	(2.58)	0.54	2.47	(0.80)
Average selling price per tonne sold (CAD)	74.14	79.77	76.98	75.72	81.87
Cash cost of sales per tonne (CAD)	67.72	76.78	66.73	65.64	70.02
Cash (utilized in)/ generated from operating activities	(4.14)	(1.65)	(1.37)	(0.29)	0.44
Cash (utilized in)/generated from investing activities	(1.38)	(1.09)	0.86	(4.16)	(10.91)
Cash generated from financing activities	5.03	2.00	0.85	3.40	4.51
CAD:ZAR (average)	9.87	8.79	9.64	9.54	8.38
CAD:USD (average)	1.09	1.00	1.04	1.05	1.00

(*) See *Non-IFRS Performance Measures* section of this MD&A.

The comparative results for the Q3 2014 and Q4 2013 are presented below:

	Q4 2014	Q3 2014	Change	Change %	Q4 2013	Change	Change %
Financial results (CAD million):							
Revenue	16.55	16.64	(0.09)	(1%)	13.47	3.08	23%
Consolidated EBITDA (*)	(0.57)	0.54	(1.11)	(206%)	(2.58)	2.01	78%
Loss before tax	(20.57)	(2.44)	(18.13)	(743%)	(3.36)	(17.21)	(512%)
Production results							
Total ROM production (t)	308 880	359 557	(50 677)	(14%)	364 145	(55 265)	(15%)
Total saleable production (excluding bought in coal) (t)	184 858	246 368	(61 510)	(25%)	214 044	(29 186)	(14%)
Total sales (t)	223 174	216 430	6 744	3%	168 913	54 261	32%
Yield on plant feed (%)	62%	60%	2%	4%	59%	3%	6%

(*) See *Non-IFRS Performance Measures* section of this MD&A.**ROM Production**

Total ROM production for fiscal 2014 was 1,562Mt, a 10.7% increase compared to 1,412Mt produced in fiscal 2013.

ROM production from Magdalena operations, underground and opencast combined, for fiscal 2014 was 1,075Mt, a 6.5% increase compared to 1,009mt produced in fiscal 2013. ROM production comprised 773kt from the underground operations and 302kt from the opencast.

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The opencast operations exceeded budgeted tonnes for the year by 21.2%, while the underground operations underperformed by 29.7%, primarily as a result of difficult geology in sections 4 and 5 of the Magdalena underground mine. Section 4 encountered a 7.5meter downthrow fault in September 2013 and production only normalized again in April 2014, while poor roof and floor conditions in section 5 impacted production.

ROM production from Aviemore for fiscal 2014 was 487kt, a 20.9% increase compared to 403kt produced in fiscal 2013. Aviemore continues to perform in line with historic and budgeted performance levels.

Saleable Production

Saleable coal production for fiscal 2014 was 922kt (excluding calcine), a 6.4% increase compared to 867kt (excluding purchased coal) in fiscal 2013. Saleable calcine product was 40kt for fiscal 2014. The calcine plant was recommissioned in March 2013. No saleable coal was purchased in fiscal 2014 (91kt purchased in fiscal 2013).

The total calculated yield from plant feed was 58.8% for fiscal 2014, compared to 62.1% for fiscal 2013. Density control and discard scales have been installed to increase control over yields. Improvements in the yields were noted from Q2 2014. Thinner coal seams and additional roof cutting in Magdalena sections 1 and 5 continued to result in increased contamination of coal from these sections during fiscal 2014, resulting in lower than budgeted yields.

Sales

Total sales of bituminous coal and anthracite products for fiscal 2014 were 955kt, a 14.2% increase compared to 837kt sold in fiscal 2013.

Bituminous sales for fiscal 2014 were 639kt, of which 53.9% were export sales and 46.1% were domestic sales. This compares to 647kt sold in fiscal 2013 of which 59% were export sales and 41% were domestic sales.

Anthracite sales for fiscal 2014 were 280kt, of which 49.1% were export sales and 50.9% were domestic sales. This compares to 189kt sold in fiscal 2013 of which 27% were export sales and 73% were domestic sales.

Logistics

Coal is normally transported by rail and truck to domestic customers, while export coal is transported to the Richards Bay Coal Terminal ("RBCT") and the Navitrade Terminal by rail.

The Company has 204,500 tonnes of export allocation at RBCT, and for the calendar year 2013 had 960,000 tonnes of export allocation at the Navitrade Terminal. The contract with Grindrod in respect of the Navitrade allocation terminated on December 31, 2013 and has not been renewed. The Company will utilize the Navitrade Terminal only on a spot basis or alongside other strategic marketing partners when profitable.

The Company transported 208kt of saleable product to Navitrade in fiscal 2014, and incurred a take or pay penalty of approximately \$2,7 million in respect of the contract with Grindrod for the period. As at the date of this MD&A, this liability has been settled in full.

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At current API 4 coal price index levels, it is the Company’s strategy to focus on the domestic market where higher margins are being generated.

Social Development, Health and Safety

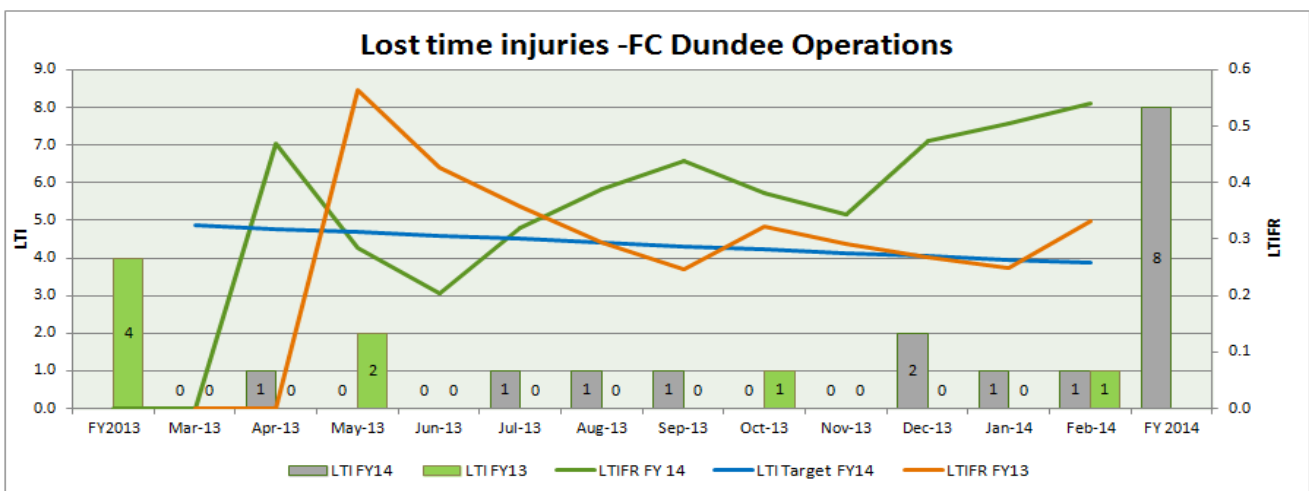
A key component of the Company’s strategy involves Social Development, Health and Safety.

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

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

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

In addition, the operations baseline risk assessment has been reviewed along with the code of practice for roof support. The effect on the operations of the SHE performance is reflected in the chart below. The increase in lost time injuries (“LTI”) in Fiscal 2014 is primarily as a result of fall of ground incidents due to poor geological conditions. The Lost Time Injury Frequency Rate (“LTIFR”) is measured as the number of incidents per 200,000 man hours worked:



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All operations at FC Dundee are subject to South African law, including the Mineral and Petroleum Resources Royalty Act, 28 of 2008 ("Royalty Act"). In terms of the Royalty Act, all companies extracting minerals in South Africa are required to pay royalties at a rate of between 0.5% and 7% based on gross sales, less their allowable deductions, depending on the refined condition of the mineral resources. Coal is classified as an unrefined mineral and the percentage royalty payable is therefore calculated according to the following formula:

$$\% \text{ royalty payable} = 0.5 + [\text{Earnings before interest and tax}/(\text{Gross sales} \times 9)] \times 100$$

RESULTS OF OPERATIONS

Net loss for the period and total comprehensive loss

The net loss before income taxes for the three and twelve months ended February 28, 2014, was \$22,5 million and \$30,7 million, compared to a net loss of \$6,6 million and \$14,3 million for the three and twelve months ended February 28, 2013. Total comprehensive loss for the three and twelve months ended February 28, 2014, was \$22,5 million and \$34,1 million compared to a loss of \$3,9 million and \$22,7 million for the comparable periods ended February 28, 2013. The significant net loss for Q4 2014 was attributable to an impairment on goodwill of \$15,7 million and an impairment of \$2,0 million on the receivable relating to the Escrow Funds. Refer to the *Subsequent Events* section in this MD&A.

Revenue

Coal revenues during the three and twelve months ended February 28, 2014 were \$16,6 million and \$72,3 million compared to \$13,5 million and \$68,5 million for the three and twelve months ended February 28, 2013. Revenue increased by 23.0% quarter on quarter and 5.6% year on year due to the increase in sales tonnes offset by a decline in the API 4 coal price index.

During the three and twelve months ended February 28, 2014, the Group's sales were 223kt and 955kt compared to sales of 169kt and 837kt for the three and twelve months ended February 28, 2013.

Average selling prices for the three and twelve months ended February 28, 2014 were \$74.1 and \$75.7 per tonne compared to average selling prices of \$79.7 and \$81.9 for the three and twelve months ended February 28, 2013. The reason for the decline in selling prices year on year is due to a sharp decline in the API 4 coal price index.

Cost of Sales

Cost of sales for the three and twelve months ended February 28, 2014 were \$18,5 million and \$74,6 million (cash cost of sales of \$67.7 and \$65.6 per tonne) compared to \$11,4 million and \$67,6 million (cash cost of sales of \$76.8 and \$70.0 per tonne) for the three and twelve months ended February 28, 2013.

Cost of sales includes mining and processing costs, salaries and wages, depreciation and amortization, transportation, railage, port handling and wharfage costs. Due to significant cost cutting initiatives implemented throughout the Group, the Group has seen improvements in the average cash cost per tonne year on year.

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During Q3 and Q4 2014, difficult mining conditions were experienced, particularly at Magdalena underground section, where geological faults were encountered as well as poor roof conditions in one of the continuous miner sections. The difficult geological conditions have resulted in additional costs which have offset the operational cost reduction initiatives.

The Company has also seen increased repairs and maintenance to service the older equipment until funding is obtained to purchase newer equipment.

Salaries and wages for the three and twelve months ended February 28, 2014 amounted to \$4,8 million and \$21,8 million (\$21.5 and \$22.8 per tonne) compared to \$4,1 million and \$22,3 million (\$24,3 and \$26,7 per tonne). The slight decrease in employee costs is due to a decrease in head count year on year from 964 to 934.

Depreciation and amortization for the three and twelve months ended February 28, 2014 amounted to \$2.6 million and \$10,6 million (\$11.7 and \$11.1 per tonne) compared to \$1.4 million and \$10,0 million (\$8.5 and \$10.7 per tonne) for the three and twelve months ended February 28, 2013. The increase in depreciation and amortization is due to the accelerated depreciation of certain machinery which the Group plans to replace when the Company receives the RCF funding.

During the three and twelve months ended February 28, 2014 the Company recorded a write down of inventory of \$0,6 million and \$1,0 million to net realizable value compared to \$0,7 million recorded in the year ended February 28, 2013. Due to geological problems encountered in the Magdalena mine during Q4, the costs capitalized to stock were significantly higher during the period.

During the three and twelve months ended February 28, 2014 the Company recorded \$Nil and \$0,4 million respectively in stock based compensation related to vesting of the operations portion of the grant of 2,347,500 common stock options. Comparatively, the Company recorded \$Nil and \$Nil in stock-based compensation related to operations during the three and twelve months ended February 28, 2013. The fair value of the stock options granted during fiscal 2014 was estimated using the Black-Scholes option pricing model and the following assumptions: expected dividend yield of 0%; expected life of 5 years; expected volatility of 65%; and a risk-free interest rate of 1.88%, vesting immediately.

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

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General and administration expenses

The Company recorded expenses of \$2,8 million and \$8,6 million during the three and twelve months ended February 28, 2014 compared to \$3,1 million and \$11,0 million during the three and twelve months ended February 28, 2013.

Expenses include general and administration expenses relating to FC Dundee's head office at Coalfields and the Company's corporate offices in Johannesburg and Toronto.

Of the \$2,8 million and \$8,6 million, \$1,7 million and \$4,9 million originate from the South African offices, in both Dundee and Johannesburg, and \$1,1 million and \$3,7 million relate to the head office in Toronto, respectively.

Included in general and administration expenses are \$0,9 million and \$3,6 million for the three and twelve months ended February 28, 2014 for consulting and professional fees compared to \$0,8 million and \$4,2 million for the three and twelve months ended February 28, 2013. The primary reason for the decrease year on year is as a result of the closure of the Toronto office during Q4 2014.

Other Expenses

During the three and twelve months ended February 28, 2014 the Group recorded a net other expense totaling \$17,2 million and \$17,7 million compared to a net expense of \$2,8 million and \$2,6 million for the three and twelve months ended February 28, 2013. Other income and expense results primarily from impairment loss, profit on sale of assets, foreign exchange gains/losses, small scrap sales, discounts received, commissions paid and certain fair value adjustments on financial assets and conversion option.

The Group recorded an impairment loss of \$17,7 million in Q4 2014 relating to the impairment of the Escrow Funds of \$2,0 million (See *Subsequent Events* in the MD&A) and the impairment of goodwill and other intangible assets of \$15,7 million. The recoverable amount was based on the fair value less costs to sell, determined using pre-tax cash flow projections based on the FC Dundee projected LOM.

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

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

The Group recorded a net interest and accretion expense of \$0,6 million and \$2,2 million during the three and twelve months ended February 28, 2014 compared to a net interest expense of \$0,02 million and \$1,6 million for the three and twelve months ended February 28, 2013. The Company incurred interest of \$2,4 million for the twelve months ended February 28, 2014 primarily on the Investec Loan Facilities, the RCF Original Loan, the RCF Bridge Loan and certain instalment sale agreements on equipment, compared to \$2,2 million for the twelve months ended February 28, 2013. The Company generates interest income on cash balances held in financial institutions.

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The Company invested its excess cash in liquid low risk investments during the twelve months ended February 28, 2014 and generated \$0,3 million, compared to \$0,4 million generated during the twelve months ended February 28, 2013.

The Group recorded a net foreign currency exchange loss during the three and twelve months ended February 28, 2014 in the amounts of \$0,9 million and \$1,7 million compared to a nominal amount recorded for the three and twelve months ended February 28, 2013. The foreign exchange loss recorded in the twelve months ended February 28, 2014 was generated primarily from the revaluation of US Dollar denominated revenues, the *RCF Original Loan* and *RCF Bridge Loan*.

The Company recorded income and other tax recovery of \$1,9 million and \$1,8 million during the three and twelve months ended February 28, 2014 compared to \$3,2 million and \$4,1 million during the three and twelve months ended February 28, 2013. This amount includes \$1,3 million that was credited to income tax expense and is related to the income tax effect of the depreciation and amortization of the fair value adjustments made with respect to the purchase price allocation on the FC Dundee acquisition. Also an amount of \$2,3 million is included in income tax expense in relation to a reversal of a tax recovery recorded in the prior year resulting from the effect of a foreign currency fluctuation on the net book values of fair value adjustments recorded at the FC Dundee acquisition date. Income tax is payable at a rate of 28% on taxable income earned in South Africa. In comparable periods, a dividend tax expense of \$0.43 million payable in South Africa was recorded due to an intercompany dividend of \$6.98 million being declared and paid from FC Dundee to FMC.

Other comprehensive income items

The functional currency of the Company is the Canadian Dollar. The Company's foreign subsidiary is considered to be a self-sustaining operation and its functional currency is the South African Rand. The results are translated accordingly to Canadian Dollars using the current rate 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/losses arising from the translation are recognized in OCI.

For the three and twelve months ended February 28, 2014 a loss of \$1,9 million and \$5,1 million has been recorded compared to a loss of \$0,6 million and \$12,5 million for the three and twelve months ended February 28, 2013. There was significant movement in the value of South African Rand in relation to Canadian Dollar from 8.73 on February 28, 2013 to 9.69 on February 28, 2014.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital deficiency of \$7,6 million as at February 28, 2014 compared to a working capital surplus of \$1.2 million at February 28, 2013 (see *Non-IFRS Performance Measures*). Working capital decreased by \$8,8 million as a result of a decrease in accounts receivable and other interest and non-interest bearing receivables in combination with an increase in accounts payable. The Company also made investments in property, plant and equipment totaling \$6,4 million during the twelve months ended February 28, 2014.

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Investec Loan Facilities

The Company, through its subsidiary FC Dundee, secured two facilities with Investec, a revolving loan facility of up to R30,0 million (approximately \$3,1 million) and a term loan facility of R200,0 million (approximately \$20,6 million).

The revolving loan facility bore interest at prime less 1.5% until February 2014, when the interest rate was amended to prime plus 0.5%. Interest is payable monthly with the facility maturing on May 31, 2014. The revolving loan facility is currently being restructured as part of the Investec Restructuring, refer below.

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

The Investec Loan Facilities were issued to FC Dundee under the following terms:

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

Cession in Security

Secured property consists of bank accounts, insurances, trade receivables, FC Dundee's shares in Zinoju, all claims by and against group companies and related rights to the preceding, except for the bank account ceded to RCF (Refer below to *RCF Original Loan* in this MD&A).

Mortgage bond

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

General bond

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

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

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- all the goodwill of the business of the mortgagor and all its rights to trademarks and trade names.

Special bond

Secured bond over the property (movable) within FC Dundee, that is currently used as security over the instalment sale agreements.

Investec agreed to release the security provided over the anthracite stockpile at July 31, 2013 in order for it to be pledged to RCF in terms of the RCF Original Loan. The proceeds of the sale of this stockpile are deposited in a bank account which is also ceded to RCF. In addition, Investec had security over the FC Dundee shares in terms of the guarantee provided in respect of the Riversdale Acquisition. These shares were also released to be pledged to RCF in terms of the Original RCF Loan.

Covenants

The loan facility is subject to Net Debt/EBITDA, EBITDA/Net Interest and Debt/Equity covenants. As at February 28, 2014, the Company was not in compliance with its covenants. Investec has waived the breaches that have taken place to February 28, 2014.

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

The term loan facility is repayable as follows:

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

The Company is in the process of finalising a restructuring of the Investec Loan Facilities on the following terms:

- the Company will draw down US\$15,0 million (approximately \$16,6 million) under the RCF US\$25 million Facility, and the terms of the RCF Bridge Loan and the RCF Original Loan will be amended to contain the same terms and conditions as the Convertible Loan, resulting in the Company entering into the RCF US\$25 million Facility for an aggregate amount of US\$25,0 million.
- The Company will enter into new debt facilities of R170,0 million (approximately \$17,5 million) (the "Restructured Investec Facilities"), comprising a five-year senior secured amortizing term loan facility of up to R90,0 million (\$9,3 million), a five-year senior secured loan facility of R50,0 million (\$5,2 million), repayable by way of a bullet repayment at the end of the facility life (the "Bullet Facility"), and a five year senior secured credit facility of R30,0 million (\$3,1 million), which will be applied against the refinancing of the Investec Facilities.

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

RCF Original Loan

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

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

Prior to receipt of shareholder approval, the loan had an interest rate of 10% per annum, payable on each calendar quarter in cash or Common Shares at a price per share equal to the 20-day VWAP as at the date the payment is due. Upon receipt of shareholder approval on September 11, 2013, the interest rate decreased to 8% per annum.

An additional 166,623 and 819,077 Common Shares at a price of \$0.2371 and \$0.1560 per share were issued on October 15, 2013 and January 15, 2014, respectively, to satisfy the interest payments on the RCF Original Loan, for the quarters ended September 30, 2013 and December 31, 2013.

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

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

The closing of the RCF Original Loan with RCF triggered the change of control provision in certain consulting contracts. Settlement agreements were entered into with these consultants prior to year-end in full and final settlement of all matters arising and outstanding under such consulting agreements (Refer to *Commitments & Contingencies* section of this MD&A).

New convertible loan facility

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

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

RCF Bridge Loan

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

The Company made an application to the TSX to rely on an exemption from the requirement to obtain shareholder approval of the RCF Bridge Loan on the basis of financial hardship, which was granted by the TSX. As a result of the RCF Bridge Loan, RCF received a 5% establishment fee. An additional 1,537,897 common shares were issued on February 5, 2014 at a price of \$0.1446 per share to satisfy the establishment fee. In addition, 356,728 Common Shares were issued on March 4, 2014 at a price of \$0.1247 per share to satisfy interest on the RCF Bridge Loan to February 28, 2014.

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

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

RCF shareholding

Refer above under *Funding secured from Resource Capital Fund V L.P. ("RCF")*

CASH FLOWS AND INVESTING ACTIVITIES

Cash decreased from \$3,0 million as at February 28, 2013 to \$1,5 million as at February 28, 2014, representing a decrease of \$1,5 million.

Cash from operating activities during the three and twelve months ended February 28, 2014 utilized \$4,1 million and \$0,3 million compared to \$1,7 million and \$0,4 million being utilized and generated, respectively, during the three and twelve months ended February 28, 2013.

The net loss before tax for the three and twelve months ended February 28, 2014 was \$22,5 million and \$30,7 million compared to a net loss of \$6,6 million and \$14,3 million for the three and twelve months ended February 28, 2013 as discussed under the *Results of Operations* section of this MD&A.

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Non-cash items included in the net loss for the three and twelve months ended February 28, 2014 were: depreciation and amortization of \$2,6 million and \$10,6 million; gains on fair value adjustments on financial assets and conversion option of \$0,3 million and \$0,6 million; profit on sale of property, plant and equipment of \$0,7 million and \$0,7 million; write down of inventory to net realizable value of \$0,6 million and \$1,0 million; impairment of Escrow Funds of \$2,0 million and \$2,0 million; impairment of goodwill and other assets of \$15,7 million and \$15,7 million; net foreign exchange loss of \$1,5 million and \$1,5 million; stock based compensation of \$Nil and \$0,4 million of which the material items were discussed under the *Results of Operations* section of this MD&A.

The Company utilized \$1,0 million and generated \$2,5 million during the three and twelve months ended February 28, 2014 and generated \$2,0 million and \$4,7 million during the three and twelve months ended February 28, 2013 related to the net change in 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.

Cash from investing activities utilized \$1,4 million and \$4,2 million during the three and twelve months ended February 28, 2014 compared to use of \$1,1 million and \$11,0 million in investing activities during the three and twelve months ended February 28, 2013. In the prior financial year, the Company used \$5,4 million as a deposit towards the now cancelled Riversdale Acquisition (Refer to *Cancelled Riversdale Acquisition* section).

During the three and twelve months ended February 28, 2014 the Company spent \$1,5 million and \$6,4 million on property, plant and equipment related to sustaining capital in respect of the FC Dundee operations and a purchase of new mineral right, as described in *Commitments and Contingencies* section of this MD&A, compared to a spend of \$1,3 million and \$7,0 million for the three and twelve months ended February 28, 2013.

The Company recovered \$2,8 million during the twelve months ended February 28, 2014 from its other financial assets which were used to fund equipment instalment sale agreements in a tax effective manner compared to a recovery of \$1,1 million during the three and twelve months ended February 28, 2013.

Financing activities generated \$5,0 million and \$3,4 million during the three and twelve months ended February 28, 2014 and generated \$2,0 million and \$4,5 million during the three and twelve months ended February 28, 2013. During the three and twelve months ended February 28, 2014 the Company repaid \$1,2 million and \$6,7 million towards the Investec Loan Facilities and instalment sale agreement facilities. During the three and twelve months ended February 28, 2013, the Company made payments towards the Investec Loan Facilities and instalment sale agreement facilities of \$4,0 million and \$4,3 million. During the twelve months ended February 28, 2014, the Company made a drawdowns on the RCF Original Loan in the amount of \$5.84 million, and the RCF Bridge Loan in the amount of \$4,4 million (both drawdown amounts stated after costs associated with the loan issuance).

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ANNUAL INFORMATION

	February 28, 2014	February 28, 2013	February 29, 2012
Revenue (CAD'000)	72 343	68 497	104 497
Cost of sales (excl depreciation and amortization) (CAD'000)	64 044	58 584	71 062
Depreciation and amortization (CAD'000)	10 573	8 974	15 783
EBITDA (CAD'000)*	2 469	(791)	22 472
Net loss for the year (CAD'000)	(28 955)	(10 149)	2 290
Net loss per share - Basic and Diluted (CAD'000)	(0.83)	(0.29)	0.07
Cash generated by operations (CAD'000)	646	444	19 936
Total ROM production (t)	1 562 187	1 411 773	1 290 799
Total sales tonnes (t)	955 401	836 655	1 081 814
Average selling price per tonne sold (CAD)	76	82	97
Cash cost of sales per tonne (CAD)	66	70	97
Total Assets (CAD'000)	86 371	122 429	140 551
Long-term financial liabilities (CAD'000)	14 666	14 568	20 031

(*) See *Non-IFRS Performance Measures* sections of this MD&A for detailed calculations and reconciliations.

QUARTERLY INFORMATION

	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Revenue (CAD'000)	16 546	16 639	18 648	20 510	13 475	10 832	23 390	20 800
Cost of sales (excl depreciation and amortization) (CAD'000)	15 876	14 423	16 945	16 800	12 968	11 134	18 301	16 181
Depreciation and amortization (CAD'000)	2 628	2 187	2 372	3 386	1 436	1 993	2 739	2 807
EBITDA (CAD'000)*	(570)	537	86	2 014	(2 576)	(3 386)	2 720	2 451
Net loss for the year (CAD'000)	(20 568)	(2 440)	(5 927)	(20)	(3 361)	(4 972)	(225)	(1 590)
Net loss per share - Basic and Diluted (CAD'000)	(0.57)	(0.07)	(0.17)	(0.01)	(0.10)	(0.14)	(0.01)	(0.05)
Cash generated by operations (CAD'000)	(4 140)	(1 371)	3 449	1 772	(1 648)	(1 800)	2 569	1 323
Total ROM production (t)	308 880	359 557	446 284	447 466	364 145	246 002	414 551	387 075
Total sales tonnes (t) (excluding calcine)	223 174	216 138	255 055	261 035	168 913	146 559	286 186	234 997
Average selling price per tonne sold (CAD)	74	77	73	79	80	74	82	89
Cash cost of sales per tonne (CAD)	68	74	70	77	80	75	81	89
Total Assets (CAD'000)	86 371	106 959	110 487	109 056	122 429	118 374	128 902	128 180
Long-term financial liabilities (CAD'000)	14 666	14 758	10 832	11 892	14 568	15 518	22 492	18 389

(*) See *Non-IFRS Performance Measures* sections of this MD&A for detailed calculations and reconciliations.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

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RELATED PARTY TRANSACTIONS

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

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

The Company has historically shared office space in Toronto, Canada with other companies which may have officers or directors in common with the Company. The costs associated with this space, certain consulting, professional and general and administration services are administered by 2227929 Ontario Inc. On December 7, 2013, the agreement between the Company and 2227929 Ontario Inc. for a fee of \$40,000 per month was terminated, with a three month termination period. Following the termination period, the Company has agreed to pay a reduced monthly fee to 2227929 Ontario Inc. for the use of shared services until July 31, 2014.

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

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

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

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

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

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

Compensation of key management personnel

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

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

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

As of February 28, 2014 \$100,000 worth of restricted stock units ("RSUs") were granted to a director but not issued under the plan. Amounts owing to directors and other members of key management personnel were \$275,000 as of February 28, 2014.

OTHER

There are no significant Other Items as at February 28, 2014.

COMMITMENTS AND CONTINGENCIES

Management contracts

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

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

As set out in the *Subsequent Events* section of this MD&A, certain management were entitled to lump sum payments, in an aggregate amount of \$45,500 on receipt by the Company of the Escrow Funds relating to the *Riversdale Acquisition*.

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

Instalment sale agreements obligations

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

Environmental contingency

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

Capital commitments

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

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

The agreement is subject to Zinoju receiving written consent from the Minister of Mineral Resources in terms of section 102 of the MPRDA on or before June 30, 2014.

Outstanding legal proceedings

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

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

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

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

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

SUBSEQUENT EVENTS

Settlement of Riversdale Acquisition disputes

Following the cancellation of the Riversdale Acquisition in February 2013, the Company and RML attempted to reach agreement on a mutually beneficial way forward in respect of the Riversdale Acquisition, but such discussions were unsuccessful and two disputes were declared, with the Company seeking the return of the R45,5 million (approximately \$4,7 million) Escrow Funds in the one matter and RML seeking damages in the amount of R299,5 million (approximately \$30,9 million) resulting from the cancellation in the other. Both disputes were settled during March 2014, by way of the Escrow Funds (including interest) being shared between the parties as to R19,4 million (approximately \$2,0 million) to RML and the balance of R29,3 million (approximately \$3,0 million) to the Company.

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

In terms of the settlement arrangements with management as set out in the *Commitments and Contingencies* section of this MD&A, certain management was entitled to lump sum payments, in an aggregate amount of \$45,500 on receipt by the Company of the Escrow Funds.

TSX Delisting Review

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

Closing of RCF US\$25 million Facility and Investec Restructuring

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

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On closing,

- the Company will draw down US\$15,0 million (approximately \$16,6 million) under the RCF US\$25 million Facility, and the terms of the RCF Bridge Loan and the RCF Original Loan will be amended to contain the same terms and conditions as the RCF Convertible Loan, resulting in the Company entering into the RCF US\$25 million Facility for an aggregate amount of US\$25,0 million (\$27,7 million).
- The Company will enter into the Restructured Invested Facilities of R170,0 million (approximately \$17,5 million) which will be applied against the refinancing of the Investec Facilities.
- Investec will subscribe for warrants of R50,0 million (\$5,2 million), with a strike price of \$0.1446, the proceeds of which will be applied against settlement of the Bullet Facility. RCF will have the right to acquire the warrants from Investec at agreed pricing during the period.

Refer to the *Liquidity and Capital Resources* section of this MD&A for terms of the RCF US\$25 million and Investec Restructuring.

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

Change in presentation currency from Canadian Dollars to South African Rands

From March 1, 2014 the Group will be changing the presentation currency from Canadian Dollars to South African Rands. After the restructuring, FMC will be effectively managed in South Africa, the majority of the transactions are conducted in South African Rands by its sole subsidiary, and monthly reporting to the Board of Directors will be reflected in South African Rands. The Group will include a convenience rate translation into Canadian Dollars, applying a single exchange rate to all amounts appearing in the financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Subject to the limitations, if any, described below, the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), have as at the end of the period ended February 28, 2014 designed Disclosure and Control Procedures, ("DC&P") or caused such procedures 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.

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

There have been no significant changes to the Company's disclosure controls and procedures and internal controls over financial reporting that occurred during the period ended February 28, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures and internal control over financial reporting. The functions historically conducted from the Company's Toronto office will now be managed from South Africa.

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

The Audit and Governance Committees of the Company have reviewed this MD&A, and the consolidated financial statements for the twelve months ended February 28, 2014, and the Company's Board of Directors approved these documents prior to their release.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Estimated impairment of goodwill

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

Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, depreciation of the US Dollar relative to the South African Rand, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics could result in a write-down of the carrying amounts of the Company's assets.

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

Provisions

Significant judgment and use of assumptions is required in determining the Group's provision. Management uses its best estimates based on current knowledge in determining the amount to be recognized as a provision. Key assumptions utilized in the determination of the rehabilitation provision, which is measured at fair value, include the estimated life of mine, estimates of reserves and discount rates. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of the liability that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

Property, plant and equipment and mineral rights

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

Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, depreciation of the US Dollar relative to the South African Rand, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics could result in a write-down of the carrying amounts of the Group's assets.

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

Capitalization of exploration and evaluation costs

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

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Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing deferred tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in South Africa.

Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions could materially affect the fair value estimates.

Mineral reserve estimates

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Group's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as coal prices, foreign exchange rates and market conditions could have a material effect the Group's reserves and resources, and as a result, could also have a material effect on the Group's financial position and results of operation.

Contingencies

Refer to *Commitments and Contingencies* and *Cancellation of the Riversdale Acquisition* sections of this MD&A.

New Accounting Policies

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board ("IASB") or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2013 or later periods.

Amendments to IAS 1, 'Presentation of Financial Statements', on presentation of items of other comprehensive income ("OCI")

The IASB has issued an amendment to IAS 1, 'Presentation of Financial Statements'. The main change resulting from this amendment is a requirement for entities to classify group items presented in OCI on the basis of whether they are potentially classifiable to profit or loss subsequently (reclassification adjustments).

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The amendment does not address which items are presented in OCI. This amendment has had no significant impact on the Group.

Amendment to IAS 1, 'Presentation of Financial Statements'

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

Amendment to IFRS 7, 'Financial Instruments: Disclosures' – Asset and Liability Offsetting

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

IFRS 10 – 'Consolidated Financial Statements'

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

IFRS 11 – 'Joint Arrangements'

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

IFRS 12 – 'Disclosures of Interests in Other Entities'

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

IFRS 13 – 'Fair Value Measurement'

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

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Amendment to the transition requirements in IFRS 10, IFRS 11, and IFRS 12

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

IAS 19, 'Employee Benefits'

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

IAS 27 (revised 2011) – 'Separate Financial Statements'

This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. There has been no significant impact on the Group.

IAS 28 (revised 2011) – 'Associates and Joint Ventures'

This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. There has been no significant impact on the Group.

Amendment to IAS 32, 'Financial instruments: Presentation'

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

Amendment to IAS 34, 'Interim Financial Reporting'

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

IFRIC 20 – 'Stripping Costs in the Production Phase of a Surface Mine'

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

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Future Accounting Changes

IFRS 9 – 'Financial Instruments' (2009) - effective January 1, 2018

This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortized cost and fair value.

IFRS 9 – 'Financial Instruments' (2010) - effective January 1, 2018

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

Amendments to IFRS 9 – 'Financial Instruments' (2011) - effective January 1, 2018

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

Amendments to IAS 32 – 'Financial Instruments: Presentation' – effective January 1, 2014

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

IASB issues narrow-scope amendments to IAS 36 – 'Impairment of Assets' – effective January 1, 2014

These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal.

Amendments to IAS 39 – Financial Instruments: Recognition and Measurement – effective January 1, 2014

The IASB has issued amendments to IAS 39 in June 2013 to clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting.

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 of the Group) for each class of financial asset and financial liability are disclosed in Note 2 of the annual financial statements for the years ended February 28, 2014 and 2013.

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

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

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

CAPITAL MANAGEMENT

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

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

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

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

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

FINANCIAL RISK FACTORS

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

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

Market risk

Foreign exchange risk

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

As of March 1, 2014, the Group has amended its presentation currency to South African Rands, as the operations will effectively be managed from South Africa. This change will therefore limit the exposure of foreign exchange fluctuations. (Refer to *Subsequent Events* in this MD&A for further information.)

The Group enters into foreign exchange contracts to buy and sell specified amounts of US Dollars in the future at a predetermined exchange rate. The contracts are entered into in order to manage the Group's exposure to fluctuations in foreign currency exchange rates on specific transactions. The sales and purchase contracts are matched with anticipated future cash flows in foreign currencies primarily from sales and purchases.

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There were no open forward exchange contracts at February 28, 2014. At February 28, 2013 the settlement dates of open foreign exchange contracts were within one month.

At February 28, 2014, a 10% increase/(decrease) in the period average foreign exchange rate between the Canadian Dollar and the South African Rand, would have increased/(decreased) the Group's profit or loss and equity by approximately \$0,7 million (2013: \$0,7 million). A 10% increase in the period average foreign exchange rate between the Canadian Dollar and the US Dollar would have increased/(decreased) the Group's income by approximately \$1,1 million (2013: Nil) and a 10% increase in the period average foreign exchange rate between the South African Rand and US Dollar would have increased/(decreased) the Group's income by approximately \$0,4 million (2013: \$2,8 million).

A 10% change in the value of the Canadian Dollar relative to the US Dollar and South African Rand would have an impact on net income of approximately \$1,9 million.

Price risk

The Group is exposed to commodity price risk, primarily due to fluctuations in the API 4 coal index, by which foreign coal sales are priced. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Group's control. The supply and demand for commodities, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities including governmental reserves and stability of exchange rates can all cause significant fluctuations in commodity prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

A 10% change in the API 4 coal price index would have resulted in a corresponding change in export coal revenue of approximately \$3,2 million (2013: \$6,9 million).

Cash flow interest rate risk

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

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

Credit risk

Credit risk is managed at Group level, except relating to trade receivables which is managed at an operational level.

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'BB' are accepted. If customers are independently rated, these ratings are used.

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If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The utilization of credit limits is regularly monitored.

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

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

Liquidity risk

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

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

	Not later than 1 year	Between 1 and 5 years	Greater than 5 years
At 28 February 2014			
Borrowings	6 767 657	9 414 759	-
RCF loan facilities	4 429 600	6 644 400	-
Trade and other payables	17 560 697	-	-

	Not later than 1 year	Between 1 and 5 years	Greater than 5 years
At 28 February 2013			
Borrowings	10 674 912	14 568 444	-
Trade and other payables	16 590 646	-	-
Loans payable	24 616	-	-

Fair value estimation

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

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

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

GOING CONCERN

The audited consolidated financial statements of the Group for the twelve months ended February 28, 2014 have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Group will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has a significant need for equity capital and financing for operations and working capital. Because of continuing operating losses and a working capital deficiency, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. The Company has not met certain debt Facility Covenants (see *Liquidity Capital Resources* section of this MD&A) and while Investec has waived the breach of the covenant as at February 28, 2014 and, it is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. During September 2013, the Company closed the RCF Original Loan (See *Liquidity and Capital Resources* section of this MD&A) and during February 2014, the Company closed the RCF Bridge Loan. The closing of the RCF Convertible Loan is subject to various conditions, including approval from FMC shareholders (See *Subsequent events* section of this MD&A). Should the RCF Convertible Loan not close there is significant uncertainty about the Company's ability to continue as a going concern.

The mining industry in South Africa has been experiencing tense labour relation issues including labour disruptions. During fiscal 2013, the Company experienced labour disruptions which negatively impacted its financial results.

While there are currently no significant labour issues at FC Dundee, if new labour disruptions were to take place at the Company's mines, they could have further and significant negative impacts on the operations and financial results of the Company.

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

OTHER RISKS AND UNCERTAINTIES

Investing in the Company involves risks that should be carefully considered. The business of the Company is speculative due to the high-risk nature of coal mining and exploration. Investors should be aware that there are various risks, including those discussed below, that could have a material adverse effect on, among other things, the operating results, earnings, properties, business and condition (financial or otherwise) of the Company.

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Additional Capital

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

Production Estimates

FMC has prepared estimates of future coal production for its existing and future mines. FMC cannot give any assurance that it will achieve its production estimates. The failure by FMC to achieve its production estimates could have a material adverse effect on any or all of its future cash flows, profitability, results of operations and financial conditions. The realization of production estimates are dependent on, among other things, the accuracy of mineral reserve and resource estimates, the accuracy of assumptions regarding coal quality and recovery rates, ground conditions (including hydrology), the physical characteristics of the coal, the presence or absence of particular metallurgical characteristics, and the accuracy of the estimated rates and costs of mining and processing. Actual production may vary from estimates for a variety of reasons, including the actual coal mined varying from estimates of quality or tonnage; dilution and metallurgical and other characteristics (whether based on representative samples of coal or not); short-term operating factors such as the need for sequential development of production panels and the processing of new or adjacent coal qualities from those planned; mine failures or section failures; industrial accidents; natural phenomena such as inclement weather conditions, floods, droughts, rock slides and earthquakes; encountering unusual or unexpected geological conditions; changes in power costs and potential power shortages; shortages of principal supplies needed for mining operations; including explosives, fuels, chemical reagents, water, equipment parts, stonedust, magnetite and lubricants; plant and equipment failure; the inability to process certain types of coals; labour shortages or strikes; and restrictions or regulations imposed by government agencies or other changes in the regulatory environment.

Such occurrences could also result in damage to mineral properties or mines, interruptions in production, injury or death to persons, damage to property of FMC or others, monetary losses and legal liabilities in addition to adversely affecting coal production. These factors may cause a coal reserve that has been mined profitably in the past to become unprofitable forcing FMC to cease production.

Price of Coal

The Company's profits are directly related to the cost of production, volume and price of coal sold. Price volatility could have a significant impact on the future revenues and profitability of the Company. Coal demand and price are determined by numerous factors that will be beyond the control of the Company including the demand for electricity; the supply and demand for domestic and foreign coal; interruptions due to transportation delays; air emission standards for coal-fired power plants; regulatory, administrative and judicial decisions; the price and availability of alternative fuels, including the effects of technology developments; the effect of worldwide energy conservation efforts, future limitations on utilities' ability to use coal as an energy source due to the regulation and/or taxation of greenhouse gases; proximity to, capacity of, and cost of transportation facilities; and political and economic conditions and production costs in major coal producing regions.

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The combined effects of any or all of these factors on coal price or volume are impossible for the Company to predict. If realized coal prices fall below the full cost of production and remain at such level for any sustained period, the Company will experience losses, which may be significant, and may decide to discontinue affected operations forcing the Company to incur closure or care and maintenance costs, as the case may be.

Cost Estimates

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

Mineral Legislation

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

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

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

Title to Mineral Holdings

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

An appeal was lodged on October 2, 2013 in terms of section 96 of the MPRDA by the Avemore Trust challenging the DMR in relation to the grant of mining right 174 to Zinoju (as more fully detailed under "*Legal Proceedings and Regulatory Actions*")

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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.

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.

The Company's Securities May Experience Price Volatility

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

RCF currently holds 31.4% of the issued and outstanding Common Shares of FMC and has the right to convert the RCF Original Loan, at its sole discretion, which would result in RCF holding approximately 52.8% of the then issued and outstanding Common Shares on a partially diluted basis. Assuming full conversion of the RCF US\$25 million Facility (subject to receipt of shareholder approvals in respect of the RCF Original Loan, RCF Bridge Loan and RCF Convertible Loan and assuming payment of the establishment fee on the RCF Convertible Loan in shares), RCF would hold approximately 88.0% of the then issued and outstanding Common Shares on a partially diluted basis. There is a risk that the Company's securities will not trade on the open market due to a majority holding by one entity.

Litigation

All industries, including the mining industry, are subject to legal claims, with and without merit. Legal proceedings may arise from time to time in the course of the Company's business. Such litigation may be brought against the Company or one or more of its subsidiaries in the future from time to time or the Company or one or more of its subsidiaries may be subject to another form of litigation. Defense and settlement costs of legal claims can be substantial, even with respect to claims that have no merit. As of the date hereof, other than (1) a claim by Sasfin Bank Limited against the Company in relation to the Riversdale Mining Acquisition and (2) an appeal by Avemore Trust in terms of section 96 of the MPRDA challenging the DMR in relation to the grant of mining right 174 (both as more fully detailed under "*Legal Proceedings and Regulatory Actions*"), no material claims have been brought against the Company, nor has the Company received an indication that any claims are forthcoming.

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Due to the inherent uncertainty of the litigation process, the process of defending such claims (or any other claims that may be brought against the Company), could take away from management time and effort and the resolution of any particular legal proceeding to which the Company or one or more of its subsidiaries may become subject could have a material effect on the Company's financial position and results of operations.

South Africa Country Risks

The operations of the Company are subject to risks normally associated with the conduct of business in South Africa. Risks may include, among others highlighted herein, problems relating to labour disputes, delays or invalidation of governmental orders and permits, corruption and fraud, 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.

The labour situation in South Africa is currently unstable across the mining industry, and in particular in the platinum industry, where strikes have been ongoing for almost four months.

There is a risk that this instability extends into other sectors, including the coal sector, particularly at the time of the Company's wage negotiations. In addition, HIV is prevalent in Southern Africa and tuberculosis is prevalent in the Kwa-Zulu Natal Province of South Africa, where the Company's operations are situated. Employees of the Company may have or could contract either of these potentially deadly illnesses. The prevalence of HIV and tuberculosis could cause substantial lost employee man-hours and may influence the company's ability to source skilled labour. The above risks may limit or disrupt the Company's business activities.

Also, the Company's mining operations must remain compliant with South African mining laws, including, *inter alia*, the MPRDA and the Mining Charter, the conditions imposed by the licenses held by the Company, and the BEE participation requirements. However, no assurance can be given that the Company will be able to meet the objectives of South African mining laws going forward, including the 26% Historically Disadvantaged South Africans ownership objective and compliance with the requirements of the Mining Charter.

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.

Labour and Employment Matters

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

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Power Supply

The supply of electric power is not guaranteed in South Africa. Currently the public supply is sufficient to power all of the operations at the FC Dundee Properties, however South African power supply is limited, with less than 1% reserve capacity. The Company therefore has procured diesel power generators for backup power to the various sub-stations that have been installed on the surface and underground at the FC Dundee Properties.

Moreover, the current production expansion plan for the FC Dundee operations is dependent on this additional electrical supply, and the majority of new build projects in the country are behind schedule. While the Company has taken steps to meet the need for additional supply of electricity from the public utility (Eskom), there can be no assurance that the Forbes Coal Properties will not be negatively affected by the power supply situation on either an operating or cost basis.

Infrastructure

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

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 and the manner in which the regulatory authorities enforce these 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 geological structures; 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.

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Dependence on Outside Parties

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

Exploration and Development

The exploration and development of coal deposits involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of a mineable deposit may result in substantial rewards, few properties that are explored are ultimately developed into producing mines.

Major expenses may be required to establish additional reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration programs planned by the Company will result in profitable commercial mining operations, and significant capital investment is required to achieve commercial production from successful exploration efforts. There is no certainty that exploration expenditures made by the Company will result in discoveries of commercial mineable quantities. Exploration for coal is highly speculative, involves substantial expenditures, and is frequently non-productive.

Foreign Mining Tax Regimes

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

Insurance and Uninsured Risks

The Company's business is subject to a number of risks and hazards generally, including: adverse environmental conditions; industrial accidents; labour disputes; unusual or unexpected geological conditions; ground or slope failures; cave-ins; changes in the regulatory environment; and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, delays in mining, monetary losses and possible legal liability. The businesses and properties of the Company are insured against loss or damage, subject to a number of limitations and qualifications. Such insurance will not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability.

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Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards that may not be insured against or that the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Competition

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

Foreign Assets

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

Currency Fluctuations

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

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

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

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

NON-IFRS PERFORMANCE MEASURES

The Company has included in this document certain non-IFRS performance measures that are detailed below. These non-IFRS performance measures do not have any standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and, therefore, may not be comparable to similar measures presented by other companies.

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The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors use this information to evaluate the Company's performance. Accordingly, they are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared with IFRS. The definition for these performance measures and reconciliation of the non-IFRS measures to reported IFRS measures are as follows:

Working Capital

	February 28, 2014 \$'000	February 28, 2013 \$'000
Current assets		
Cash and cash equivalents	1 505	3 026
Accounts and other receivables	8 008	6 127
Inventories	7 572	10 154
Interest bearing receivables	3 007	5 319
Non-Interest bearing receivables	155	117
Financial assets	-	1 880
Taxation receivable	941	2 130
	21 188	28 753
Current liabilities		
Trade and other payables	17 561	16 591
Current portion of borrowings	6 768	10 675
Convertible loan	4 203	-
Provisions	275	305
Loans payable	-	25
	28 807	27 595
Net working capital	(7 619)	1 157

Consolidated EBITDA

Consolidated EBITDA is defined as earnings before interest, tax, depreciation and amortization and adding back the following: Impairment or reversal of an impairment of an asset, fair value adjustments to financial instruments, stock-based compensation, foreign exchange gains and losses, and non-recurring transaction expenses or income.

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The reconciliation of operating profit to EBITDA is as follows:

CAD'000	Three months ended			Twelve months ended	
	February 28, 2014	February 28, 2013	November 30, 2013	February 28, 2014	February 28, 2013
Operating loss for the year	(21 898)	(6 556)	(2 762)	(28 515)	(12 660)
Depreciation and Amortization	2 647	1 436	2 187	10 592	8 974
Impairment of escrow funds	1 968	-	-	1 968	-
Impairment of goodwill and other assets	15 687	-	-	15 687	-
Impairment of receivables	183	-	-	183	-
Write-down of inventory to net realizable value	601	-	-	1 002	-
Fair Value adjustments of financial assets and conversion option	(270)	(120)	(124)	(572)	(79)
Stock-based compensation	-	3	-	376	38
Foreign exchange gains & losses	512	1	1 236	1 748	3
Business combination transaction costs	-	2 660	-	-	2 933
EBITDA	(570)	(2 576)	537	2 470	(791)

Headline earnings per share

Headline earnings is a profit measure required for JSE-listed companies as defined by the South African Institute of Chartered Accountants. Headline earnings (loss) per share is a basis for measuring earnings per share accounts for all the profits and losses from operational, trading, and interest activities, that have been discontinued or acquired at any point during the year. Excluded from this figure are profits or losses associated with the sale or termination of discontinued operations, fixed assets or related businesses, or from any permanent devaluation or write off of their values.

Reconciliation of earnings to Headline earnings is disclosed below:

	February 28, 2014	February 28, 2013
Earnings for the year	(34 051 144)	(22 683 621)
Net profit on disposal of property, plant and equipment	665 275	-
Headline earnings for the year	(33 385 869)	(22 683 621)
Headline loss per share - basic and diluted	(0.8)	(0.3)

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SUMMARY OF SECURITIES AS AT MAY 29, 2014

As at May 29, 2014 the following common shares, common shares purchase options, share purchase warrants and special performance shares were issued and outstanding:

- 40,087,275 Common Shares;
- 3,222,500 Common Share purchase options with exercise prices ranging from \$0.29-\$4.10 with a weighted average remaining contractual life of 2.75 years.
- 1,350,000 Special Performance Shares outstanding are deposited in escrow to be released when certain conditions are met.

LIST OF DIRECTORS AND OFFICERS

Craig Wiggill	Director, Chairman of the Board of Directors
John Dreyer	Director
Robert Francis	Director
Mike Price	Director
Thomas Quinn Roussel	Director
Bernard Wilson	Director
Malcolm Campbell	Chief Executive Officer
Sarah Williams	Chief Financial Officer
Neil Said	Corporate Secretary

May 29, 2014