FORBES & MANHATTAN COAL CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND TWELVE MONTHS ENDED

DECEMBER 31, 2010 AND 2009

UNAUDITED

Forbes & Manhattan Coal Corp.
Consolidated Balance Sheets
As at,
(Unaudited – prepared by management)
(Stated in Canadian dollars)

	December 31, 2010	December 31, 2009
ASSETS		
Current		
Cash and cash equivalents	$ 4,390,062	$ 52,177
Restricted cash	1,872,400	-
Accounts receivable and other receivables	8,461,750	600
Inventories (Note 10)	12,135,729	-
Prepaid expenses	68,082	7,144
	26,928,023	59,921
Property, plant and equipment (Note 7)	36,023,791	-
Mineral property and rights (Note 8)	72,694,776	-
Investment property	123,096	-
Goodwill	1,400,558	-
Other assets (Note 9)	5,363,209	-
Future income taxes	121,705	-
Deferred charges	-	735,706
	$ 142,655,158	$ 795,627
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 7,268,234	$ 32,355
Acquisition obligation (Note 4)	19,915,721	-
Other financial liabilities (Note 11)	1,393,428	-
Loans payable (Note 13)	616,406	-
	29,193,789	32,355
Acquisition obligation (Note 4)	21,515,392	-
Asset retirement obligation (Note 12)	1,881,044	-
Other financial liabilities (Note 11)	8,307,388	-
Future income taxes	27,065,470	-
	87,963,083	32,355
SHAREHOLDERS' EQUITY		
Share capital (Notes 14 and 15)	58,266,624	800,160
Warrants (Note 16)	993,053	-
Contributed surplus (Note 18)	6,445,680	-
Deficit	(16,913,226)	(36,888)
Accumulated other comprehensive income	5,899,944	-
	54,692,075	763,272
	$ 142,655,158	$ 795,627

Commitments and contingencies (Notes 1 and 22)
Subsequent events (Note 23)

APPROVED ON BEHALF OF THE BOARD:

Signed *"Stephan Theron"*, Director

Signed *"David Stein"*, Director

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

Forbes & Manhattan Coal Corp.

Consolidated Statements of Operations, Loss, Comprehensive Loss and Deficit

(Unaudited – prepared by management)

(Stated in Canadian Dollars)

	Three - months ended December 31, 2010	Twelve-months ended December 31, 2010	Three - months ended December 31, 2009	Twelve-months ended December 31, 2009
Revenue	$ 9,030,977	$ 15,658,216	$ -	$ -
Operating expense	7,598,811	10,988,685	-	-
Amortization and depletion	178,617	1,969,312	-	-
Gross profit (loss)	1,253,549	2,700,219	-	-
EXPENSES				
Consulting and professional fees	700,696	1,379,578	22,817	22,817
General and administration	407,004	1,115,568	5,559	5,559
Directors' fees	42,500	42,500	-	-
Stock based compensation	5,795,596	13,522,096	-	-
Mineral properties investigation costs	2,744	111,686	8,512	8,512
Net loss before other items	(5,694,991)	(13,471,209)	(36,888)	(36,888)
Other items				
Other income	56,805	207,914	-	-
Business combination transaction costs	(195,155)	(1,222,390)	-	-
Accretion	(976,329)	(1,615,365)	-	-
Change of estimates on contingent acquisition liability	2,724,711	2,724,711	-	-
Interest and dividend income (expense) (Note 5)	3,998	(201,992)	-	-
Foreign exchange gain/loss	(1,073,650)	(2,482,625)	-	-
NET LOSS before tax	(5,154,611)	(16,060,956)	(36,888)	(36,888)
Income tax expense (Note 6)	(10,970)	(815,382)	-	-
NET LOSS for the period	(5,165,581)	(16,876,338)	(36,888)	(36,888)
Other comprehensive income items				
Unrealized gain on foreign currency translation	4,989,070	5,899,944	-	-
COMPREHENSIVE LOSS for the period	$ (176,511)	$ (10,976,394)	$ (36,888)	$ (36,888)
Net loss per share - basic and diluted	(0.20)	(1.38)	(0.02)	(0.02)
Weighted average number of common shares outstanding - basic and diluted	25,590,793	12,185,572	2,308,000	2,308,000

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

Forbes & Manhattan Coal Corp.
Consolidated Statement of Cash Flows
(Unaudited – prepared by management)
(Stated in Canadian Dollars)

	Three-months ended December 31, 2010	Twelve - months ended December 31, 2010	Three-months ended December 31, 2009	Twelve-months ended December 31, 2009
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net loss for the period	$ (5,165,581)	$ (16,876,338)	$ (36,888)	$ (36,888)
Adjustments:				
Amortization and depletion	178,617	1,969,312	-	-
Fair value adjustment on financial assets	160,934	(152,759)	-	-
Future income taxes	(279,849)	(35,994)	-	-
Accretion	1,042,818	1,681,854	-	-
Change in estiamtes	(2,724,711)	(2,724,711)		
Foreign exchange	1,157,461	2,566,436	-	-
Stock based compensation	5,795,596	13,522,096	-	-
	165,285	(50,104)	(36,888)	(36,888)
Net change in non-cash working capital	(2,543,543)	(3,186,342)	16,521	16,521
	(2,378,258)	(3,236,446)	(20,367)	(20,367)
INVESTING ACTIVITIES				
Change in accounts payable attributable				
to property exploration	-	(8,090)	8,090	8,090
Business combination	-	(29,993,586)	-	-
Cash acquired on business combination	-	3,832,045	-	-
Cash acquired on Nyah transaction	-	968,356	-	-
Additions to property, plant and equipment	(1,827,459)	(2,455,953)	-	-
Additional contribution to endowment policy	(19,317)	(19,317)	-	-
Investment in held for trading instruments	2,241,818	2,213,526	-	-
Restricted cash - letter of credit	(1,872,400)	(1,872,400)	-	-
Deferred charges	-	-	(735,706)	(735,706)
	(1,477,358)	(27,335,419)	(727,616)	(727,616)
FINANCING ACTIVITIES				
Change in accounts payable				
attributable to share issue costs	1,440,000	(77,000)	-	-
Shares issued for cash	(1,440,000)	37,400,409	800,160	800,160
Partial refund on Aberdeen share subscription (Note 21)	-	(2,000,001)	-	-
Loans payable	(1,054,516)	(627,718)	-	-
	(1,054,516)	34,695,690	800,160	800,160
Effect of exchange rate change on cash and cash equivalents	84,476	214,060	-	-
CHANGE IN CASH AND CASH EQUIVALENTS	(4,910,132)	4,123,825	52,177	52,177
CASH AND CASH EQUIVALENTS, beginning of the period	9,215,718	52,177	-	-
CASH AND CASH EQUIVALENTS, end of the period	$ 4,390,062	$ 4,390,062	$ 52,177	$ 52,177

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

Forbes & Manhattan Coal Corp.
Consolidated Statement of Cash Flows
(Unaudited – prepared by management)
(Stated in Canadian Dollars)

	Three-months ended December 31, 2010	Twelve - months ended December 31, 2010	Three-months ended December 31, 2009	Twelve-months ended December 31, 2009
CASH AND CASH EQUIVALENTS CONSIST OF:				
Cash	$ (4,825,656)	$ 4,390,062	$ 52,177	$ 52,177
Cash equivalents	$ -	$ -	$ -	$ -
SUPPLEMENTAL INFORMATION				
Shares issued on business combination	$ -	$ 11,029,102	$ -	$ -
Shares issued on Nyah transaction into escrow	$ -	$ 1,716,357	$ -	$ -
Shares issued on Nyah transaction	$ -	$ 7,196,100	$ -	$ -
Broker warrants issued	$ -	$ 993,053	$ -	$ -
Interest and dividens income (paid)/received	$ 3,998	$ (201,992)	$ -	$ -
Income taxes paid	$ (972,828)	$ 815,382	$ -	$ -
Purchase price payment made by Aberdeen	$ -	$ 3,091,500	$ -	$ -
Settlement of amount due to Aberdeen	$ -	$ 1,091,500	$ -	$ -
Deferred charges allocated to purchase price	$ -	$ 735,706	$ -	$ -

FORBES & MANHATTAN COAL CORP.
Consolidated Statement of Shareholders' Equity
(Unaudited – prepared by management)
(Presented in Canadian dollars)

	Number of shares issued	Share capital	Contributed surplus	Warrants	Accumulated deficit	Accumulated other comprehensive income	Shareholders' equity
Balance at November 12, 2009	-	$ -	$ -	$ -	$ -	$ -	$ -
Shares issued on private placement (Note 14)	2,600,000	800,160	-	-	-	-	800,160
Net loss for the period ended							
December 31, 2009	-	-	-	-	(36,888)	-	(36,888)
Balance at December 31, 2009	2,600,000	800,160	-	-	(36,888)	-	763,272
Shares issued on private placement (Note 14)	15,072,368	38,517,958	-	-	-	-	38,517,958
Shares issued on business combination (Note 14)	3,938,965	11,029,102	-	-	-	-	11,029,102
Shares issued on Nyah transaction (Note 3)	1,279,390	1,716,357	-	-	-	-	1,716,357
Shares issued on Nyah transaction in escrow (Note 14 and 15)	2,700,000	7,196,100	-	-	-	-	7,196,100
Stock-based compensation (Note 17 and 18)	-	-	6,325,996	-	-	-	6,325,996
Options issued on Nyah transaction (Note 3 and 17)	-	-	119,684	-	-	-	119,684
Broker warrants granted on private placement (Note 16)	-	(993,053)	-	993,053	-	-	-
Other compensation income for the twelve-months ended	-	-	-	-	-	-	-
December 31, 2010	-	-	-	-	-	-	-
Net loss for the twelve-months ended	-	-	-	-	-	5,899,944	5,899,944
December 31, 2010	-	-	-	-	(16,876,338)	-	(16,876,338)
Balance at December 31, 2010	25,590,723	$58,266,624	$6,445,680	$993,053	($16,913,226)	$5,899,944	54,692,075

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

1) NATURE OF OPERATIONS AND GOING CONCERN

Forbes & Manhattan Coal Corp. (individually, or collectively with its subsidiaries, as applicable, "Forbes Coal" or the "Company") is a coal mining company. Forbes Coal is the continuing combined entity following a September 2010 transaction between Forbes & Manhattan (Coal) Inc. and Nyah Resources Corp. ("Nyah") whereby Nyah, a public company listed on the Toronto Venture Exchange ("TSX-V"), acquired all of the outstanding shares of the Company in exchange for common shares of Nyah (the "Transaction"). The Transaction was accounted for as a purchase of assets with Forbes & Manhattan (Coal) Inc. as the acquirer and Nyah as the acquiree. As such, these consolidated financial statements are a continuation of the consolidated financial statements of Forbes & Manhattan (Coal) Inc. Following the Transaction, the combined company is now known as Forbes & Manhattan Coal Corp. and is listed on the TSX.

Forbes & Manhattan (Coal) Inc. was incorporated on November 12, 2009. In July 2010, Forbes & Manhattan (Coal) Inc. completed an agreement to acquire Slater Coal (Pty) Ltd. ("Slater Coal"), a South African company, and its interest in its coal mines in South Africa ("Slater Coal Properties"), as more fully described in Note 4. The Slater Coal Properties comprise the operating Magdalena bituminous mine (the "Magdalena Property") and the Aviemore anthracite mine (the "Aviemore Property"). Slater Coal is engaged in open-pit and underground coal mining.

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

The Company changed its year end from December 31 to February 28, effective for the year ending February 28, 2011. The year end change was made to align the year end of the Company with that of its subsidiary, Slater Coal. The change in year end requires the Company to have a transition year with a fourteen month period ending February 28, 2011 with comparatives for the twelve month year ended December 31, 2009.

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

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

These unaudited interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The future of the Company is dependent on its ability to generate sufficient operating cash flow from its coal mining assets to fund its ongoing development expenditures and carry out its exploration program. The Company's expectation is that it will generate positive earnings and cash flows in future years, thereby making the going concern assumption appropriate. However, due to uncertainties surrounding a number of factors, such as the price of coal, actual operating costs, rate of taxation or foreign currency exchange rates, it is not possible to predict if the forecasts will prove to be accurate. If the going concern assumption was not appropriate for these consolidated financial statements then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. Such adjustments could be material.

2) SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements. Accordingly, they do not include all the information and notes to the financial statements required by Canadian GAAP for annual financial statements. In the opinion of management, these unaudited interim consolidated financial statements contain all adjustments necessary to fairly present the Company's financial position as at September 30, 2010, as well as its results of operations and its cash flows for the three and nine month periods ended September 30, 2010. Operating results for the periods ended September 30, 2010 may not necessarily be indicative of the results that may be expected for the year ending February 28, 2011.

The significant accounting policies followed by the Company are set out below.

The preparation of financial statements in conformity with Canadian GAAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies.

b) Consolidation

These interim consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, and the accounts of Slater Coal, a variable interest entity ("VIE"), as defined in *Accounting Guideline 15, Consolidation of Variable Interest Entities*, in which the Company is the primary beneficiary. The primary beneficiary is the party, if any, that will receive a majority of the VIE's expected residual returns, or absorb the majority of its expected losses, or both. Accordingly, the Company has consolidated Slater Coal in its financial statements as of and subsequent to July 30, 2010. All significant intercompany balances and transactions have been eliminated upon consolidation.

c) Changes in accounting policy and disclosures

The Company has adopted the following new accounting standards prospectively as at July 1, 2010 that were issued by the Canadian Institute of Chartered Accountants ("CCA"): Handbook Section 1582 - Business Combinations, Handbook Sections 1601 and 1602 – Consolidated Financial Statements and Non-Controlling Interests. Early adoption of these sections is permitted as long as all three sections are adopted concurrently.

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations ("Section 1582"), 1601 – Consolidated Financial Statements ("Section 1601") and 1602 – Non-controlling Interests ("Section 1602") which replace CICA Handbook Sections 1581 – Business Combinations ("Section 1581") and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that are equivalent to the business combination accounting standards under International Financial Reporting Standards ("IFRS").

Sections 1601 and 1602 establish standards for the preparation of consolidated financial statements and the accounting for non-controlling interests in financial statements that are equivalent to the standards under IFRS. Section 1582 is required for the Company's business combinations with acquisition dates on or after January 1, 2011.

2) `SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Changes in accounting policy and disclosures (Continued)

Under Section 1582, business combinations are accounted for using the "acquisition method", compared to the "purchase method" required under Section 1581. The significant changes that result from applying the acquisition method of Section 1582 include: (i) the definition of a business is broadened to include development stage entities, and therefore more acquisitions are accounted for as business combinations rather than asset acquisitions; (ii) the measurement date for equity interests issued by the acquirer is the acquisition date instead of a few days before and after terms are agreed to and announced, which may significantly change the amount recorded for the acquired business if share prices at the agreement and announcement date and the acquisition date differ; (iii) all future adjustments to income tax estimates are recorded as income tax expense or recovery, whereas under Section 1581, certain changes in income tax estimates were recorded to goodwill; (iv) acquisition-related costs, other than costs to issue debt or equity securities, of the acquirer, including investment banking fees, legal fees, accounting fees, valuation fees, and other professional or consulting fees are expensed as incurred, whereas under Section 1581, these costs were capitalized as part of the cost of the business combination; (v) assets acquired and liabilities assumed are recorded at 100% of their fair values even if less than 100% is obtained, whereas under Section 1581, only the controlling interest's portion of assets and liabilities acquired were recorded at fair value; and (vi) non-controlling interests are recorded at their proportionate share of fair value of identifiable net assets acquired, whereas under Section 1581, non-controlling interests were recorded at their proportionate share of carrying value of net assets acquired.

Under Section 1602, non-controlling interests are measured at their proportionate share of the fair value of identifiable net assets acquired on initial recognition. For presentation and disclosure purposes, non-controlling interests are classified as a separate component of equity. In addition, Section 1602 changes the manner in which increases and decreases in ownership percentages are accounted for. Changes in ownership percentages are recorded as equity transactions and no gain or loss is recognized as long as the parent retains control of the subsidiary. When a parent company deconsolidates a subsidiary but retains a non-controlling interest, the non-controlling interest is re-measured at fair value on the date control is lost and a gain or loss is recognized at that time. Under Section 1602, accumulated losses attributable to non-controlling interests are no longer limited to the original carrying amount, and therefore non-controlling interests could have a negative carrying amount.

d) Future accounting changes

International Financial Reporting Standards ("IFRS")
On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Company will prepare IFRS consolidated financial statements for the interim periods and fiscal year ends beginning January 1, 2011 with comparative information for 2010 restated under IFRS. Adoption of IFRS as Canadian GAAP will require the Company to make certain accounting policy choices and could materially impact the reported financial position and results of operations. The Company is currently evaluating the impact that the adoption of these new standards will have on the Company's consolidated financial statements. A changeover plan is being established to convert to the new standards within the noted timeline. Slater Coal currently prepares its consolidated financial statements in accordance with IFRS as required under South African regulatory requirements. The Company is not aware of any matters that would prevent the it from meeting the filing requirements for its first IFRS interim financial report.

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Property, plant and equipment and mineral property

Property, plant and equipment is stated at historical acquisition cost less accumulated depreciation and any accumulated impairment losses. Costs incurred subsequent to initial acquisition are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of operations during the financial period in which they are incurred.

Mineral rights are recorded at cost. This includes costs incurred to acquire, explore, sample, drill and perform feasibility tests. Development of mineral resources is not capitalised to this asset but separately recognised as a tangible asset. Exploration and evaluation costs incurred before the research proves the land to be technically feasible and commercially viable are deferred until the property is brought into production. Expenditure on development of mining operations is capitalized.

Land is not depreciated. Depreciation on mining assets, mineral rights and development costs is calculated using the units-of-production ("UOP") method based on total saleable tons of coal to be mined per the life-of-mine plan ("LOM"). Depreciation on the remaining assets is calculated using the straight-line method to allocate their cost or re-valued amounts to their residual values over their useful lives, as follows:

Item	Average useful life
Buildings	20 years
Heavy earth moving equipment	6 to 15 years
Furniture and fixtures	4 years
Motor vehicles	5 years
Office equipment	6 years
Radio equipment	3 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income' in the statement of operations.

f) Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is allocated to reporting units for the purpose of impairment testing. The allocation is made to the reporting units that are expected to benefit from the business combination from which the goodwill arose. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

g) Impairment of assets

When events or changes in circumstances suggest that the carrying amount of property, plant and equipment and intangible assets may not be recoverable, the carrying amounts are reviewed and tested. For impairment purposes, assets are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates of expected future cash flows for each group of assets are prepared. The impairment analysis first compares the total estimated cash flows on an undiscounted basis to the carrying amount of the asset, including goodwill, if any. If the undiscounted cash flows are less than the carrying amount of the asset, a second step is performed. A reduction of a group of assets to fair value is recorded as a charge to profit or loss if discounted expected future cash flows are less than the carrying amount.

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Impairment of assets (continued)

Goodwill is not amortized; however it is subject to an annual assessment for impairment. The carrying amount of goodwill is evaluated to determine whether current events and circumstances indicate that such carrying amount may no longer be recoverable. To accomplish this, the estimated fair values of its reporting units are compared to their carrying amounts. If the carrying value of the reporting unit exceeds its estimated fair value, the implied fair value of the reporting unit's goodwill is compared to its carrying amount, and any excess of the carrying value over the fair value is charged to earnings. The fair value estimates are based on numerous assumptions and it is possible that actual fair values will be significantly different from the estimates.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to selling price less costs to complete and sell, and an impairment loss is recognised immediately in profit or loss.

Reversals of impairments are not permitted.

Management has assessed as at December 31, 2010 and 2009 that there is no impairment.

h) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first in, first out (FIFO) method. The cost of finished goods and work in progress comprises operating costs which are absorbed into the stock on hand based on the level of extraction during the period in which such stock was mined and the costs incurred during such period.

i) Current and future income taxes

Current income tax assets and liabilities
Current income tax for current and prior periods is, to the extent unpaid, recognized as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognized as an asset.

Future income tax assets and liabilities
A future income tax liability is recognized for all taxable temporary differences. A future income tax asset is recognized for all deductible temporary differences.

Future income tax is recognized on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements and on unused tax losses or tax credits in the Company. Future income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of future income tax assets are reviewed at each reporting date and a valuation allowance is set up against future tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Future income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting period date.

Secondary tax on companies ("STC")
South African resident companies are subject to a dual corporate tax system, one part of the tax being levied on taxable income and the other, a secondary tax (called STC), on distribution income. A company incurs STC charges on the declaration or deemed declaration of dividends (as defined under tax law) to its shareholders. STC is not a withholding tax on shareholders, but a tax on companies.

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Current and future income taxes (continued)

Secondary tax on companies ("STC") (continued)

The STC tax consequence of dividends is recognized as a taxation charge in the statement of operations in the same period that the related dividend is accrued as a liability. The STC liability is reduced by dividends received during the dividend cycle. Where dividends declared exceeds the dividends received during a cycle, STC is payable at the current STC rate on the net amount. Where dividends received exceed dividends declared within a cycle, there is no liability to pay STC. The potential tax benefit related to excess dividends received is carried forward to the next dividends cycle as an STC credit. Future income tax assets are recognized on unutilized STC credits to the extent that it is probable that the Company will utilize such STC credits.

Tax expenses
Tax is recognized in profit or loss, except that a change attributable to an item of income or expense recognized as other comprehensive income is also recognized directly in other comprehensive income.

j) Accounts and other receivables

Accounts receivables are amounts due from customers for stock sold in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Accounts receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability the debtor will enter bankruptcy or financial reorganization, and default or delinquency payments are considered indicators that the trade receivable is impaired.

k) Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accounts payable are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

l) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities.

m) Asset retirement obligations

Asset retirement obligations (“ARO’s”) are recognised when:

- the Company has an obligation at the reporting period date as a result of a past event;
- it is probable that the Company will be required to transfer economic benefits in settlement; and
- the amount of the obligation can be estimated reliably.

ARO’s are not recognized for future operating losses. ARO’s are measured at the present value of the amount expected to be required to settle the obligation using a credit-adjusted risk-free rate that reflects the rate of interest on monetary assets that are essentially free of default risk, adjusted for the effect of an entity’s credit standing. The increase in the provision due to the passage of time is recognised as accretion expense.

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Asset retirement obligations (continued)

Future costs to retire an asset including dismantling, remediation and ongoing treatment and monitoring of the site are recognized and recorded as a provision for close down rehabilitation costs at fair value in the accounting period in which the legal obligation arising from the disturbance occurs. The liability is accreted over time through periodic charges to operations. The fair value of the costs is capitalized as part of the assets' carrying value and amortized over the assets' useful lives.

n) Revenue recognition and other income

Revenue from the sale of coal is recognised when all of the following conditions have been satisfied (generally when delivery has occurred):

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, this is when delivery of the goods have taken place;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

When the inflow of cash and cash equivalents is deferred, the fair value of the consideration receivable is the present value of all future receipts using the imputed rate of interest.

Interest is recognised, in profit or loss, using the effective interest rate method.

Dividends are recognised, in profit or loss, when the Company's right to receive payment has been established.

o) Employee benefits

Short-term employee benefits
The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

Defined contribution plans
A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Borrowings are recognized initially at the transaction price (that is, the present value of cash payable to the bank, including transaction costs). Borrowings are subsequently stated at amortized cost. Interest expense is recognized on the basis of the effective interest method and is included in finance costs. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Financial instruments

All financial assets and financial liabilities are measured at fair value on initial recognition and their subsequent measurement is determined by classification of each financial asset and liability. Financial assets and liabilities held for trading are measured at fair value with the changes in fair value reported in operations. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading are measured at amortized cost. Available-for-sale financial assets are measured at fair value with changes in fair value reported in other comprehensive income until the financial asset is disposed of or becomes impaired

q) Leases

A lease is classified as a capital lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Capital leases are recognized as assets and liabilities on the balance sheet at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included on the balance sheet as an other financial liability.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The interest element of the finance cost is charged to the statement of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under capital leases are depreciated over the estimated useful life of the asset.

r) Loss per share

Basic loss per common share has been computed by dividing the loss applicable to common shareholders by the weighted-average number of common shares outstanding during the representative periods. Diluted loss per common share is determined using the treasury stock method under which deemed proceeds on the exercise of stock options and other dilutive instruments are considered to be used to reacquire common shares at the average price for the period with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share.

s) Stock-based compensation

The Company records compensation cost based on the fair value method of accounting for stock based compensation. The fair value of common shares issued as compensation is based on the most recent private placement value or the quoted market price. The fair value of stock options and compensation warrants is determined using the Black-Scholes option-pricing model. The compensation expense is recognized over the vesting period. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to common stock.

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

t) Significant judgments and sources of estimation uncertainty

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reported period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized or expensed, and estimates for asset retirement obligations and reclamation costs and the amount and timing of impairment allowances. Other significant estimates made by the Company include factors affecting amortization and depletion, stock-based compensation, warrants, income tax accounts and the purchase price and the allocation of the Slater Coal purchase price to the net assets of Slater Coal. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

u) Foreign currency translation

The functional currency of the Company is the Canadian dollar. The Company's foreign subsidiary is considered to be a self-sustaining operation in accordance with Section 1651 *Foreign Currency Translation* of the CICA handbook. Accordingly, the results are translated to Canadian dollars using the current method. Under this method, the assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, the revenue and expense items are translated at the exchange rate in effect on the dates on which such items are recognized in income, and exchange gains and losses arising from the translation are recognized in other comprehensive income.

3) TRANSACTION WITH NYAH RESOURCES CORPORATION ("NYAH")

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

Prior to the effective time of the Transaction, Nyah consolidated its issued and outstanding common shares on the basis of one new Nyah common share for each 39.8 existing Nyah common shares (the "Consolidation"). Following the Consolidation, Nyah had 1,279,390 issued and outstanding common shares on a non-diluted basis immediately prior to the Transaction. Upon completion of the Transaction, the number of common shares of Forbes Coal (on a non-diluted basis) was 25,590,723 with Forbes & Manhattan (Coal) Inc. shareholders owning approximately 95% of the Company and the Nyah shareholders owning approximately 5% of the Company.

The Transaction was accounted for as a purchase of assets with Forbes & Manhattan (Coal) Inc. as the acquirer and Nyah as the acquired. The consolidated financial statements following the Transaction present a continuation of Forbes & Manhattan (Coal) Inc. and the acquisition of Nyah by Forbes & Manhattan (Coal) Inc. The total consideration for Nyah was $1,836,041 comprised primarily of the value of the Nyah shares converted to Forbes Coal shares. The value of the shares issued, on a consolidated basis, was $1,716,357($1.34 per share), which was based on the fair value of Nyah's net assets on the date of the Transaction.

3) TRANSACTION WITH NYAH RESOURCES CORPORATION ("NYAH") (Continued)

The purchase price was allocated as follows:

Common shares issued	$	1,716,357
Replacement stock options issued		119,684
	$	1,836,041

Net assets acquired:

Cash and cash equivalents	$	968,356
Amounts receivable		1,015,574
Prepaid expenses		9,738
Current liabilities		(157,627)
	$	1,836,041

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

The Transaction was a related party transaction as Nyah and Forbes & Manhattan (Coal) Inc. had certain directors and officers in common.

4) PURCHASE OF SLATER COAL

(a) Purchase of Slater Coal

In November 2009, the Company entered into an agreement to acquire a 100% interest in Slater Coal. A deposit of $722,500 (ZAR 5,000,000) was made under the terms of this agreement. Slater Coal is a private South African coal mining company. Slater Coal indirectly holds a 70% interest in the Slater Coal Properties through Zinoju Coal (Pty) Ltd. which holds all of the mineral rights and prospecting permits with respect to the Slater Coal Properties.

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

The funding the BEE received to purchase the shares was sourced from Slater Coal. For accounting purposes a minority interest will be recorded related to BEE's interest as they repay the loan utilized to acquire the shares.

On April 13, 2010, the Company and the shareholders of Slater Coal agreed on the terms for the acquisition of all of the issued and outstanding common shares of Slater Coal. Pursuant to the finalized terms of the agreement the Company is required to pay ZAR 600,000,000 (approximately $87,000,000) in cash and common stock to Slater Coal shareholders over a two year period:

- ZAR 5,000,000 deposit ($722,500 paid on November 25, 2009);
- ZAR 22,500,000 ($3,091,500 paid on June 29, 2010) (Note 21);
- ZAR 213,750,000 ($30,006,792 paid on July 23, 2010);
- Issue common shares of the Company with a value of ZAR 78,750,000 ($11,029,102) based on $2.80 per share (issued on July 30, 2010);
- Cash payment of ZAR 140,000,000 (approximately $21,140,000) payable by March 1, 2011; and
- Cash payment of ZAR 140,000,000 (approximately $21,140,000) payable by March 1, 2012.

The Company currently holds 53.5% of the outstanding shares of Slater Coal and will receive shares equivalent to 23.25% of the issued and outstanding shares after each of the March 1, 2011 and March 1, 2012 payments have been made. The March 2011 and 2012 payments are based on targeted production rates of 781,200 tonnes in 2011 and 782,400 tonnes in 2012.

4) PURCHASE OF SLATER COAL (Continued)

(a) Purchase of Slater Coal (continued)

A variance of greater than 10% from such production targets shall either increase or decrease the amount payable by a corresponding percentage, subject to a maximum increase or decrease in payment of 15%. For example, in the event of a 15% decrease in production in 2011, the 2011 payment owed by the Company will be reduced by 15%. The consideration was valued using a probability-weighted approach and an amount of $37,582,915 was included in the purchase price. The resulting liability related to this consideration was been recorded on the consolidated balance sheet.

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

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

Given the fact that the final amount of the March 1, 2011 and March 1, 2012 payments are subject to Slater Coal meeting certain production targets, the incumbent management team and a majority of the board of directors of Slater Coal have been given a certain amount of autonomy to be able to reach these targets. As such, at the balance sheet date, Forbes Coal did not yet have the unilateral ability to control the strategic operating, investing and financing policies of Slater Coal. However, the Company determined that Slater Coal is a variable interest entity ("VIE") where the Company is the primary beneficiary as the Company will absorb the majority of Slater Coal's expected losses and receive the majority of Slater Coal's expected residual returns. Consequently, under CICA accounting guideline AcG-15, the Company has consolidated 100% of Slater Coal as variable interest entity.

The March 1, 2011 and March 1, 2012 payments of ZAR 140 million each have been recorded on the balance sheet as current and long term acquisition obligations, respectively.

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

The allocation of the purchase price has not been finalized as at the date these financial statements were issued as management is in the process of determining the fair values of identifiable assets acquired and liabilities assumed and measuring the associated future income tax assets and liabilities. A provisional allocation of the purchase price is as follows:

4) PURCHASE OF SLATER COAL (Continued)

(a) Purchase of Slater Coal (continued)

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

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

Fair value of net assets acquired was allocated as follows:

Cash	$ 3,832,045
Investment held for trading	2,145,128
Other current assets	8,208,408
Inventories	4,403,466
Property, plant and equipment	33,450,720
Mining properties	69,525,012
Other long-term assets	4,696,059
Goodwill on acquisition	1,400,558
Current liabilities	(9,943,928)
Long-term liabilities	(7,647,196)
Future income taxes	(25,287,678)
	$ 84,782,594

(b) Slater Coal financial results

Reported revenue of $15,658,216 and related operating expense and amortization and depletion are for the period from the date of acquisition (July 29, 2010) to December 31, 2010, covering an approximate five month period.

5) INTEREST INCOME (EXPENSE)

Interest bearing borrowings	$	249,100
Asset retirement obligation accretion		66,490
Other		9
		315,599
Dividend income		47,535
Interest received on cash and cash equivalents		66,072
		113,607
Net interest income (expense)	$	**(201,992)**

6) INCOME TAXES

Income tax expense for the period ended December 31, 2010 is comprised of the following:

Company normal tax	
- current	$ 787,507
Future income tax	
- current	(35,994)
Secondary Tax on Companies	63,868
	$ 815,382

The tax on the Company's profit from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

Reconciliation of tax charge	
Tax at 29%	$ 4,657,678
Expenses not (taxable)/deductible for tax purposes	(3,991,525)
Secondary Tax on Companies	63,868
Timing differences not recognized	85,361
	$ 815,382

7) PROPERTY, PLANT AND EQUIPMENT

	Heavy earth-moving equipment and motor vehicles	Office equipment, radio equipment, fixtures and fittings	Land and buildings	Total
Net Book value as at December 30, 2009				
Additions as a result of Slater Coal acquisition	$ 32,412,883	$ 461,868	$ 575,969	$ 33,450,720
Effect of exchange rate change	2,274,185	32,406	40,412	2,347,003
Additions	2,482,077	7,456	57,523	2,547,056
Depreciation charge	(2,250,104)	(29,826)	(41,059)	(2,320,989)
Net book value as at December 31, 2010	**$ 34,919,041**	**$ 471,904**	**$ 632,845**	**$ 36,023,791**

8) MINERAL PROPERTY AND RIGHTS

	Mining rights	Richards Bay Coal Terminal entitlements	Mineral and prospecting rights	Total
Net Book value as at December 30,2009				
Additions as a result of Slater Coal acquisitioi	$ 61,581,887	$ 6,884,875	$ 1,058,250	**$ 69,525,012**
Effect of exchange rate change	4,320,771	483,064	74,250	**4,878,084**
Depreciation charge	(1,577,524)	(130,796)	-	**(1,708,320)**
Net book value as at December 31, 2010	**$ 64,325,134**	**$ 7,237,142**	**$ 1,132,500**	**$ 72,694,776**

9) OTHER ASSETS

Endowment policy	$	3,274,043
Long term investments		904,079
Long term receivables		1,185,087
	$	**5,363,209**

The other assets consist of an endowment policy held by the Company to fund payment requirements associated with its installment sale agreement obligations. The total endowment policy consists of various individual policies managed in various investment funds. The investment in this financial asset is classified as level 3 on the fair value hierarchy as the inputs required to determine fair value of the investment are actuarially determined and not supported by market activity.

The table below sets forth the summary of changes in the endowment policy for the period ended December 31, 2010:

Acquired as part of Slater transaction	$	3,095,583
Current year contributions		531,253
Fair value adjustment		158,426
Policies matured		(511,219)
Closing balance	$	3,274,043

Changes in fair values of financial assets held for trading are recorded in “operating expenses” in the statement of operations.

10) INVENTORIES

14) Inventories	
Consumables	$ 190,238
Work in progress	548,160
Finished goods	11,397,331
	$ 12,135,729

11) OTHER FINANCIAL LIABILITIES

Capital lease agreements		
Total amount outstanding	$	155,802
Less: Current portion transferred to current liabilities		(155,802)
	$	-

Installment sale agreements		
Total amount outstanding	$	9,545,014
Less: Current portion transferred to current liabilities		(1,237,626)
	$	**8,307,388**

The liabilities are payable over periods from three to five years, at interest rates linked to prime. Both are secured by mining assets and heavy earth moving equipment and motor vehicles with a net book value of approximately $8,000,000.

Summary:

Total interest bearing borrowings	$	9,700,816
Less: Current portion included in current liabilities		(1,393,428)
Long term portion of interest bearing borrowings	$	**8,307,388**

The interest rate exposure of borrowings of the Company was as follows:		
At floating rates	$	9,700,816

12) ASSET RETIREMENT OBLIGATION

Additions as a result of Slater acquisition	$	1,812,088
Accretion		68,956
	$	**1,881,044**

The asset retirement obligation for close down rehabilitation costs reflects the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date and is expected to be paid out over 5 to 10 years.

13) LOANS PAYABLE

Directors and officers of Slater Coal	$	506,793
Other		109,613
	$	**616,406**

Loans are unsecured, non interest bearing, with no fixed terms of repayment.

14) SHARE CAPITAL

Authorized unlimited number of common shares without par value:

Issued	Number of shares	Stated value
Balance, November 12, 2009	-	$ -
Private placement (i)	1,600,000	160
Private placement (ii)	1,000,000	800,000
Balance, December 31, 2009	**2,600,000**	**800,160**
Private placement (iii)	100,000	500,000
Private placement (v)	14,972,368	41,922,630
Issue costs	-	(4,897,725)
Shares issued on business combination (vi)	3,938,965	11,029,102
Shares issued Nyah transaction (vii)	1,279,390	1,716,357
Shares issued Nyah transaction into escrow (viii)	2,700,000	7,196,100
Balance, December 31, 2010	**25,590,723**	**$ 58,266,624**

On July 16, 2010 the Company consolidated its share capital on the basis of ten existing common shares of the Company for one new Common share of the Company. The number of outstanding common shares has been retroactively restated throughout these financial statements to reflect the consolidation.

(i) On November 13, 2009, the Company completed a private placement financing issuing 1,600,000 common shares of the Company at a price of $0.0001 per share for gross proceeds of $160. All of these shares were issued to directors, officers and consultants of the Company;

(ii) On November 25, 2009 the Company completed a private placement financing issuing 1,000,000 common shares of the Company at a price of $0.80 per share for gross proceeds of $800,000. The sole subscriber of this issuance was Aberdeen International Inc ("Aberdeen") (see Note 21 Related Party Transactions);

(iii) On March 15, 2010 the Company completed a private placement financing issuing 100,000 common shares of the Company at a price of $5.00 per share for gross proceeds of $500,000. The sole subscriber of this issuance was Aberdeen International Inc ("Aberdeen") (see Note 21 Related Party Transactions).

(iv) Effective July 16, 2010, and in connection with the transaction with Nyah, the Company amended its articles to effect consolidation of its issued and outstanding common shares on the basis of ten existing common shares of the Company for one new common share of the Company.

(v) In July and August, 2010, the Company completed an offering of special warrants ("Special Warrants") at a price of $2.80 per Special Warrant for gross proceeds of $41,922,630. Each Special Warrant converted automatically and without any further action on the part of the holder into one common share of the Company (each an "Underlying Share") on September 21, 2010 immediately prior to the completion of the acquisition of all of the issued and outstanding shares of the Company by Nyah (see Note 21 Related Party Transactions).

As compensation for its services rendered in connection with the Forbes Coal financing, the underwriters were paid a cash commission equal to 6% of the gross proceeds of the brokered portion of the Forbes Coal financing and were issued 763,887 broker warrants exercisable to acquire the same number of common shares of the Company at a price of $2.80 per common share for a period of 18 months following the closing of the Slater Coal acquisition.

14) SHARE CAPITAL (Continued)

(vi) In July 2010, the Company completed the next installment for the acquisition of Slater Coal by making a cash payment of ZAR 213,750,000 ($30,006,792) and issuing 3,938,965 common shares of the Company at $2.80 per share valued at ZAR 78,750,000 ($11,029,102).

(vii) On September 21, 2010 1,279,390 common shares were issued upon the completion of the Transaction with Nyah. The common shares were assigned a value of $1,716,357 ($1.34 per share). (See Note 3 and Note 21 Related Party Transactions).

(viii) On September 21, 2010 2,700,000 common shares were issued and put into escrow upon the completion of the transaction with Nyah. The common shares were assigned a value of $7,196,100 ($2.67 per share). The value was recorded in stock based compensation expense for the period. (See Notes 3, 15, 18 and 21).

15) SHARES IN ESCROW

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

i) 50% of the Escrowed Shares (the "First Tranche Escrowed Shares") will be released once the Company achieves US$22,000,000 in EBITDA from the Slater Coal Properties over a 12 consecutive month period by July 20, 2013. In the event of not achieving US$22,000,000 in EBITDA from Slater Coal Properties, the above mentioned Escrowed Shares will be cancelled;

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

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

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

15) WARRANTS

The following warrants were outstanding as at December 31, 2010:

	Expiration date	Number of warrants	Exercise price	Grant Date Fair Value
Balance, December 31, 2009		-	$ -	$ -
Broker warrants granted on private placement	January 23, 2012	763,887	2.80	993,053
Balance, December 31, 2010		**763,887**	**$ 2.80**	**$ 993,053**

The warrants granted during the period were broker warrants issued as part of the private placement described in Note 14(v). The fair value of these warrants was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend yield – 0%; risk-free interest rate – 2%; expected volatility – 100%; and time to expiry – 1.5 years.

16) STOCK OPTIONS

The Company has adopted a stock option plan (the "Plan") to be administered by the directors of the Company. Under the Plan, the Company may grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. The Plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. Options granted under the Plan will be for a term not to exceed 5 years. The Plan provides that, it is solely within the discretion of the Board to determine who should receive stock options, in what amounts, and determine vesting terms. The exercise price for any stock option shall not be lower than the market price of the underlying common shares, or at fair market value in the absence of a market price, at the time of grant.

The following options were outstanding as at December 31, 2010:

	Expiration date	Number of options	Exercise price	Grant Date Fair Value
Balance, December 31, 2009		-	$ -	$ -
Options granted (i)	March 15, 2015	260,000	2.80	1,040,746
Options issued on Nyah transaction (ii)	May 31, 2012	36,432	2.39	65,512
Options issued on Nyah transaction (ii)	February 27, 2012	17,662	7.96	12,579
Options issued on Nyah transaction (ii)	February 27, 2012	2,405	7.96	1,713
Options issued on Nyah transaction (ii)	May 31, 2012	55,276	13.93	27,537
Options issued on Nyah transaction (ii)	January 4, 2013	11,023	7.96	12,343
Options granted (iii)	October 13, 2015	2,175,000	3.25	5,285,250
Balance, December 31, 2010		**2,557,798**	**$ 3.48**	**$ 6,445,680**

(i) In March 2010, the Company granted 260,000 stock options to directors, officers and consultants of the Company at an exercise price of $5.00 to expire five years from the date of grant. A value of $978,588 was estimated for these options, and was recorded in stock based compensation expense for the period. The value of these options was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend – 0%; risk-free interest rate – 2.52%; expected volatility – 100%; and time to expiry – 5 years.

Subsequently on July 16, 2010 the options were re-priced to a new exercise price of $2.80. Additional value of $62,158 was estimated for these options, and was recorded in stock based compensation expense for the period. The additional value of these options was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend – 0%; risk-free interest rate – 2.39%; expected volatility – 100%; and time to expiry – 4.63 years.

17) STOCK OPTIONS (Continued)

(ii) On September 21, 2010, 122,798 common stock options were issued on the completion of the transaction with Nyah in exchange for Nyah's common stock options. The common stock options were assigned a value of $119,684 was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend – 0%; risk-free interest rate – 1.54%; expected volatility – 100%; and time to expiry – from 1.4 to 2.3 years.

(iii) On October 13, 2010, 2,175,000 common stock options were granted to directors, officers and consultants of the Company at an exercise price of $3.25 to expire five years from the date of grant. A value of $5,285,250 was estimated for these options, and was recorded in stock based compensation expense for the period. The value of these options was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend – 0%; risk-free interest rate – 1.74%; expected volatility – 100%; and time to expiry – 5 years.

17) CONTRIBUTED SURPLUS

Balance, December 31, 2009	**$**	-
Stock-based compensation using the fair value method		6,325,996
Performance special warrants issued (Note 15)		7,196,100
Options issued on Nyah transaction (Note 11)		119,684
Conversion of performance special warrants (Note 15)		(7,196,100)
Stock options exercised		-
Balance, December 31, 2010	**$**	**6,445,680**

18) CAPITAL MANAGEMENT

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

The Company manages and adjusts its capital structure based on available funds in order to support the acquisition, exploration and operation of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is not subject to any externally imposed capital requirements.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is reasonable.

19) FINANCIAL RISK FACTORS

The Company is exposed to a variety of financial risks.

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

(a) Market risk

i. Foreign exchange risk

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

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

A 10% increase in the Rand against the Company's functional currency, the Canadian dollar would have increased (decreased) the Company's income by approximately $4,000,000. A 10% increase in the United States Dollar would have increased (decreased) the Company's income by $516,000.

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

ii. Interest rate risk

The Company's interest rate risk arises from deposits held with banks and interest-bearing liabilities. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. A 1% increase in interest rates would create an increased expense of approximately $100,000.

iii. Price risk

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

(b) Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents and amounts receivable. The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of guaranteed investment certificates and bankers acceptances, which have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments included in amounts receivable consist of goods and services tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to these financial instruments is remote.

19) FINANCIAL RISK FACTORS (Continued)

(c) Liquidity risk

As December 31, 2010, the Company had net working capital deficiency of $2,265,766 (2009 – $27,566) which included cash and cash equivalents and restricted cash of $6,262,462 (2009 - $52,177), accounts receivable and other receivables of $8,461,750 (2009 - $600) and inventories of $12,135,729 (2009 – nil), offset by current liabilities of $29,193,789 (2009 - $32,355). The current liabilities include the estimated fair value of the first of two final payments due in March 2011 in the estimated amount of ZAR $119,000,000 ($19,915,721), see Note 4 (a).

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

(d) Fair value of financial instruments

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

As at December 31, 2010, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the limited term of these instruments. The following table illustrates the classification of the Company's Financial Instruments within the fair-value hierarchy as at December 31, 2010:

	Level 1	Level 2	Level 3
Restricted cash	$ 1,872,400	$ -	$ -
Other assets – endowment policy	$ -	$ -	$3,274,043

20) RELATED PARTY TRANSACTIONS

In November 2009, certain directors, officers and consultants of the Company subscribed to 1,600,000 common shares of the Company.

The Transaction with Nyah (Note 3) was a related party transaction because at the time of the Transaction:

- Mr. Stan Bharti was a director of both Nyah and Forbes Coal and held 2,830,000 Nyah Shares and 1,000,000 Forbes Coal Shares on a pre consolidation basis and held 1,000,000 Forbes Coal Performance Special Warrants. In addition, Mr. Stan Bharti was a director of Aberdeen International Inc. ("Aberdeen").
- Aberdeen held 1,100,000 Forbes Coal shares and 1,100,000 Forbes Coal Performance Special Warrants that subsequently converted into common shares subject to escrow conditions. Subsequently, Aberdeen made a payment of $3,194,550 to the Slater Coal shareholders on behalf of the Company to cover the principal payment of ZAR 22,500,000 and transaction costs of ZAR 750,000. As a result of this payment, Aberdeen was granted an additional 605,196 special warrants that were converted into an equal number of common shares of the Company. A net amount of $2,000,001 was refunded to Aberdeen by the Company.
- Ms. Deborah Battiston was the Chief Financial Officer of Nyah and Forbes Coal.
- Mr. George Faught, was director and the President and Chief Executive Officer of Nyah held 1,070,000 Nyah Shares on a pre-consolidation basis and was the Chief Executive Officer of Aberdeen. Mr. Faught also held 5,000 Forbes Coal Shares on a pre-consolidation basis and 5,000 Forbes Coal Performance Special Warrants.
- Mr. David Stein was the President and a director of Aberdeen and a director of Forbes Coal. Mr. David Stein held 75,000 Forbes Coal Shares on a pre-consolidation basis and 75,000 Forbes Coal Performance Special Warrants, and held 100,000 Nyah Shares on a pre-consolidated basis.

20) RELATED PARTY TRANSACTIONS (Continued)

- Mr. Stephan Theron was the Chief Financial Officer of Aberdeen and the President and Chief Executive Officer of Forbes Coal. Mr. Theron held 100,000 Forbes Coal Shares on a pre-consolidation basis, 25,000 Forbes Coal Special Warrants and 100,000 Forbes Coal Performance Special Warrants.
- Mr. Michael Hoffman was a director of Aberdeen and Nyah and held 10,000 Forbes Coal pre-consolidation Shares and 10,000 Forbes Coal Performance Special Warrants.
- Mr. Bernie Wilson was a director of Nyah and a director of Aberdeen.

The Company shares its premises with other companies that have common directors and officers and the Company reimburses the related companies for its proportional share of the expenses. At December 31, 2010 an amount of $31,989 (December 31, 2009 - $nil) was prepaid and $nil (December 31, 2009 –$7,698) was payable in relation to these expenses. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

As a result of the Nyah transaction, Forbes Coal acquired a receivable of $1,015,974 which consisted primarily of a receivable from Valencia Ventures Inc. ("Valencia") in the amount of $1,000,000 for the sale of the Agnew Lake Project. In October 2010, $500,000 of this amount was received from Valencia. Mr. Stan Bharti is a director of Valencia. Valencia and the Company have certain directors and or officers in common Also as a result of the Nyah transaction Forbes Coal acquired a payable in the amount $100,000 payable to Forbes & Manhattan Inc., a company of which Stan Bharti is an officer and director, which is outstanding as at December 31, 2010.

As a result of Slater Coal acquisition Forbes Coal acquired receivables and payables in the net amount of $121,394 owed from the former Slater Coal shareholders and their related parties to the Company.

The related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

21) COMMITMENTS AND CONTINGENCIES

Management contracts

The Corporation is party to certain management contracts. These contracts require that additional payments of approximately $1,360,000 be made upon the occurrence of a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Minimum commitments remaining under these contracts were approximately $340,000 all due within one year.

Lease obligations

The Company is committed to minimum amounts under long-term capital lease agreements for plant and equipment. Minimum commitments remaining under these leases were $9,700,816 over the following years:

Year	Amount
2011	$ 1,393,428
2012	2,024,179
2013	5,972,783
2014	310,426
	$ 9,700,816

Environmental contingency

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

22) SUBSEQUENT EVENTS

On January 27, 2011, the Company announced that it has entered into an agreement with a syndicate of underwriters co-led by GMP Securities L.P. and Canaccord Genuity Corp. and including Fraser Mackenzie Limited (collectively, the "Underwriters"), pursuant to which the Underwriters have agreed to purchase, on a bought deal basis pursuant to the filing of a short form prospectus, 8,000,000 common shares (the "Common Shares") of the Company, at a price of C$4.55 per Common Share (the "Offering Price") for aggregate gross proceeds to Forbes Coal of C$36,400,000 (the "Offering").

The Company has agreed to grant the Underwriters an over-allotment option to purchase up to an additional 1,200,000 Common Shares at the Offering Price, exercisable in whole or in part, at any time on or prior to the date that is 30 days following the closing of the Offering. If this option is exercised in full, an additional C$5,460,000 will be raised pursuant to the Offering and the aggregate gross proceeds of the Offering will be C$41,860,000. The Common Shares will be offered by way of a short form prospectus to be filed in all of the provinces of Canada, except Quebec. The Company intends to use the net proceeds from the offering for the repayment of its currently outstanding vendor note from the acquisition of the Company's assets, for expansion capital expenditures at the Company's Magdalena and Aviemore coal mines in South Africa and for general corporate purposes. The Offering is expected to close on or about February 17, 2011 and is subject to certain conditions including, but not limited to, the receipt of all necessary regulatory and stock exchange approvals, including the approval of the Toronto Stock Exchange and the applicable securities regulatory authorities.