



FORBES COAL

FORBES & MANHATTAN COAL CORP.

CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

For the three months ended May 31, 2013 and 2012
(Presented in Canadian dollars)

FORBES & MANHATTAN COAL CORP.
Consolidated Statements of Financial Position
(Presented in Canadian dollars)

	Notes	May 31, 2013	February 28, 2013
ASSETS			
Current			
Cash		\$ 2,403,809	\$ 3,025,664
Restricted cash		50,000	50,000
Accounts and other receivables	22	13,376,585	13,610,214
Inventories	9	8,620,027	10,153,759
Other assets	13	1,684,733	1,879,946
Prepaid expenses		53,753	83,235
Total current assets		26,188,907	28,802,818
Property, plant and equipment	10	60,093,206	68,951,509
Intangibles	11	4,044,662	4,561,205
Goodwill	12	13,698,623	15,239,856
Other assets	13	3,139,750	3,024,084
Long-term restricted cash		1,273,480	1,421,040
Deferred income taxes		617,516	428,109
Total assets		\$ 109,056,144	\$ 122,428,621
LIABILITIES			
Current			
Accounts payable and accrued liabilities	14,20	\$ 16,654,283	\$ 16,590,646
Other financial liabilities	15	9,546,394	10,674,912
Asset retirement obligations	16	273,613	305,317
Loans payable		22,060	24,616
Total current liabilities		26,496,350	27,595,491
Other financial liabilities	15	11,891,579	14,568,444
Asset retirement obligations	16	3,038,958	3,388,467
Deferred income taxes		8,070,686	9,852,429
Total liabilities		49,497,573	55,404,831
SHAREHOLDERS' EQUITY			
Issued capital		97,342,142	97,342,142
Reserves	18	3,127,324	7,387,684
Deficit		(15,463,570)	(19,703,918)
Currency translation reserve		(26,086,337)	(18,641,130)
Equity attributable to the owners of the Company		58,919,559	66,384,778
Non-controlling interest		639,012	639,012
Total shareholders' equity		59,558,571	67,023,790
Total liabilities and shareholders' equity		\$ 109,056,144	\$ 122,428,621

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APPROVED ON BEHALF OF THE BOARD:

Signed "Stephan Theron", Director

Signed "Bernie Wilson", Director

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

FORBES & MANHATTAN COAL CORP.
Consolidated Statements of Operations and Comprehensive Loss
(Presented in Canadian Dollars)

	Notes	For the three months ended	
		May 31, 2013	May 31, 2012
REVENUE		\$ 20,509,688	\$ 20,800,194
COST OF SALES			
Operating expenses		16,799,554	16,180,952
Amortization and depletion		3,385,570	2,806,780
		20,185,124	18,987,732
Gross profit		324,564	1,812,462
EXPENSES			
Consulting and professional fees	20	953,755	755,530
General and administration	20	1,020,429	1,447,825
Stock based compensation	18	190	18,266
Mineral properties investigation costs		-	7,084
		1,974,374	2,228,705
Net loss before other items		(1,649,810)	(416,243)
OTHER ITEMS			
Other income		495,051	42,449
Interest expense	8	(499,270)	(582,278)
Foreign exchange gain		45	12,458
Unrealized loss on marked-to-market securities		(20,089)	(368,303)
NET LOSS before income tax		(1,674,073)	(1,311,917)
Income and other tax expense		1,653,871	(278,411)
NET LOSS for the period		(20,202)	(1,590,328)
Other comprehensive loss items			
Unrealized loss on foreign currency translation		(7,445,207)	(6,454,153)
COMPREHENSIVE LOSS for the period		\$ (7,465,409)	\$ (8,044,481)
Net loss per share - basic and diluted		(0.01)	(0.05)
Headline loss per share - basic and diluted		(0.01)	(0.05)
Weighted average number:			
of common shares outstanding - basic		34,386,035	34,865,717
of common shares outstanding - diluted		34,386,035	34,865,717

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

FORBES & MANHATTAN COAL CORP.
Consolidated Statements of Cash Flows
(Presented in Canadian Dollars)

	For the three months ended	
	May 31, 2013	May 31, 2012
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss for the period	\$ (20,202)	\$ (1,590,328)
Adjustments:		
Amortization and depletion	3,385,570	2,806,780
Fair value adjustment on financial assets	(217,133)	(10,192)
Deferred income taxes	(1,854,567)	(504,997)
Accretion	2,533	26,708
Unrealized foreign exchange (gain)	(2,800)	(302)
Unrealized loss on marked-to-market securities	20,089	368,303
Stock based compensation	190	18,266
	1,313,680	1,114,238
Net change in non-cash working capital	458,653	208,758
	1,772,333	1,322,996
INVESTING ACTIVITIES		
Long-term prepaid expenses	-	(112,097)
Additions to property, plant and equipment	(612,292)	(1,953,139)
Additional recovery from (contribution to) endowment policy	(263,251)	(244,471)
Restricted cash	-	(13,020)
	(875,543)	(2,322,727)
FINANCING ACTIVITIES		
Investec loan facility - repayments	(1,154,347)	(327,395)
Instalment sale agreements - repayments	(123,281)	(86,467)
Other loans drawdowns (repayments)	-	(203,335)
Change in non-current accounts receivable	1,847	583,123
	(1,275,781)	(34,074)
Effect of exchange rate change on cash	(242,864)	(333,492)
CHANGE IN CASH	(378,991)	(1,033,805)
CASH, beginning of the period	3,025,664	9,481,078
CASH, end of the period	\$ 2,403,809	\$ 8,113,781

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

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

	Number of shares issued	Issued capital	Reserves				Deficit	Currency translation reserve	Shareholders' equity
			Warrant reserve	Option reserve	BEE option reserve	Treasury shares			
Balance as at February 29, 2012	34,865,717	\$ 98,792,926	\$ 2,149,853	\$ 7,812,941	\$ 1,245,529	\$ -	\$ (14,519,284)	\$ (6,106,530)	\$ 89,375,435
Stock-based compensation	-	-	-	18,266	-	-	-	-	18,266
Stock options expired	-	-	-	(65,512)	-	-	65,512	-	-
Broker warrants expired	-	-	(993,053)	-	-	-	993,053	-	-
Other comprehensive loss for the period	-	-	-	-	-	-	-	(6,454,153)	(6,454,153)
Net loss for the period	-	-	-	-	-	-	(1,590,328)	-	(1,590,328)
Balance as at May 31, 2012	34,865,717	\$ 98,792,926	\$ 1,156,800	\$ 7,765,695	\$ 1,245,529	\$ -	\$ (15,051,047)	\$ (12,560,683)	\$ 81,349,220
Repurchase of shares	-	-	-	-	-	(286,966)	-	-	(286,966)
Cancellation of repurchased shares	(479,682)	(1,450,784)	-	-	-	286,966	1,163,818	-	-
Stock-based compensation	-	-	-	20,038	-	-	-	-	20,038
Stock options expired	-	-	-	(1,643,578)	-	-	1,643,578	-	-
Broker warrants expired	-	-	(1,156,800)	-	-	-	1,156,800	-	-
Dividends declared to BEE partners	-	-	-	-	-	-	(58,374)	-	(58,374)
Other comprehensive loss for the period	-	-	-	-	-	-	-	(6,080,447)	(6,080,447)
Net loss for the period	-	-	-	-	-	-	(8,558,693)	-	(8,558,693)
Balance as at February 28, 2013	34,386,035	\$ 97,342,142	\$ -	\$ 6,142,155	\$ 1,245,529	\$ -	\$ (19,703,918)	\$ (18,641,130)	\$ 66,384,778
Stock-based compensation	-	-	-	190	-	-	-	-	190
Stock options expired	-	-	-	(4,260,550)	-	-	4,260,550	-	-
Other comprehensive loss for the period	-	-	-	-	-	-	-	(7,445,207)	(7,445,207)
Net loss for the period	-	-	-	-	-	-	(20,202)	-	(20,202)
Balance as at May 31, 2013	34,386,035	\$ 97,342,142	\$ -	\$ 1,881,795	\$ 1,245,529	\$ -	\$ (15,463,570)	\$ (26,086,337)	\$ 58,919,559

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

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2013 and 2012

(Presented in Canadian dollars)

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. The Company is listed on the Toronto Stock Exchange ("TSX") and the Johannesburg Stock Exchange ("JSE"). The Company's head office is located at 65 Queen Street West, Suite 815, Toronto, Ontario, Canada. These consolidated financial statements were approved and authorized for issue by the Board of Directors on July 11, 2013.

The Company's subsidiary Forbes Coal (Pty) Ltd. (formerly known as Slater Coal (Pty) Ltd.) ("Forbes Coal Dundee"), a South African company, holds an interest in coal mines in South Africa ("Forbes Coal Dundee Properties"). The Forbes Coal Dundee Properties comprise of the operating Magdalena bituminous mine (the "Magdalena Property") and the Aviemore anthracite mine (the "Aviemore Property"). Forbes Coal Dundee is engaged in open-pit and underground coal mining.

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

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.

The mining industry in South Africa has been experiencing tense labor relation issues including labour disruptions. The Company did experience labour disruptions during October and November 2012 resulting in over four weeks of lost production. While the dispute has been resolved and the disruption has ceased, if new labour disruptions were to take place at the Company's mines, they could have further and significant negative impacts on the operations and financial results of the Company.

These unaudited condensed 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 programs. This need for operating cash flow represents a material uncertainty. The Company's expectation is that it will generate positive earnings and cash flows in future periods, thereby making the going concern assumption appropriate.

During fiscal 2013 the Company experienced labour disruptions which negatively impacted its financial results and contributed to certain debt facility covenants not being met (see Note 15). The Company has negotiated with the union and labour force and has reached amicable and reasonable resolutions. The bank has waived the breach of the debt facility covenants to May 31, 2013.

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.

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2013 and 2012

(Presented in Canadian dollars)

2) BASIS OF PREPARATION

These condensed interim consolidated financial statements of the Company and its subsidiary were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and have been prepared in accordance with accounting policies based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations. The policies set out in the Company's annual consolidated financial statements for the year ended February 28, 2013 were consistently applied to all the periods presented unless otherwise noted below.

The preparation of condensed interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as held-for-trading, which are stated at their fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

3) NEW ACCOUNTING POLICIES

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2013 or later periods. Updates that are not applicable or are not consequential to the Company have been excluded thereof.

IFRS 10 Consolidated Financial Statements ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. This standard became effective for the Company for the period beginning on or after March 1, 2013. There was no significant impact on the consolidated financial statements as a result of this change.

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

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 Investments in Associates and IAS 36 Impairment of Assets. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company adopted IFRS 11 in its consolidated financial statements for the period beginning on March 1, 2013. The Company currently has no joint ventures and therefore there is no impact of IFRS 11 to the Company's consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12") requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. This IFRS enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance. IFRS 12 became effective for the Company for the period beginning March 1, 2013. There was significant impact of IFRS 12 to the Company's consolidated financial statements

IFRS 13 Fair Value Measurement ("IFRS 13") converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 became effective for the Company for the period beginning March 1, 2013. Adoption of this standard had no significant impact on the Company's consolidated financial statements.

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2013 and 2012

(Presented in Canadian dollars)

3) NEW ACCOUNTING POLICIES (Continued)

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine ("IFRIC 20") provides guidance on the accounting for costs related to stripping activity in the production phase of surface mining. When the stripping activity results in the benefit of useable ore that can be used to produce inventory, the related costs are to be accounted for in accordance with IAS 2 Inventories; when the stripping activity results in the benefit of improved access to ore that will be mined in future periods, the related costs are to be accounted for in accordance with IFRIC 20 as additions to non-current assets when specific criteria are met. IFRIC 20 became effective for the Company for the period beginning March 1, 2013. The Company is in compliance with IFRIC 20. There was no significant change to the consolidated financial statements as a result of this change.

IAS 1 Presentation of Financial Statements ("IAS 1"), has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment became effective for the Company for the period beginning March 1, 2013. There was no significant impact to the Company's consolidated financial statements as a result of this change.

4) FUTURE ACCOUNTING CHANGES

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

5) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, Forbes Coal Dundee, Zinoju, Corondale Prospecting and Mining Company Pty Ltd and Bowwood and Main No33 (Pty) Ltd ("Bowwood").

Subsidiaries

Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. Generally, control is obtained when the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

Business Combinations and Goodwill

On the acquisition of a subsidiary, the purchase method of accounting is used to account for the acquisition as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange;
- directly attributable transaction costs are expensed rather than included in the acquisition purchase price;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date except for non-current assets that are classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognized and measured at fair value less costs to sell;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- if the acquisition cost is less than the fair value of the net assets acquired, the difference is recognized directly in profit or loss;
- the interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's fair value; and
- the measurement of contingent consideration at fair value on the acquisition date is performed with subsequent changes in the fair value recorded through the consolidated statement of operations.

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2013 and 2012

(Presented in Canadian dollars)

5) PRINCIPLES OF CONSOLIDATION (Continued)

All material intercompany transactions are eliminated on consolidation. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized and is tested for impairment annually. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. The level at which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal purposes, but shall not be larger than an operating segment determined in accordance with IFRS 8 Operating Segments. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Transactions with non-controlling interests

Transactions with non-controlling interests are treated as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between the consideration paid and the non-controlling share of the carrying value of net assets acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are similarly computed and also recorded in equity.

6) SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

- **Assets' carrying values and impairment charges**
In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.
- **Capitalization of exploration and evaluation costs**
Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.
- **Mineral reserve estimates**
The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as coal prices, foreign exchange rates and market conditions could have a material effect the Company's reserves and resources, and as a result, could also have a material effect on the Company's financial position and results of operation.

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2013 and 2012

(Presented in Canadian dollars)

6) SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

- **Impairment of exploration and evaluation assets**
While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, depreciation of US dollar relative to the South African Rand, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics could result in a write-down of the carrying amounts of the Company's assets.
- **Estimation of decommissioning and restoration costs and the timing of expenditure**
The cost estimates are updated annually during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.
- **Income taxes and recoverability of potential deferred tax assets**
In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.
- **Share-Based Payments**
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions could materially affect the fair value estimates.
- **Contingencies**
Refer to Notes 1, 21 and 22.

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2013 and 2012

*(Presented in Canadian dollars)***7) SEGMENTS**

The Company operates in Canada and South Africa. The Company's revenue from external customers and information about its assets by geographical location are detailed below:

	Current assets	Property, plant and equipment	Intangibles	Other non-current assets	Total assets
February 28, 2013					
Canada	\$ 1,255,200	\$ -	\$ -	\$ 60,268	\$ 1,315,468
South Africa	27,547,618	68,951,509	4,561,205	20,052,821	121,113,153
	\$ 28,802,818	\$ 68,951,509	\$ 4,561,205	\$ 20,113,089	\$ 122,428,621
May 31, 2013					
Canada	\$ 726,890	\$ -	\$ -	\$ 40,179	\$ 767,069
South Africa	25,462,017	60,093,206	4,044,662	18,689,190	108,289,075
	\$ 26,188,907	\$ 60,093,206	\$ 4,044,662	\$ 18,729,369	\$ 109,056,144

All of the Company's revenues are earned from production in South Africa.

8) INTEREST (EXPENSE)

	Three months ended	
	May 31, 2013	May 31, 2012
Interest bearing borrowings	\$ 566,989	\$ 638,658
Unwinding discount on rehabilitation provision	2,533	26,708
Interest expense	569,522	665,366
Cash and restricted cash	70,252	83,088
Interest income	70,252	83,088
Net interest (expense)	\$ (499,270)	\$ (582,278)

9) INVENTORIES

	May 31, 2013	February 28, 2013
Consumables	\$ 513,826	\$ 338,164
Work in progress	1,268,455	808,126
Finished goods	6,837,746	9,007,469
	\$ 8,620,027	\$ 10,153,759

As at May 31, 2013 \$5,525,139 of inventories are presented at cost and \$3,094,888 of inventories are presented at net realizable value after recording a write-down of approximately \$778,260. As at February 28, 2013 \$5,988,941 of inventories are presented at cost and \$4,164,818 of inventories are presented at net realizable value after recording a write-down of approximately \$734,638.

The amount of inventories recognized as an expense during the three months ended May 31, 2013 is \$16,799,554 (May 31, 2012 - \$16,180,952).

FORBES & MANHATTAN COAL CORP.

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(Presented in Canadian dollars)

10) PROPERTY, PLANT AND EQUIPMENT

	Mining assets	Office equipment and fixtures	Land and buildings	Development costs	Mining rights	Total
Cost as at February 28, 2013	\$ 52,000,506	\$ 693,332	\$ 992,216	\$ 6,421,292	\$ 35,403,836	\$ 95,511,182
Effect of foreign currency exchange difference	(5,399,704)	(71,995)	(103,031)	(666,783)	(3,676,315)	(9,917,828)
Additions	539,883	2,540	-	25,246	-	567,669
Cost as at May 31, 2013	\$ 47,140,685	\$ 623,877	\$ 889,185	\$ 5,779,755	\$ 31,727,521	\$ 86,161,023
Accumulated depreciation, depletion and impairment as at February 28, 2013	\$ (18,632,673)	\$ (299,978)	\$ (106,273)	\$ (560,801)	\$ (6,959,948)	\$ (26,559,673)
Effect of foreign currency exchange difference	1,934,806	31,150	11,035	58,233	722,717	2,757,941
Charge for the period	(1,726,207)	(47,687)	(12,296)	(95,949)	(383,946)	(2,266,085)
Depreciation and depletion as at May 31, 2013	\$ (18,424,074)	\$ (316,515)	\$ (107,534)	\$ (598,517)	\$ (6,621,177)	\$ (26,067,817)
Net book value as at February 28, 2013	\$ 33,367,833	\$ 393,354	\$ 885,943	\$ 5,860,491	\$ 28,443,888	\$ 68,951,509
Net book value as at May 31, 2013	\$ 28,716,611	\$ 307,362	\$ 781,651	\$ 5,181,238	\$ 25,106,344	\$ 60,093,206

Land and building includes a net book value balance of approximately \$71,000 for a property that is not used in production and operations. Mining assets include a net book value balance of approximately \$23,000 for a vehicle that is not used in production and operations. Office equipment includes a net book value balance of approximately \$54,000 for fixtures that are not used in production and operations.

11) INTANGIBLES

	Richards Bay Coal Terminal entitlements	Mineral and prospecting rights	Total
Cost as at February 28, 2013	\$ 4,047,787	\$ 859,500	\$ 4,907,287
Effect of foreign currency exchange difference	(420,320)	(89,250)	(509,570)
Cost as at May 31, 2013	\$ 3,627,467	\$ 770,250	\$ 4,397,717
Accumulated depreciation, depletion and impairment as at February 28, 2013	\$ (331,195)	\$ (14,887)	\$ (346,082)
Effect of foreign currency exchange difference	34,392	1,546	35,938
Charge for the period	(40,331)	(2,580)	(42,911)
Depreciation, depletion and impairment as at May 31, 2013	\$ (337,134)	\$ (15,921)	\$ (353,055)
Net book value as at February 28, 2013	\$ 3,716,592	\$ 844,613	\$ 4,561,205
Net book value as at May 31, 2013	\$ 3,290,333	\$ 754,329	\$ 4,044,662

12) GOODWILL

Balance as at February 28, 2013	\$ 15,239,856
Effect of foreign currency exchange difference	(1,541,233)
Balance as at May 31, 2013	\$ 13,698,623

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*(Presented in Canadian dollars)***13) OTHER ASSETS**

	May 31, 2013	February 28, 2013
Endowment policy	\$ 3,831,290	\$ 3,778,409
Security investments	40,179	60,268
Long term investments	614,893	686,142
Long term receivables	338,121	379,211
	\$ 4,824,483	\$ 4,904,030

The other assets include an endowment policy held by the Company to fund payment requirements associated with its instalment 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.

	May 31, 2013	February 28, 2013
Current portion	\$ 1,684,733	\$ 1,879,946
Long-term portion	3,139,750	3,024,084
	\$ 4,824,483	\$ 4,904,030

The table below sets forth the summary of changes in the endowment policy for the period ended May 31, 2013:

Balance as at February 28, 2013	\$ 3,778,409
Effect of exchange rate change	(392,346)
Current year contributions	243,986
Fair value adjustment	201,242
Balance as at May 31, 2013	\$ 3,831,290

14) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	May 31, 2013	February 28, 2013
Trade payables	\$ 4,386,223	\$ 5,003,629
Payroll and other statutory liabilities	1,307,785	832,228
Current tax payable	63,931	292,706
Unrecognized revenue	7,964,651	5,693,382
Other payables and accruals	2,931,693	4,768,701
	\$ 16,654,283	\$ 16,590,646

15) OTHER FINANCIAL LIABILITIES

	May 31, 2013	February 28, 2013
Instalment sale agreements(*)	\$ 2,122,866	\$ 2,496,344
Third party institutional loans (**)	19,315,107	22,747,012
Total interest bearing borrowings	21,437,973	25,243,356
Less:		
Current portion of instalment sale agreements	(2,122,866)	(2,403,690)
Current portion of third party institutional loans	(7,423,528)	(8,271,222)
Total current portion of interest bearing borrowings	(9,546,394)	(10,674,912)
Total long-term portion of interest bearing borrowings	\$ 11,891,579	\$ 14,568,444

FORBES & MANHATTAN COAL CORP.

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15) OTHER FINANCIAL LIABILITIES (Continued)

(*) The instalment sale agreements related liabilities are payable over periods from three to five years, at interest rates linked to prime and are secured by mining assets with a book value of approximately \$2,100,000 and an endowment policy.

(**) The Company, through its subsidiary Forbes Coal Dundee, has secured a ZAR 230 million (approximately \$24 million) loan facility from Investec Limited ("Investec"). The loan facility consists of a five year senior secured amortizing term loan facility of up to ZAR 200 million (approximately \$21 million) and a revolving loan facility of up to ZAR 30 million (approximately \$3 million). The facilities are secured against the assets of Forbes Coal Dundee. Term loan bears interest at the 3 month JIBAR rate, plus 3%, compounded quarterly and the revolving loan bears interest at prime interest rate less 1.5%. The interest rate has increased by 1% effective January 2013 as the earnings before interest, taxes, depreciation and amortization of Forbes Coal Dundee fell below ZAR 100 million annually (approximately \$10 million).

The loan is repayable in quarterly payments of ZAR 10,526,315 (approximately \$1,100,000) commencing on March 1, 2012, with the first capital payment made in July 2012. As at May 31, 2013, an amount of \$19,315,107 (ZAR 188,073,093) is recorded as owed under this facility and repayable as follows:

In the next	Amount
12 months	\$ 7,423,528
13-24 months	4,324,211
25-36 months	4,324,211
37-48 months	3,243,157
	\$ 19,315,107

The Investec loan is issued under the following terms:

Facilities

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

Cession in Security

- Secured property consists of bank account, insurances, trade receivables, the borrower's shares in Zinoju Coal Proprietary Limited Ltd, all claims by and against group companies and related rights to the preceding.

Mortgage bond

- Secured bond over the property (land and buildings) within Forbes Coal Dundee (coal fields).

General bond

- Secured bond over the property (movable) within Forbes Coal Dundee, including:
 - a. all the plant, equipment, machinery, office furniture, fixtures and fittings, inventory and motor vehicles;
 - b. every claim and indebtedness of whatever kind or nature;
 - c. all the rights to quotas, permits, licenses and the like;
 - d. all the contractual rights, including without limitation, rights in respect of insurance policies taken out by or in favor of the mortgagor, franchise rights and rights under agency agreements or other agreements of a like nature and rights as lessee or lessor;
 - e. all the goodwill of the business of the mortgagor and all its rights to trademarks and trade names,

Special bond

- Secured bond over the property (movable) within Forbes Coal Dundee, that is currently used as security over the finance lease agreements.

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15) OTHER FINANCIAL LIABILITIES (Continued)

The Company made the following drawdowns on the facility: in January 2012, the Company made a drawdown for ZAR 11,140,000 (approximately \$1,144,000), in February 2012 for ZAR 142,000,000 (approximately \$14,583,000) and in June 2012 for ZAR 46,860,000 (approximately \$4,813,000). As at May 31, 2013, both the senior term loan facility of ZAR 200,000,000 (approximately \$21 million) and the working capital facility of ZAR 30,000,000 (approximately \$3 million) were fully drawn down.

This loan is a subject to a Net Debt/EBIDA, EBITDA/Net Interest and Debt/Equity covenants. As at May 31, 2013, the Company was not in compliance with its covenants. The bank has waived the breaches that have taken place to May 31, 2013.

See Cancelled Acquisition of Riversdale Mining Limited (Note 22) which discloses an additional loan facility, offered by Investec to fund this potential acquisition.

The other financial liabilities are repayable as follows:

In the next	Amount
12 months	\$ 9,546,394
13-24 months	4,324,211
25-36 months	4,324,211
37-48 months	3,243,157
	\$ 21,437,973

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

Instalment sale agreements at floating rates	\$ 2,122,866
Investec loan at 9.13%	19,315,107
	\$ 21,437,973

16) ASSET RETIREMENT OBLIGATIONS

Balance as at February 28, 2013	\$ 3,693,784
Effect of foreign currency exchange difference	(383,561)
Accretion expense	2,348
Balance as at May 31, 2013	\$ 3,312,571

The provision 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 consolidated statements of financial position date and is expected to be paid out over 16 to 26 years. South African mining companies are required by law to undertake rehabilitation works as part of their ongoing operations. These environmental rehabilitation costs are funded by contributions into endowment policies.

The expected timing of the cash outflows in respect of the provision is on the closure of the various mining operations. However, certain current rehabilitation costs are charged to this provision as and when incurred.

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17) SHARES IN ESCROW

On July 20, 2010, the shareholders of Forbes Coal 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") to be released once the Company achieves US\$22,000,000 in EBITDA from the Forbes Coal Dundee Properties over a 12 consecutive month period by July 20, 2013. During the year ended February 29, 2012, the US\$22,000,000 in EBITDA from Forbes Coal Dundee Properties was achieved and the above mentioned Escrowed Shares were released on October 26, 2011;
- ii) The remaining Escrowed Shares will be released if the Company achieves US\$35,000,000 in EBITDA from the Forbes Coal Dundee 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 Forbes Coal Dundee Properties will exclude any gains or losses generated by the combined company from the disposition of the Forbes Coal Dundee Properties. In the event of not achieving US\$35,000,000 in EBITDA from the Forbes Coal Dundee Properties, the above mentioned Escrowed Shares will be cancelled. (EBITDA is a non-IFRS 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 was 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%

18) RESERVES

	No. of options	Weighted average exercise price	Value of options vested	No. of warrants	Weighted average exercise price	Value of warrants vested	Total value
Balance as at February 28, 2013	2,730,000	\$ 3.18	\$ 7,387,684	-	\$ -	\$ -	\$ 7,387,684
Vested	-	-	190	-	-	-	190
Expired	(1,785,000)	3.43	(4,260,550)	-	-	-	(4,260,550)
Balance as at May 31, 2013	945,000	\$ 2.72	\$ 3,127,324	-	\$ -	\$ -	\$ 3,127,324

Employee share options plan

The Company has an ownership-based compensation scheme, to be administered by the board of directors of the Company, for directors, officers, employees and consultants. The plan provides for the issuance of share options to acquire up to 10% of the Company's issued and outstanding capital. The number of shares reserved for issuance pursuant to the grant of share options will increase as the Company's issued and outstanding share capital increases. In accordance with the terms of the plan, as approved by shareholders at a previous annual general meeting, directors, officers, employees and consultants of the Company may be granted options to purchase common shares at an exercise price determined by the board of directors, but which shall not be lower than the market price of the underlying common shares at the time of grant.

Each employee share option converts into one common share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

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*(Presented in Canadian dollars)***18) RESERVES (Continued)**

During the three months ended May 31, 2013 nil (May 31, 2012 – nil) share options were granted to directors, officers, employees and consultants of the Company.

The following share-based payment arrangements were in existence as at May 31, 2013:

Share options

Number of options outstanding	Number of options exercisable	Grant date	Expiration date	Exercise price	Grant date estimated fair value vested	Expected volatility	Expected life years at grant	Expected dividend yield	Risk-free interest rate
190,000	190,000	15-Mar-10	15-Mar-15	\$ 2.80	\$ 760,545	100%	5.00	0.00%	2.39%
25,000	25,000	13-Oct-10	13-Oct-15	\$ 3.25	\$ 60,750	100%	5.00	0.00%	1.74%
160,000	160,000	24-Mar-11	24-Mar-16	\$ 4.10	\$ 356,800	63%	5.00	0.00%	2.15%
100,000	100,000	6-Jun-11	6-Jun-16	\$ 3.00	\$ 160,000	61%	5.00	0.00%	2.23%
150,000	150,000	13-Jun-11	13-Jun-16	\$ 2.77	\$ 220,500	61%	5.00	0.00%	2.24%
320,000	320,000	25-Jan-12	25-Jan-17	\$ 1.80	\$ 323,200	67%	5.00	0.00%	1.36%
945,000	945,000			\$ 2.71	\$ 1,881,795		5.00		

For the three months ended May 31, 2013, the diluted weighted average number of common shares outstanding excluded 945,000 options, as they were anti-dilutive.

Restricted Share Unit

The Company approved the adoption of a Restricted Share Unit (“RSU”) Incentive Plan. Upon adoption of the new plan, the Company is authorized to grant and issue RSUs to directors and officers of the Company. Each RSU shall entitle the director or officer to receive one common share of the Company upon completion of certain terms. The common shares will be repurchased from the open market and held in trust for subsequent issuance. No RSU were issued as at May 31, 2013.

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19) FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset and financial liability are disclosed in Note 6 of the annual financial statements for the years ended February 28, 2013 and February 29, 2012.

The Company's financial assets and financial liabilities as at May 31, 2013 and February 28, 2013 were as follows:

	Cash, loans and receivables	Assets / (liabilities) at fair value through profit	Other financial assets/(liabilities)	Total
February 28, 2013				
Cash	\$ 3,025,664	\$ -	\$ -	\$ 3,025,664
Restricted cash	50,000	-	-	50,000
Accounts and other receivables	13,610,214	-	-	13,610,214
Other assets	379,211	4,524,819	-	4,904,030
Long-term restricted cash	1,421,040	-	-	1,421,040
Accounts payable and accrued liabilities	-	-	(16,590,646)	(16,590,646)
Other financial liabilities - current	-	-	(10,674,912)	(10,674,912)
Other financial liabilities - long term	-	-	(14,568,444)	(14,568,444)
Loan payable	-	-	(24,616)	(24,616)
May 31, 2013				
Cash	\$ 2,403,809	\$ -	\$ -	\$ 2,403,809
Restricted cash	50,000	-	-	50,000
Accounts and other receivables	13,376,585	-	-	13,376,585
Other assets	338,121	4,486,362	-	4,824,483
Long-term restricted cash	1,273,480	-	-	1,273,480
Accounts payable and accrued liabilities	-	-	(16,654,283)	(16,654,283)
Other financial liabilities - current	-	-	(9,546,394)	(9,546,394)
Other financial liabilities - long term	-	-	(11,891,579)	(11,891,579)
Loan payable	-	-	(22,060)	(22,060)

At May 31, 2013, there are no significant concentrations of credit risk for loans and receivables designated at fair value through the consolidated statement of operations and comprehensive (loss). The carrying amount reflected above represents the Company's maximum exposure to credit risk for such loans and receivables.

CAPITAL MANAGEMENT

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

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

The Company is not subject to any externally imposed capital requirements with the exception as discussed in Note 15.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no significant changes in the risks, objectives, policies and procedures in the three months ended May 31, 2013 and 2012, except for the Investec loan as discussed in Note 15.

As at May 31, 2013, the capital structure of the Company consists of equity attributable to the owners, reserves attributable to owners, directors, officers, employees and consultants of the Company totaling \$58,919,559 (February 28, 2013 - \$66,384,778) and an interest bearing loan of \$19,315,107 (February 28, 2013 - \$22,747,012).

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19) FINANCIAL INSTRUMENTS (Continued)

FINANCIAL RISK FACTORS

The Company is exposed to a variety of financial risks.

The Company's overall management program focuses on the unpredictability of financial markets and seeks to minimize 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 and the US dollar. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. The Company's Investec loan facility is also denominated in Rand. In addition, coal is priced on international markets in United States dollars and converted to Rand to support operations in South Africa.

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

A 10% increase (decrease) in the period average foreign exchange rate between the South African Rand and the Company's functional currency, the Canadian dollar, would have increased (decreased) the Company's income by approximately (\$100,000) for the three months ended May 31, 2013. A 10% increase in the period average foreign exchange rate between the United States dollar and Forbes Coal Dundee's functional currency, the South African Rand, would have increased (decreased) the Company's income by approximately \$926,000 for the period ended May 31, 2013, as only the export portion of sales is denominated in United States dollars.

A 10% change in the value of the Canadian dollar relative to the US dollar and South African Rand would have an impact on net income of approximately \$28,000 based on the net assets of the Company at May 31, 2013.

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19) FINANCIAL INSTRUMENTS (Continued)

FINANCIAL RISK FACTORS (Continued)

(a) Market risk (continued)

The following assets and liabilities are presented in Canadian dollar values and denominated in different currencies as at May 31, 2013 and February 28, 2013:

	Forbes Coal parent company balances (*)				Forbes Coal Dundee balances (**)		Total
	presented in CAD and denominated in				presented in CAD and denominated in		
	CAD	USD	GBP	ZAR	ZAR	USD	
Cash	\$ 680,932	\$ 463	\$ -	\$ 1,166,275	\$ 1,177,994	\$ -	\$ 3,025,664
Restricted cash	50,000	-	-	-	-	-	50,000
Accounts and other receivables	453,959	-	-	5,367,750	6,367,937	1,420,568	13,610,214
Inventories	-	-	-	-	10,153,759	-	10,153,759
Other assets - current	-	-	-	-	1,879,946	-	1,879,946
Prepaid expenses	69,846	-	-	13,389	-	-	83,235
Property, plant and equipment	-	-	-	89,129	68,862,380	-	68,951,509
Intangibles	-	-	-	-	4,561,205	-	4,561,205
Goodwill	-	-	-	-	15,239,856	-	15,239,856
Other assets - long term	60,268	-	-	-	2,963,816	-	3,024,084
Long-term restricted cash	-	-	-	1,421,040	-	-	1,421,040
Deferred income taxes	-	-	-	-	428,109	-	428,109
Accounts payable and accrued liabilities	(739,066)	(2,880)	(8,878)	(1,368,956)	(9,963,938)	(4,506,928)	(16,590,646)
Other financial liabilities - current	-	-	-	-	(10,674,912)	-	(10,674,912)
Other financial liabilities - long term	-	-	-	-	(14,568,444)	-	(14,568,444)
Asset retirement obligation - current	-	-	-	-	(305,317)	-	(305,317)
Asset retirement obligation - long term	-	-	-	-	(3,388,467)	-	(3,388,467)
Loans payable	-	-	-	-	(24,616)	-	(24,616)
Deferred income taxes	-	-	-	-	(9,852,429)	-	(9,852,429)
Net exposure as at February 28, 2013	\$ 575,939	\$ (2,417)	\$ (8,878)	\$ 6,688,627	\$ 62,856,879	\$ (3,086,360)	\$ 67,023,790
Cash	\$ 570,313	\$ 448	\$ -	\$ 614,689	\$ 1,218,359	\$ -	\$ 2,403,809
Restricted cash	50,000	-	-	-	-	-	50,000
Accounts and other receivables	63,913	-	-	4,802,198	8,074,488	435,986	13,376,585
Inventories	-	-	-	-	8,620,027	-	8,620,027
Other assets - current	-	-	-	-	1,684,733	-	1,684,733
Prepaid expenses	42,216	-	-	11,537	-	-	53,753
Property, plant and equipment	-	-	-	77,407	60,015,799	-	60,093,206
Intangibles	-	-	-	-	4,044,662	-	4,044,662
Goodwill	-	-	-	-	13,698,623	-	13,698,623
Other assets - long term	40,179	-	-	-	3,099,571	-	3,139,750
Long-term restricted cash	-	-	-	1,273,480	-	-	1,273,480
Deferred income taxes	-	-	-	-	617,516	-	617,516
Accounts payable and accrued liabilities	(548,793)	(1,764)	-	(846,464)	(8,608,474)	(6,648,788)	(16,654,283)
Other financial liabilities - current	-	-	-	-	(9,546,394)	-	(9,546,394)
Other financial liabilities - long term	-	-	-	-	(11,891,579)	-	(11,891,579)
Asset retirement obligation - current	-	-	-	-	(273,613)	-	(273,613)
Asset retirement obligation - long term	-	-	-	-	(3,038,958)	-	(3,038,958)
Loans payable	-	-	-	-	(22,060)	-	(22,060)
Deferred income taxes	-	-	-	-	(8,070,686)	-	(8,070,686)
Net exposure as at May 31, 2013	\$ 217,828	\$ (1,316)	\$ -	\$ 5,932,847	\$ 59,622,014	\$ (6,212,802)	\$ 59,558,571

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

(**) Functional currency of Forbes Coal Dundee is the Rand

ii. Interest rate risk

The Company's interest rate risk arises from deposits held with banks and interest-bearing liabilities. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. A 1% increase in interest rates would create additional expense of approximately \$11,000 per month.

iii. Price risk

The Company is exposed to price risk with respect to commodity prices. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for commodities, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities including governmental reserves and stability of exchange rates can all cause significant fluctuations in commodities prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. A 10% change in the market price of coal would have resulted in a corresponding change in revenues of approximately \$2,050,000 for the three months ended May 31, 2013.

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19) FINANCIAL INSTRUMENTS (Continued)

FINANCIAL RISK FACTORS (Continued)

(b) Credit risk

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

Restricted cash totaling \$50,000 was in GIC investment with Royal Bank of Canada held as collateral against credit card limits used by the Company. Long-term portion of restricted cash totaling \$1,273,480 was on deposit with First National Bank to be released to a supplier if payments are not made to them.

(c) Liquidity risk

As at May 31, 2013, the Company had net working capital (deficiency) of (\$307,443) (February 28, 2013 – \$1,207,327) which includes cash and restricted cash of \$2,453,809 (February 28, 2013 – \$3,075,664), accounts receivable and other receivables of \$13,376,585 (February 28, 2013 – \$13,610,214), inventories of \$8,620,027 (February 28, 2013 – \$10,153,759) and other assets of \$1,684,733 (February 28, 2013 – \$1,879,946), offset by current liabilities of \$26,496,350 (February 28, 2013 – \$27,595,491).

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.

(d) Fair value of financial instruments

The Company has designated its 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, loans payable and other financial liabilities are classified as other financial liabilities, which are measured at amortized cost.

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

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

As at May 31, 2013, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the limited term of these instruments. The following table illustrates the classification of the Company's financial instruments within the fair-value hierarchy as at May 31, 2013 and February 28, 2013:

<u>May 31, 2013</u>	Level 1	Level 2	Level 3
Endowment policy and investments	\$ 40,179	\$ -	\$4,446,183
<u>February 28, 2013</u>	Level 1	Level 2	Level 3
Endowment policy and investments	\$ 60,268	\$ -	\$4,464,551

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20) RELATED PARTY DISCLOSURE

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

	Sales of goods and services for the three months ended		Purchases of goods and services for the three months ended	
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
2227929 Ontario Inc.	\$ -	\$ -	\$ 147,551	\$ 149,819
Forbes & Manhattan Inc	\$ -	\$ -	\$ 101,700	\$ 101,700

The Company shares office space with other companies who may have officers or directors in common with the Company. The costs associated with this space, certain consulting, professional and general and administration services are administered by 2227929 Ontario Inc.

Mr. Stan Bharti, a director of the Company, is the Executive Chairman of Forbes & Manhattan, Inc. An administration fee of \$15,000 per month was previously charged by Forbes & Manhattan, Inc. pursuant to a consulting agreement. On May 1, 2013 a consulting agreement for administration fee of \$15,000 per month by Forbes & Manhattan, Inc. was amended to include 3 months termination clause and 24 months change of control clause. Also on May 1, 2013 a consulting agreement with Mr. Stan Bharti, a director of the Company and the Executive Chairman of Forbes & Manhattan, Inc. for a consulting fee of \$15,000 per months was terminated.

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

	Amounts owed by related parties as at		Amounts owed to related parties as at	
	May 31, 2013	February 28, 2013	May 31, 2013	February 28, 2013
2227929 Ontario Inc.	\$ 21,313	\$ -	\$ -	\$ 7,938

These amounts are unsecured, non-interest bearing with no fixed terms of repayment. The related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Compensation of key management personnel

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

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

	Three months ended	
	May 31, 2013	May 31, 2012
Short-term benefits	\$ 378,181	\$ 296,489

21) COMMITMENTS AND CONTINGENCIES

Management contracts

The Company is party to certain management contracts. These contracts require that additional payments of approximately \$2,300,000 be made upon the occurrence of a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements. Minimum commitments remaining under these contracts were approximately \$430,000 all due within one year.

Instalment sale agreements payment obligations

The Company is committed to minimum amounts under instalment sale agreements for plant and equipment. Minimum commitments remaining under these leases were \$2,122,866 and are payable in the current period.

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21) COMMITMENTS AND CONTINGENCIES (Continued)

Environmental contingency

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

Guarantees and pledges

The Company and its subsidiaries have made certain guarantees and pledges in the aggregate of approximately ZAR 20 million (\$2,100,000).

Operating commitments

The Company is party to an off-take agreement, terminating December 31, 2013 that requires the Company to deliver 800,000 metric tons of coal during 2013 on a price based upon the market price of coal.

The Company is party to an agreement, terminating December 31, 2013 that requires the Company to export 60,000 metric tons of coal per month through the Navitrade Terminal. Should this requirement not be met, a penalty of ZAR 90 (\$9) per ton is payable on the difference between the actual number of tons shipped and the minimum commitment.

Outstanding legal proceedings

Sasfin Bank Limited has claimed advisory fees in relation to the successful conclusion of the Riversdale Mining Acquisition in the amount of ZAR 5,660,000 (\$580,000). The Company believes the claim is without merit and intends to defend itself against this claim. No amount has been provided for related to this claim in these consolidated financial statements.

Existing Investec loan facility

Please refer to Note 15.

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

Zinoju entered into an agreement to acquire a prospecting right, for a total consideration of ZAR 14 million (approximately \$1.4 million). A payment of ZAR 2 million (approximately \$0.2 million) of the purchase consideration has been paid to the seller and has been included in intangibles as at May 31, 2013. The seller holds an undivided 100% interest in the prospecting right and is in the process of applying for the effective conversion of the prospecting right into a mining right, by virtue of an application for a mining right.

In order for the sale agreement to be effective, two conditions needed to be met, which were still outstanding as at May 31, 2013:

1. The granting of the mining right; and
2. Zinoju obtaining the written consent of the Minister as required in terms of section 11 of the Mineral and Petroleum Resources Development Act, 2002 (the "Assignment Approval").

Both of the above conditions were fulfilled in June 2013, and the payment of the balance of the purchase consideration of ZAR 12 million (\$1.2 million) was made by Zinoju to the seller in June 2013.

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22) CANCELLED ACQUISITION OF RIVERSDALE MINING LIMITED

Proposed acquisition of Riversdale Mining Limited

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

Cancellation of proposed acquisition

In February 2013, the Company notified RML of the cancellation of the agreement between the Company and RML for the acquisition by the Company of 100% of the shares and shareholder claims of RHPL.

Subsequent to the parties entering into the agreement in September 2012, and pending fulfillment of the conditions precedent contained in the agreement, the performance of ZAC deteriorated materially. This, in the opinion of the Company, constituted a material breach of certain of the provisions of the agreement by RML, entitling the Company to cancel the agreement. The cancellation took place by written notice from the Company to RML on February 1, 2013. RML has denied being in breach of the agreement. RML has also alleged damages have been suffered by RML as a result of the termination of the agreement. The parties have attempted to reach agreement on an alternative and mutually beneficial way forward in respect of the acquisition, but such discussions have to date been unsuccessful. The Company will defend itself against any claims received against Forbes Coal by RML as a result of the termination of the agreement. As at May 31, 2013 and July 15, 2013, the Company is not aware of any formal claims having been made against Forbes Coal by RML.

The deposits made totalling ZAR 45,500,000 (\$4,672,850) are expected to be recovered and are included on the Consolidated Statements of Financial Position as at May 31, 2013 in the line item Accounts and other receivables.

Loan facility

Investec had agreed to underwrite the funding for the Acquisition, by the way of the provision of guarantees of ZAR 394.5 million (approximately \$40.5 million) to Riversdale Mining Limited, and ultimately by providing debt funding for the same amount, for the payment of the purchase consideration.

As at May 31, 2013, no liability existed to Investec in respect of the transaction guarantees, other than in respect of the front-end fee. Pursuant to the loan agreement, the Company must pay to the lender a front-end fee equal to 4% of the guarantee facility amount. This fee of ZAR 17,989,200 (approximately \$1,847,000) was previously accrued and was paid in May 2013. The transaction guarantees expired on May 31, 2013.

See additional securities in respect of the Investec term loan facility and revolving loan facility as disclosed in Note 15.

23) SUBSEQUENT EVENTS

No significant events occurred subsequent to May 31, 2013.