FORBES & MANHATTAN COAL CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIODS ENDED

FEBRUARY 28, 2011 AND DECEMBER 31, 2009

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Forbes & Manhattan Coal Corp.

We have audited the accompanying consolidated financial statements of Forbes & Manhattan Coal Corp. and its subsidiaries, which comprise the consolidated balance sheets as at February 28, 2011 and December 31, 2009 and the consolidated statements of operations, comprehensive loss and deficit, consolidated statements of cash flows and consolidated statements of shareholders' equity for the periods then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Forbes & Manhattan Coal Corp. and its subsidiaries as at February 28, 2011 and December 31, 2009, and their financial performance and cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
May 26, 2011

Forbes & Manhattan Coal Corp.
Consolidated Balance Sheets
As at,
(Presented in Canadian dollars)

	February 28, 2011	December 31, 2009
ASSETS		
Current		
Cash and cash equivalents	$ 15,252,651	$ 52,177
Restricted cash	1,736,000	-
Accounts and other receivables	12,410,375	600
Inventories (Note 10)	10,526,681	-
Prepaid expenses	60,301	7,144
	39,986,008	59,921
Property, plant and equipment (Note 7)	79,316,581	-
Intangibles (Note 8)	5,911,567	-
Goodwill	18,672,014	-
Other assets (Note 9)	5,398,825	-
Future income taxes (Note 6)	120,061	-
Deferred charges	-	735,706
	$ 149,405,056	$ 795,627
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 7,031,196	$ 32,355
Other financial liabilities (Note 11)	2,660,467	-
Future income taxes (Note 6)	2,200,000	-
Asset retirement obligation (Note 12)	389,177	-
Loans payable (Note 13)	261,934	-
	12,542,774	32,355
Acquisition obligation (Note 4)	20,300,925	-
Asset retirement obligation (Note 12)	2,665,329	-
Other financial liabilities (Note 11)	11,727,930	-
Future income taxes (Note 6)	16,454,227	-
	63,691,185	32,355
Non-controlling interest (Note 4)	1,597,529	-
SHAREHOLDERS' EQUITY		
Share capital (Notes 14 and 15)	91,315,650	800,160
Warrants (Note 16)	2,149,853	-
Contributed surplus (Note 18)	6,263,430	-
Deficit	(15,077,393)	(36,888)
Accumulated other comprehensive income	(535,198)	-
	84,116,342	763,272
	$ 149,405,056	$ 795,627

Commitments and contingencies (Notes 1, 4 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

(Presented in Canadian Dollars)

		For the period ended February 28, 2011 (Note 1)		For the period ended December 31, 2009 (Note 1)
REVENUE	$	27,677,608	$	-
COST OF SALES				
Operating expense		19,925,113		-
Amortization and depletion		3,509,727		-
		23,434,840		-
Gross profit (loss)		4,242,768		-
EXPENSES				
Consulting and professional fees		1,813,024		22,817
General and administration		2,729,598		5,559
Directors' fees		72,500		-
Stock based compensation		13,522,096		-
Mineral properties investigation costs		111,686		8,512
		18,248,904		36,888
Net loss before other items		(14,006,136)		(36,888)
OTHER ITEMS				
Other income		454,504		-
Business combination transaction costs		(1,340,196)		-
Accretion		(2,241,896)		-
Change of estimates on contingent acquisition liability		2,724,711		-
Interest income (expense) (Note 5)		(576,753)		-
Foreign exchange gain (loss)		630,924		-
NET LOSS before tax		(14,354,842)		(36,888)
Income tax expense (Note 6)		(685,663)		-
NET LOSS for the period		(15,040,505)		(36,888)
Other comprehensive income items				
Unrealized gain on foreign currency translation		(535,198)		-
COMPREHENSIVE LOSS for the period	$	(15,575,703)	$	(36,888)
Net loss per share - basic and diluted		(1.06)		(0.02)
Weighted average number of common shares outstanding - basic and diluted		14,187,763		2,308,000

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

Forbes & Manhattan Coal Corp.
Consolidated Statements of Cash Flows
(Presented in Canadian Dollars)

	For the period ended February 28, 2011 (Note 1)	For the period ended December 31, 2009 (Note 1)
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss for the period	$ (15,040,505)	$ (36,888)
Adjustments:		
Amortization and depletion	3,509,727	-
Fair value adjustment on financial assets	(233,584)	-
Future income taxes	(408,503)	-
Accretion	2,241,896	-
Change in estimates	(2,724,711)	-
Foreign exchange	(677,381)	-
Stock based compensation	13,522,096	-
	189,035	(36,888)
Net change in non-cash working capital	(3,105,739)	16,521
	(2,916,704)	(20,367)
INVESTING ACTIVITIES		
Change in accounts payable attributable to property exploration	(8,090)	8,090
Business combination	(48,474,470)	-
Cash acquired on business combination	3,832,045	-
Cash acquired on Nyah transaction	968,356	-
Additions to property, plant and equipment	(11,582,482)	-
Additional contribution to endowment policy	(392,921)	-
Investment in held for trading instruments	2,191,264	-
Restricted cash - letter of credit	(1,736,000)	-
Deferred charges	-	(735,706)
	(55,202,298)	(727,616)
FINANCING ACTIVITIES		
Change in accounts payable attributable to share issue costs	(371,673)	-
Shares issued for cash	75,871,831	800,160
Shares issue costs	(6,153,174)	-
Loans payable	3,926,622	-
	73,273,606	800,160
Effect of exchange rate change on cash and cash equivalents	45,870	-
CHANGE IN CASH AND CASH EQUIVALENTS	15,154,604	52,177
CASH AND CASH EQUIVALENTS, beginning of the period	52,177	-
CASH AND CASH EQUIVALENTS, end of the period	$ 15,252,651	$ 52,177
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash	$ 2,044,468	$ 52,177
Cash equivalents	$ 13,208,183	$ -

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

Forbes & Manhattan Coal Corp.
Consolidated Statements of Cash Flows
(Presented in Canadian Dollars)

	For the period ended February 28, 2011 (Note 1)		For the period ended December 31, 2009 (Note 1)	
SUPPLEMENTAL INFORMATION				
Shares issued on business combination	$	11,029,102	$	-
Shares issued on Nyah transaction into escrow	$	1,716,357	$	-
Performance shares issued into escrow	$	7,196,100	$	-
Broker warrants granted on private placements	$	2,149,853	$	-
Interest and dividend income	$	(576,753)	$	-
Income taxes paid	$	3,268,748	$	-
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	$	-

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

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

	Number of shares issued	Share capital	Warrants	Contributed surplus	Deficit	Accumulated other comprehensive income	Shareholders' equity
Balance at November 12, 2009	**-**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Shares issued on private placements (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 placements (Note 14)	23,072,368	72,297,784	-	-	-	-	72,297,784
Shares issued on business combination (Note 4(a) and 14)	3,938,965	11,029,102	-	-	-	-	11,029,102
Shares issued on Nyah transaction (Note 3)	1,279,384	1,716,357	-	-	-	-	1,716,357
Performance shares issued into escrow (Notes 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
Shares issued on exercise of options	75,000	426,000	-	(182,250)	-	-	243,750
Broker warrants granted on private placement (Note 16)	-	(2,149,853)	2,149,853	-	-	-	-
Other comprehensive loss for the period ended February 28, 2011	-	-	-	-	-	(535,198)	(535,198)
Net loss for the period ended February 28, 2011	-	-	-	-	(15,040,505)	-	(15,040,505)
Balance at February 28, 2011	**33,665,717**	**$91,315,650**	**$ 2,149,853**	**$6,263,430**	**$(15,077,393)**	**$ (535,198)**	**$ 84,116,342**

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

1) NATURE OF OPERATIONS

Forbes & Manhattan Coal Corp. (individually, or collectively with its subsidiaries, as applicable, "Forbes Coal" or the "Company") is a coal mining company. 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 period from inception (November 12, 2009) to 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, intangibles and goodwill and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, ability to transport and sell its coal, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs to the carrying values. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

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

2) SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The preparation of financial statements in conformity with Canadian Generally Accepted Accounting Principles ("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.

The significant accounting policies followed by the Company are set out below, consistently applied, except as disclosed.

b) Consolidation

These consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, and the consolidated 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 policies and disclosures

The Company has adopted the following new accounting standards prospectively as at January 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. The early adoption of these sections had no material impact on the consolidated financial statements of the Company.

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 March 1, 2011 with comparative information for 2011 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. Slater Coal currently prepares its consolidated financial statements in accordance with IFRS as required under South African regulatory requirements.

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Property, plant and equipment and mineral rights

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.

Prospecting rights are recorded at cost. This includes costs incurred to acquire, explore, sample, drill and perform feasibility tests when incurred before the research proves the land to be technically feasible and commercially viable, at which point the costs are reclassified as mining assets. Expenditures on development of mining operations is capitalized as mining assets.

Land is not depreciated. Depreciation of mining assets and related entitlements 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 and mining equipment	6 to 15 years
Fixtures and fittings	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 operations 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 operations. 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 operations.

Reversals of impairments of property, plant and equipment, intangibles and goodwill are not permitted.

Management has assessed as at February 28, 2011 and December 31, 2009 that there are no impairments.

h) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first in, first out 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.

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.

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.

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Accounts and other receivables

Accounts receivables are primarily comprised of 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 and other 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.

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.

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.

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.

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.

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 has 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 operations, using the effective interest rate method.

o) Other financial liabilities

Other financial liabilities are recognized initially at the fair value, net of transaction costs incurred. Other financial liabilities are subsequently stated at amortized cost. Interest expense is recognized on the basis of the effective interest method and is included in finance costs. Other financial liabilities 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, in which case they are classified as long-term liabilities.

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 interest expense and reduction of the outstanding liability. The interest expense 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 property, plant and equipment acquired under capital leases are depreciated over the estimated useful life of the asset.

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. As at February 28, 2011 and December 31, 2009, all outstanding options and warrants were excluded from the diluted loss per share calculation as they were anti-dilutive.

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.

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, estimates for asset retirement obligations and reclamation costs and the amount and timing of depletion, depreciation and amortization, impairment allowances and mineral reserve and resources estimates. Other significant estimates made by the Company include factors affecting the valuation of inventories, contingencies, 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. 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 approximate exchange rate in effect on the dates on which such items are recognized in operations, and exchange gains and losses arising from the translation are recognized in other comprehensive income.

Transactions in foreign currencies are translated into the currency of measurement at the exchange rates in effect on the transaction date. Monetary balance sheet items expressed in foreign currencies are translated into the functional currency at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in operations.

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 1,279,384 issued and outstanding common shares on a non-diluted basis immediately prior to the Transaction. Upon completion of the Transaction, the number of common shares of Forbes Coal (on a non-diluted basis) was 25,590,723 with Forbes & Manhattan (Coal) Inc. shareholders owning approximately 95% of the Company and the Nyah shareholders owning approximately 5% of the Company.

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

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.

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. ("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 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 BEE holds an option to acquire its 30% interest in Zinoju, and a non-controlling interest has been recorded to reflect this option related to BEE's interest upon repayment of the loan utilized to acquire the interest in Zinoju. The loan is being repaid from dividends issued by Zinoju.

On April 13, 2010, the Company and the shareholders of Slater Coal agreed on the terms for the acquisition of all of the issued and outstanding common shares of Slater Coal. Pursuant to the finalized terms of the agreement the Company is required to pay ZAR 600,000,000 (approximately $84,000,000) 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 119,000,000 ($16,457,000 paid February 24, 2011); and
- Cash payment of ZAR 140,000,000 (approximately $21,140,000) payable by March 1, 2012.

The Company currently holds 76.75% of the outstanding shares of Slater Coal and will receive shares equivalent to 23.25% of the issued and outstanding shares after March 1, 2012 payment has been made. The March 2011 and 2012 payments are based on targeted production rates of 781,200 tonnes in 2011 and 782,400 tonnes in 2012.

A variance of greater than 10% from such production targets shall either increase or decrease the amount payable by a corresponding percentage, subject to a maximum increase or decrease in payment of 15%. Cash payment of ZAR 119,000,000 was made before March 1, 2011 and was based on the greater than 10% variance from 781,200 tonnes production target and it was reduced by 15% from ZAR 140,000,000 to ZAR 119,000,000. The consideration for March 1, 2012 payment was valued using a probability-weighted approach and an amount of $18,887,787 has been included in the purchase price. The resulting liability related to this consideration has been recorded on the 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 was included in the purchase price and included in accounts payable related to the CNSTA adjustment. This amount has been paid on February 24, 2011.

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4) PURCHASE OF SLATER COAL (Continued)

(a) Purchase of Slater Coal (continued)

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, 2012 payment of ZAR 140 million has been recorded on the balance sheet as a long term acquisition obligation.

The Company received approval from the South African Reserve Bank ("SARB") for the acquisition by Forbes Coal of all of the issued and outstanding shares of Slater Coal (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 been substantially finalized, however management is in the process of concluding the fair values of identifiable assets acquired and liabilities assumed and measuring the associated future income tax assets and liabilities. A provisional allocation of the purchase price is as follows:

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

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

Fair value of net assets acquired was allocated as follows:

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

(b) Slater Coal financial results

Reported revenue of $27,677,608 and related operating expense and amortization and depletion are for the period from the date of acquisition (July 29, 2010) to February 28, 2011, being an approximate seven month period.

5) INTEREST INCOME (EXPENSE)

Interest bearing borrowings	$ 730,798
Asset retirement obligation accretion	96,962
Other	44
	827,804
Dividend income	44,817
Interest received on cash and cash equivalents	97,562
Other	108,672
	251,051
Net interest income (expense)	**$ (576,753)**

6) INCOME TAXES

a) Provision for income taxes

The major items causing the Company's income tax expense to differ from the Canadian statutory rate of approximately 31% (December 31, 2009 - 33%) were:

	2011	2009
Loss before income taxes	14,354,842	36,888
Expected income tax recovery at statutory rates	(4,393,607)	(12,173)
Adjustments resulting from:		
Stock-based compensation	4,138,727	-
Change in estimates on contingent acquisition liability	(833,956)	-
Share issue costs	(324,925)	-
Differences in tax rates	158,102	2,951
Acquisition of Nyah	(2,310,000)	-
Other	292,105	-
Change in valuation allowance	3,959,217	9,222
Income tax expense	685,663	-

Income tax expense is comprised as follows:

	2011	2009
Current expense – South Africa	1,477,480	-
Future recovery – South Africa	(791,817)	-
Income tax expense	685,663	-

6) INCOME TAXES (Continued)

b) Future income tax balances

The tax effect of temporary differences that give rise to future income tax assets and liabilities at February 28, 2011 and December 31, 2009 are as follows:

	2011	2009
Property, plant and equipment and intangibles	(17,354,405)	-
Share issue costs	1,131,487	-
Non-capital losses	1,367,785	9,222
Other	289,406	-
Valuation allowance	(3,968,439)	(9,222)
Net future income tax asset (liability)	(18,534,166)	-

The net future income tax asset (liability) is comprised follows:

	2011	2009
Long-term asset – South Africa	120,061	-
Current liability – South Africa	(2,200,000)	-
Long-term liability – South Africa	(16,454,227)	-
Net future income tax asset (liability)	(18,534,166)	-

c) The Company has approximately $5,800,000 of Canadian non-capital operating losses as at February 28, 2011 which under certain circumstances can be used to reduce the taxable income of future years. The Canadian non-operating losses have expiry dates between 2026 and 2031.

7) PROPERTY, PLANT AND EQUIPMENT

	Heavy earth-moving equipment and motor vehicles	Office equipment, radio equipment, fixtures and fittings	Land and buildings	Development costs	Mining rights	Total
Net book value as at December 31, 2009	$ -	$ -	$ -	$ -	$ -	**$ -**
Additions as a result of Slater Coal acquisition	29,066,801	186,770	497,032	-	43,590,587	**73,341,190**
Effect of exchange rate change	(226,601)	(1,456)	(3,875)	-	(339,827)	**(571,759)**
Additions	10,288,634	14,540	57,425	2,433,150	-	**12,793,749**
Disposals	(72,331)	-	-	-	-	**(72,331)**
Depreciation charge	(4,238,477)	(49,126)	(19,595)	-	(1,867,070)	**(6,174,268)**
Net book value as at February 28, 2011	**$ 34,818,026**	**$ 150,728**	**$530,987**	**$ 2,433,150**	**$41,383,690**	**$ 79,316,581**
Cost	39,056,503	199,854	550,582	2,433,150	43,250,760	**85,490,849**
Accumulated depriciation	(4,238,477)	(49,126)	(19,595)	-	(1,867,070)	**(6,174,268)**
Net book value as at February 28, 2011	**$ 34,818,026**	**$ 150,728**	**$530,987**	**$ 2,433,150**	**$41,383,690**	**$ 79,316,581**

Land and building includes a net book value balance of $ 97,189 for a property that is not used in production and mine operations.

8) INTANGIBLES

	Richards Bay Coal Terminal entitlements	Mineral and prospecting rights	Total
Net book value as at December 31, 2009	$ -	$ -	**$ -**
Additions as a result of Slater Coal acquisition	4,983,794	1,058,250	**6,042,044**
Effect of exchange rate change	(38,854)	(8,250)	**(47,104)**
Depreciation charge	(79,912)	(3,460)	**(83,373)**
Net book value as at February 28, 2011	**$ 4,865,028**	**$ 1,046,540**	**$ 5,911,567**
Cost	4,944,940	1,050,000	**5,994,940**
Accumulated depriciation	(79,912)	(3,460)	**(83,373)**
Net book value as at February 28, 2011	**$ 4,865,028**	**$ 1,046,540**	**$ 5,911,567**

9) OTHER ASSETS

	2011	2009
Endowment policy	$ 3,478,609	$ -
Long term investments	838,219	-
Long term receivables	1,081,997	-
	$ 5,398,825	**$ -**

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 February 28, 2011:

Acquired as part of Slater transaction	$ 2,892,627
Effect of exchange rate change	(22,551)
Current year contributions	861,498
Fair value adjustment	226,883
Policies matured	(479,848)
Closing balance	**$ 3,478,609**

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

10) INVENTORIES

	2011	2009
Consumables	$ 267,631	$ -
Work in progress	154,899	-
Finished goods	10,104,151	-
	$ 10,526,681	**$ -**

As at February 28, 2011, all inventories were presented at cost.

11) OTHER FINANCIAL LIABILITIES

Capital lease agreements (*)	$	97,579
Installment sale agreements(*)		13,590,838
Third party institutional loans (**)		699,980
Total interest bearing borrowings		14,388,397
Less:		
Current portion of capital lease agreements		(97,579)
Current portion of instalment sale agreements		(2,460,583)
Current portion of third party institutional loans		(102,305)
Total current portion of interest bearing borrowings		(2,660,467)
Total long-term portion of interest bearing borrowings	**$**	**11,727,930**

(*) The lease related 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 $10,550,000.

(**) The loans are repayable in monthly/yearly installments over periods from one to five years. Both are unsecured.

Year		Amount
2012	$	2,660,467
2013		8,475,328
2014		2,463,707
2015		788,895
2016		-
	$	**14,388,397**

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

Leases at floating rates	$	13,688,417
Loan at rates of 8.9%		475,980
Interest free loan		224,000
	$	**14,388,397**

12) ASSET RETIREMENT OBLIGATION

Additions as a result of Slater acquisition	$	1,693,283
Effect of exchange rate change		(13,201)
Accretion expense		94,180
Net additional provision		1,280,244
	$	**3,054,506**

Total asset retirement obligation at February 28, 2011 is comprised of:

Current portion	$	389,177
Long-term portion		2,665,329
	$	**3,054,506**

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 1 to 10 years using a 9.5% discount rate.

13) LOANS PAYABLE

	2011	2009
Directors and officers of Slater Coal	$ 260,297	$ -
Other	1,637	-
	$ 261,934	**$ -**

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
Private placement (ix)	8,000,000	36,400,000
Issue costs	-	(8,674,699)
Shares issued on business combination (vi)	3,938,965	11,029,102
Shares issued on Nyah transaction (vii)	1,279,384	1,716,357
Performance shares issued into escrow (viii)	2,700,000	7,196,100
Options exercised	75,000	243,750
Options exercised - valuation reallocation	-	182,250
Balance, February 28, 2011	**33,665,717**	**$91,315,650**

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 consolidated 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.

14) SHARE CAPITAL (Continued)

(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.

(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 1,279,384 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).

(ix) On February 22, 2011, the Company closed bought deal offering (the "Offering") of 8,000,000 common shares (the "Offered Shares") of the Company at a price of $4.55 per Offered Share for aggregate gross proceeds of $36,400,000. A syndicate of underwriters have also been granted an over-allotment option to purchase up to an additional 1,200,000 common shares of the Company at a price of $4.55 per common share for a period of 30 days from the date hereof. (See Note 23).

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

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;

15) SHARES IN ESCROW (Continued)

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 include:

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

16) WARRANTS

The following warrants were outstanding as at February 28, 2011:

	Expiration date	Number of warrants	Exercise price	Grant Date Fair Value
Balance, December 31, 2009 and November 12, 2009		**-**	**$ -**	**$ -**
Broker warrants granted on private placement	January 23, 2012	763,887	2.80	993,053
Broker warrants granted on private placement	February 22, 2013	480,000	4.55	1,156,800
Balance, February 28, 2011		**1,243,887**	**$ 3.48**	**$2,149,853**

The warrants granted during the period were broker warrants issued as part of the private placements described in Note 14(v) and Note 14(ix). The weighted average grant date fair value of these warrants was estimated at $1.73 using the Black-Scholes option pricing model under the following assumptions: expected dividend yield – 0%; risk-free interest rate – 1.53-1.79%; expected volatility – 100%; and time to expiry – 1.5-2 years.

17) 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.

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17) STOCK OPTIONS (Continued)

Summary of stock option activity:

	Number of options	Weighted average exercise price
Balance, December 31, 2009 and November 12, 2009	**-**	**$ -**
Granted (i)(iii)	2,435,000	3.20
Issued on Nyah transaction (ii)	122,798	8.99
Exercised	(75,000)	(3.25)
Balance, February 28, 2011	**2,482,798**	**$ 3.49**

(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.

(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.

The following options were outstanding and exercisable as at February 28, 2011:

Exercise price	Number of options outstanding	Number of options exercisable	Grant date estimated fair value	Expiration date
$ -	-	-	$ -	
2.39	36,432	36,432	65,512	May 31, 2012
2.80	260,000	260,000	1,040,746	March 15, 2015
3.25	2,100,000	2,100,000	5,103,000	October 13, 2015
7.96	17,662	17,662	12,579	February 27, 2012
7.96	2,405	2,405	1,713	February 27, 2012
7.96	11,023	11,023	12,343	January 4, 2013
13.93	55,276	55,276	27,537	May 31, 2012
$ 3.49	**2,482,798**	**2,482,798**	**$ 6,263,430**	

18) CONTRIBUTED SURPLUS

Balance, December 31, 2009 and November 12, 2009	**$ -**
Stock options granted	6,325,996
Performance special warrants issued (Note 15)	7,196,100
Options issued on Nyah transaction (Notes 3 and 17)	119,684
Conversion of performance special warrants (Note 15)	(7,196,100)
Stock options exercised	(182,250)
Balance, February 28, 2011	**$ 6,263,430**

19) 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.

20) 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 ($25,000). A 10% increase in the United States Dollar would have increased (decreased) the Company's income by $1,130,000.

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

20) FINANCIAL RISK FACTORS (Continued)

(a) Market risk (continued)

ii. Interest rate risk

The Company's interest rate risk arises from deposits held with banks and interest-bearing liabilities. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. A 1% increase in interest rates would create an additional income of approximately $70,000.

iii. Price risk

The Company is exposed to price risk with respect to commodity prices. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for commodities, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities including governmental reserves and stability of exchange rates can all cause significant fluctuations in commodities prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. A 10% change in the market price of coal would have resulted in a corresponding change in revenues of approximately $2,700,000.

(b) Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents and accounts and other receivables. 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. Other receivables primarily consist of goods and services tax due from the Federal Government of Canada and amounts owing from coal sales. Restricted cash totaling $1,736,000 was on deposit with the First National Bank, to be released to a supplier if payments are not made to them. Management believes that the credit risks concentration with respect to these amounts receivables are remote.

(c) Liquidity risk

As February 28, 2011, the Company had net working capital of $27,443,234 (2009 – $27,566) which included cash and cash equivalents and restricted cash of $16,988,651 (2009 - $52,177), accounts receivable and other receivables of $12,410,375 (2009 - $600) and inventories of $10,526,681 (2009 – nil), offset by current liabilities of $12,542,774 (2009 - $32,355).

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

(d) Fair value of financial instruments

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

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

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

As at February 28, 2011, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the limited term of these instruments. The following table illustrates the classification of the Company's Financial Instruments within the fair-value hierarchy as at February 28, 2011:

	Level 1	Level 2	Level 3
Cash and cash equivalents	$13,208,183	$ -	$-
Other assets – endowment policy	$ -	$ -	$3,478,609

21) RELATED PARTY TRANSACTIONS

In November 2009, certain directors, officers and consultants of the Company subscribed to 1,600,000 common shares of the Company (Note 14 (i)).

In November 2009 and March 2010, a company with common directors solely participated in two private placements of common shares of the Company (Note 14 (ii) and (iii)).

The Transaction with Nyah (Note 3) was a related party transaction because at the time of the Transaction certain directors and officers of the Company were also directors, officers and shareholders of Nyah.

During the Special Warrants offering (Note 14 (v)) certain directors, officers and a company with common directors subscribed to Special Warrants, which subsequently were converted into common shares of the Company.

The Company shares its premises with other companies that have common directors and officers and the Company reimburses the related companies for its proportional share of the expenses. At February 28, 2011 an amount of $nil (December 31, 2009 - $nil) was prepaid and $33,718 (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 $1,015,574 which consisted primarily of a receivable from Valencia Ventures Inc. ("Valencia") in the amount of $1,000,000 for the sale of the Agnew Lake Project. In October 2010, $500,000 of this amount was received from Valencia. Mr. Stan Bharti is a director of Valencia. Valencia and the Company have certain directors and or officers in common. Also as a result of the Nyah transaction Forbes Coal acquired a payable in the amount of $100,000 payable to Forbes & Manhattan Inc., a company of which Stan Bharti is an officer and director, which was paid in full as at February 28, 2011.

As a result of Slater Coal acquisition Forbes Coal acquired receivables and payables in the net amount of $121,394 owed from the former Slater Coal shareholders and their related parties to the Company. As at the date of these consolidated financial statements an amount of $260,297 in loans payable to directors and officers of Slater Coal was recorded.

Also as a result of Slater Coal acquisition business relationships with certain related parties were inherited which resulted in total transactions for seven months being for services purchased being $ 2,458,000 and for sales of goods being $852,000.

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

22) COMMITMENTS AND CONTINGENCIES

Management contracts

The Corporation is party to certain management contracts. These contracts require that additional payments of approximately $2,110,000 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 $375,000 all due within one year.

Lease and installment payment obligations

The Company is committed to minimum amounts under long-term capital lease and installment payment agreements for plant and equipment. Minimum commitments remaining under these leases were $13,688,417 over the following years:

Year	Amount
2012	$ 2,558,162
2013	8,111,696
2014	2,324,076
2015	694,483
	$ 13,688,417

Environmental contingency

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

Throughput, transportation and sales contracts

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

Stock exchange listing

As part of the South African regulatory approval process in connection with the purchase of Slater Coal (Note 4), the Company agreed to complete a listing of the Company's common shares on the Johannesburg Stock Exchange by August 2011.

23) SUBSEQUENT EVENTS

On March 4, 2011, the Company announced that an over-allotment option was exercised in full and an additional 1,200,000 common shares (the "Optioned Shares") of the Company were purchased at a price of $4.55 per common share for aggregate gross proceeds of $5,460,000 and bringing total gross proceeds of the Offering to $41,860,000. The underwriters were paid a cash commission equal to 6% of the gross proceeds of the over-allotment.

During the month of March 2011 the Company granted 825,000 common stock options to certain directors, officers and consultants.