



**FORBES & MANHATTAN COAL CORP.**

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**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

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for the three and six months ended August 31, 2011  
(presented in Canadian dollars)

**UNAUDITED**

**Forbes & Manhattan Coal Corp.**  
**Condensed Interim Consolidated Statements of Financial Position**

As at,  
(Unaudited – prepared by management)  
(Presented in Canadian dollars)

	Notes	August 31, 2011	February 28, 2011
<b>ASSETS</b>			
Current			
Cash and cash equivalents		\$ 24,218,841	\$ 15,252,651
Restricted cash		2,076,100	1,736,000
Accounts and other receivables		13,634,282	12,410,375
Inventories	13	6,466,159	10,526,681
Prepaid expenses		79,681	60,301
		<b>46,475,063</b>	<b>39,986,008</b>
Property, plant and equipment	11	76,441,765	79,316,581
Intangibles	10	5,814,029	5,911,567
Goodwill		18,672,014	18,672,014
Other assets	12	8,341,437	5,398,825
Deferred income taxes		149,648	120,061
		<b>\$ 155,893,956</b>	<b>\$ 149,405,056</b>
<b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities	14	\$ 11,990,630	\$ 7,031,196
Acquisition obligation	9	21,313,792	-
Other financial liabilities	15	686,622	2,660,467
Asset retirement obligation	16	389,753	389,177
Loans payable	17	179,493	261,934
		<b>34,560,290</b>	<b>10,342,774</b>
Acquisition obligation	9	-	20,300,925
Asset retirement obligation	16	2,837,797	2,665,329
Other financial liabilities	15	9,966,199	11,727,930
Deferred income taxes		18,372,084	18,654,227
		<b>65,736,370</b>	<b>63,691,185</b>
<b>SHAREHOLDERS' EQUITY</b>			
Issued capital	18	98,792,926	93,672,871
Share-based payment reserves	20	10,345,033	8,413,283
Deficit		(19,860,225)	(17,434,614)
Currency translation reserve		(717,677)	(535,198)
Equity attributable to the owners of the company		<b>88,560,057</b>	<b>84,116,342</b>
Non-controlling interest	6	1,597,529	1,597,529
		<b>90,157,586</b>	<b>85,713,871</b>
		<b>\$ 155,893,956</b>	<b>\$ 149,405,056</b>

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APPROVED ON BEHALF OF THE BOARD:

Signed "Stephan Theron", Director

Signed "David Stein", Director

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

**Forbes & Manhattan Coal Corp.**  
**Condensed Interim Consolidated Statements of Operations and Comprehensive Income (Loss)**  
*(Unaudited – prepared by management)*  
*(Presented in Canadian Dollars)*

	Notes	For the three months ended		For the six months ended	
		August 31, 2011	September 30, 2010 (Note 1)	August 31, 2011	September 30, 2010 (Note 1)
<b>REVENUE</b>		\$ 35,242,776	\$ 6,627,239	\$ 54,850,735	\$ 6,627,239
<b>COST OF SALES</b>					
Operating expenses		24,098,251	3,389,874	36,592,959	3,389,874
Amortization and depletion		5,520,500	1,790,695	8,448,193	1,790,695
		29,618,751	5,180,569	45,041,152	5,180,569
<b>Gross profit</b>		5,624,025	1,446,670	9,809,583	1,446,670
<b>EXPENSES</b>					
Consulting and professional fees		2,256,383	407,885	3,028,583	521,415
General and administration		1,796,793	469,788	2,558,343	700,081
Stock based compensation	20	92,000	7,622,500	1,931,750	7,622,500
		4,145,176	8,500,173	7,518,676	8,843,996
<b>Net income (loss) before other items</b>		1,478,849	(7,053,503)	2,290,907	(7,397,326)
<b>OTHER ITEMS</b>					
Other income (loss)		(204,932)	151,109	31,237	151,109
Business combination transaction costs		(3,084)	(1,027,235)	(21,618)	(1,027,235)
Accretion	9	(528,184)	(639,036)	(1,065,443)	(639,036)
Interest income (expense)	8	(209,277)	(205,990)	(520,848)	(205,990)
Foreign exchange gain (loss)		235,778	(1,407,408)	(72,160)	(1,408,671)
Loss on share-based payments	25	-	(2,357,221)	-	(2,357,221)
<b>NET INCOME (LOSS) before income tax</b>		769,150	(12,539,284)	642,075	(12,884,370)
Income tax expense		(2,190,128)	(804,412)	(3,067,686)	(804,412)
<b>NET INCOME (LOSS) for the period</b>		(1,420,978)	(13,343,696)	(2,425,611)	(13,688,782)
<b>Other comprehensive income items</b>					
Unrealized gain (loss) on foreign currency translation		(1,198,282)	910,874	(182,479)	910,874
<b>COMPREHENSIVE (LOSS) for the period</b>		\$ (2,619,260)	\$ (12,432,822)	\$ (2,608,090)	\$ (12,777,908)
Net loss per share - basic and diluted		(0.04)	(0.76)	(0.07)	(2.69)
Weighted average number of common shares outstanding-basic and diluted		34,865,717	17,521,600	34,852,674	5,091,652

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

**Forbes & Manhattan Coal Corp.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
*(Unaudited – prepared by management)*  
*(Presented in Canadian Dollars)*

	For the three months ended		For the six months ended	
	August 31, 2011	September 30, 2010 (Note 1)	August 31, 2011	September 30, 2010 (Note 1)
<b>CASH PROVIDED BY (USED IN):</b>				
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (1,420,978)	\$ (10,986,475)	\$ (2,425,611)	\$ (11,331,588)
Adjustments:				
Amortization and depletion	5,520,500	1,819,911	8,448,193	1,819,911
Fair value adjustment on financial assets	70,204	(313,693)	20,156	(313,693)
Deferred income taxes	(300)	243,855	(30,203)	243,855
Accretion	555,547	639,036	1,119,804	639,036
Foreign exchange	(243,928)	1,408,975	(27,550)	1,408,975
Stock based compensation	92,000	7,622,500	1,931,750	7,622,500
	4,573,045	434,109	9,036,539	88,996
Net change in non-cash working capital	5,957,092	(751,081)	6,067,216	(684,520)
	10,530,137	(316,972)	15,103,755	(595,524)
<b>INVESTING ACTIVITIES</b>				
Change in accounts payable attributable to property exploration	-	(16,513)	-	-
Business combination	(22,193)	(29,969,030)	(22,193)	(29,993,586)
Cash acquired on business combination	-	3,832,045	-	3,832,045
Cash acquired on Nyah transaction	-	968,356	-	968,356
Additions to property, plant and equipment	(2,294,472)	(628,494)	(3,968,153)	(628,494)
Additional contribution to endowment policy	(335,644)	-	(646,616)	-
Investment in held for trading instruments	-	(28,292)	-	(28,292)
Investment in securities	(250,000)	-	(250,000)	-
Restricted cash	(293,820)	-	(343,820)	-
	(3,196,129)	(25,841,928)	(5,230,782)	(25,849,971)
<b>FINANCING ACTIVITIES</b>				
Change in accounts payable attributable to share issue costs	59,191	(1,517,000)	351,673	(1,517,000)
Shares issued for cash	-	38,340,409	5,460,000	38,340,409
Commitment to issue special warrants	-	(2,000,001)	-	(2,000,001)
Shares issue costs	(59,191)	-	(691,618)	-
Loans payable	(2,789,764)	421,626	(5,942,495)	426,798
	(2,789,764)	35,245,034	(822,440)	35,250,206
Effect of exchange rate change on cash and cash equivalents	(108,274)	129,584	(84,343)	129,584
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>4,544,244</b>	<b>9,086,134</b>	<b>9,050,533</b>	<b>8,804,711</b>
<b>CASH AND CASH EQUIVALENTS, beginning of the period</b>	<b>19,782,871</b>	<b>-</b>	<b>15,252,651</b>	<b>281,423</b>
<b>CASH AND CASH EQUIVALENTS, end of the period</b>	<b>\$ 24,218,841</b>	<b>\$ 9,215,718</b>	<b>\$ 24,218,841</b>	<b>\$ 9,215,718</b>
<b>CASH AND CASH EQUIVALENTS CONSIST OF:</b>				
Cash	\$ 24,218,841	\$ 9,215,718	\$ 24,218,841	\$ 9,215,718
Cash equivalents	\$ -	\$ -	\$ -	\$ -
<b>SUPPLEMENTAL INFORMATION</b>				
Shares issued on business combination	\$ -	\$ 11,029,102	\$ -	\$ 11,029,102
Shares issued on Nyah transaction into escrow	\$ -	\$ 1,716,357	\$ -	\$ 1,716,357
Performance shares issued into escrow	\$ -	\$ 7,196,100	\$ -	\$ 7,196,100
Broker warrants granted on private placements	\$ -	\$ 993,053	\$ -	\$ 993,053
Interest and dividend income	\$ (209,277)	\$ (205,990)	\$ (520,848)	\$ (205,990)
Income taxes received (paid)	\$ (2,818,253)	\$ 1,788,210	\$ (2,788,350)	\$ 1,788,210

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

**Forbes & Manhattan Coal Corp.**  
**Condensed Interim Consolidated Statements of Changes in Equity**  
*(Unaudited - prepared by management)*  
*(Presented in Canadian dollars)*

	Number of shares issued	Issued capital	Share-based payment reserves		Deficit	Currency translation reserve	Shareholders' equity
			Warrant reserve	Option reserve			
<b>Balance as at January 1, 2010</b>	<b>2,600,000</b>	<b>\$ 800,160</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (36,888)</b>	<b>\$ -</b>	<b>\$ 763,272</b>
Shares issued on private placements	100,000	500,000	-	-	-	-	500,000
Stock-based compensation	-	-	-	104,000	-	-	104,000
Net loss for the three months ended March 31, 2010	-	-	-	-	(379,169)	-	(379,169)
<b>Balance as at March 31, 2010</b>	<b>2,700,000</b>	<b>\$ 1,300,160</b>	<b>\$ -</b>	<b>\$ 104,000</b>	<b>\$ (416,057)</b>	<b>\$ -</b>	<b>\$ 988,103</b>
Shares issued on private placements	14,972,368	38,017,958	-	-	-	-	38,017,958
Shares issued on business combination	3,938,965	11,029,102	-	-	-	-	11,029,102
Shares issued on Nyah transaction	1,279,384	4,073,578	-	-	-	-	4,073,578
Performance shares issued into escrow	2,700,000	7,196,100	-	-	-	-	7,196,100
Stock-based compensation	-	-	-	426,400	-	-	426,400
Options issued on Nyah transaction	-	-	-	119,684	-	-	119,684
Broker warrants granted on private placement	-	(993,053)	993,053	-	-	-	-
Other comprehensive income for the six months ended September 30, 2010	-	-	-	-	-	910,874	910,874
Net loss for the six months ended September 30, 2010	-	-	-	-	(13,688,809)	-	(13,688,809)
<b>Balance at September 30, 2010</b>	<b>25,590,717</b>	<b>\$ 60,623,845</b>	<b>\$ 993,053</b>	<b>\$ 650,084</b>	<b>\$(14,104,866)</b>	<b>\$ 910,874</b>	<b>\$ 49,072,990</b>
Shares issued on public offering	8,000,000	33,779,826	-	-	-	-	33,779,826
Stock-based compensation	-	-	-	5,795,596	-	-	5,795,596
Shares issued on exercise of options	75,000	426,000	-	(182,250)	-	-	243,750
Broker warrants granted on public offering	-	(1,156,800)	1,156,800	-	-	-	-
Other comprehensive loss for the period ended February 28, 2011	-	-	-	-	-	(1,446,072)	(1,446,072)
Net loss for the period ended February 28, 2011	-	-	-	-	(3,329,748)	-	(3,329,748)
<b>Balance as at February 28, 2011</b>	<b>33,665,717</b>	<b>\$ 93,672,871</b>	<b>\$ 2,149,853</b>	<b>\$ 6,263,430</b>	<b>\$(17,434,614)</b>	<b>\$ (535,198)</b>	<b>\$ 84,116,342</b>
Shares issued on public offering	1,200,000	5,120,055	-	-	-	-	5,120,055
Stock-based compensation	-	-	-	1,931,750	-	-	1,931,750
Other comprehensive loss for the six months ended August 31, 2011	-	-	-	-	-	(182,479)	(182,479)
Net loss for the six months ended August 31, 2011	-	-	-	-	(2,425,611)	-	(2,425,611)
<b>Balance as at August 31, 2011</b>	<b>34,865,717</b>	<b>\$ 98,792,926</b>	<b>\$ 2,149,853</b>	<b>\$ 8,195,180</b>	<b>\$(19,860,225)</b>	<b>\$ (717,677)</b>	<b>\$ 88,560,057</b>

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

## **FORBES & MANHATTAN COAL CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

August 31, 2011 – Unaudited

*(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. 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 condensed 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 and Johannesburg Stock Exchange ("JSE"). The Company's head office is located at 65 Queen Street West, Suite 815, Toronto, Ontario, Canada. These condensed interim consolidated financial statements were approved by the Board of Directors on October 17, 2011.

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 7. 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. ("Zinoju") 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 required 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. As a result, the unaudited condensed interim consolidated financial statements of the Company for the six months ended August 31, 2011 are presented with comparatives for the six months ended September 31, 2010.

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) BASIS OF PREPARATION**

These condensed interim consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). As these financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting and by IFRS 1, First-time Adoption of IFRS. These condensed consolidated interim financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in its February 28, 2012 financial statements. Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and outstanding as of that time. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

## **FORBES & MANHATTAN COAL CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

August 31, 2011 – Unaudited

*(Presented in Canadian dollars)*

### **2) BASIS OF PREPARATION (Continued)**

The Company's consolidated financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Canadian GAAP differs in some areas from IFRS. Certain information and footnote disclosures which are considered material to the understanding of the Company's interim financial statements and which are normally included in annual financial statements prepared in accordance with IFRS are provided in notes along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, operations, comprehensive income (loss), and the statements of financial position and cash flows. These condensed interim consolidated financial statements should be read in conjunction with the Company's condensed interim consolidated financial statements for the three months ended May 31, 2011.

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

### **3) FUTURE ACCOUNTING CHANGES**

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

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, 2013, with earlier adoption permitted. The Company is currently assessing the impact of IFRS 9 on its financial statements.

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

IFRS 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 is effective for annual period beginning on January 1, 2013. Earlier application is permitted. The Company has not yet determined the impact of the amendments to IFRS 10 on its financial statements.

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

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 Investments in Associates and IAS 36 Impairment of Assets. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 11 on its financial statements.

## **FORBES & MANHATTAN COAL CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

August 31, 2011 – Unaudited

*(Presented in Canadian dollars)*

### **3) FUTURE ACCOUNTING CHANGES (Continued)**

IFRS 13 Fair Value Measurement 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 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 13 on its financial statements.

### **4) PRINCIPLES OF CONSOLIDATION**

The condensed interim consolidated financial statements comprise the financial statements of the Company and its subsidiaries, Slater Coal, Zinoju, Nyah Resources Inc. and Forbes and Manhattan (Coal) Inc..

#### 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.

All material intercompany transactions are eliminated in 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 and 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.



## **FORBES & MANHATTAN COAL CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

August 31, 2011 – Unaudited

(Presented in Canadian dollars)

### **5) SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

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

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

- Asset carrying values and impairment charges
- Estimation of asset lives and related basis for depreciation, depletion and amortization
- Determination of ore reserve estimates
- Recognition of deferred taxes
- Capitalization of exploration, evaluation costs and development costs
- Contingencies
- Acquisitions and allocation of purchase price
- Determination of economic viability of a project
- Valuation of inventory
- Warrants and stock based compensation valuation
- Income tax accounts

### **6) 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 \$80,900,000) in cash and common stock to Slater Coal shareholders over a two year period:

- ZAR 5,000,000 deposit (\$722,500 paid on November 25, 2009);
- ZAR 22,500,000 (\$3,091,500 paid on June 29, 2010);
- ZAR 213,750,000 (\$30,006,792 paid on July 23, 2010);
- Issue common shares of the Company with a value of ZAR 78,750,000 (\$11,029,102) based on \$2.80 per share (issued on July 30, 2010);
- Cash payment of ZAR 119,000,000 (\$16,457,000 paid February 24, 2011); and
- Cash payment of ZAR 140,000,000 (approximately \$19,558,000) payable by March 1, 2012.

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### 6) PURCHASE OF SLATER COAL (Continued)

#### (a) Purchase of Slater Coal (continued)

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 the March 1, 2012 payment has been made. Given the fact that the final amount of the March 1, 2012 payment is 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.

The March 1, 2012 payment of ZAR 140 million has been recorded on the condensed interim consolidated statements of financial position as a current acquisition obligation (Note 9).

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 JSE within 12 months. As a result on July 28, 2011, the Company began trading on the JSE under the symbol “FMC”.

#### (b) Slater Coal financial results

Reported revenue for the 2010 comparative period of \$6,627,239 (Note 25 (ii)) and related operating expense and amortization and depletion are for the period from the date of acquisition (July 29, 2010) to September 30, 2010, being an approximate two month period.

### 7) OPERATING 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	Properties, plant and equipment	Mine properties	Other non-current assets	Total assets
<b>February 28, 2011</b>					
Canada	\$ 14,794,690	\$ -	\$ -	\$ -	\$ 14,794,690
South Africa	25,191,318	79,316,581	5,911,567	24,190,900	134,610,366
	<b>\$ 39,986,008</b>	<b>\$ 79,316,581</b>	<b>\$ 5,911,567</b>	<b>\$ 24,190,900</b>	<b>\$ 149,405,056</b>
<b>August 31, 2011</b>					
Canada	\$ 14,097,968	\$ -	\$ -	\$ 250,000	\$ 14,347,968
South Africa	32,377,095	76,441,765	5,814,029	26,913,099	141,545,988
	<b>\$ 46,475,063</b>	<b>\$ 76,441,765</b>	<b>\$ 5,814,029</b>	<b>\$ 27,163,099</b>	<b>\$ 155,893,956</b>

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

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*(Presented in Canadian dollars)***8) INTEREST INCOME (EXPENSE)**

	Six months ended	
	August 31, 2011	September 30, 2010
Interest bearing borrowings	\$ 674,747	\$ 212,025
Unwinding discount on rehabilitation provision	54,361	26,305
<b>Interest expense</b>	<b>729,108</b>	<b>238,330</b>
Cash and cash equivalents	152,070	32,340
Restricted cash	56,190	-
<b>Interest income</b>	<b>208,260</b>	<b>32,340</b>
<b>Net interest income (expense)</b>	<b>\$ (520,848)</b>	<b>\$ (205,990)</b>

**9) ACQUISITION OBLIGATION**

	Current	Long-term
<b>Balance as at February 28, 2011</b>	\$ -	\$ 20,300,925
Effect of foreign currency exchange difference	-	(43,502)
Reclassification due to current maturity in March 2012	20,257,423	(20,257,423)
Accretion	1,065,443	-
Effect of foreign currency exchange difference on accretion	(9,074)	-
<b>Balance as at August 31, 2011</b>	<b>\$ 21,313,792</b>	<b>\$ -</b>

See Note 6 (a) for details of the acquisition obligation.

**10) INTANGIBLES**

	Richards Bay Coal Terminal entitlements	Mineral and prospecting rights	Total
<b>Cost as at February 28, 2011</b>	\$ 4,944,940	\$ 1,050,000	\$ 5,994,940
Effect of foreign currency exchange difference	(10,596)	(2,250)	(12,846)
<b>Cost as at August 31, 2011</b>	<b>\$ 4,934,344</b>	<b>\$ 1,047,750</b>	<b>\$ 5,982,094</b>
<b>Depreciation, depletion and impairment as at February 28, 2011</b>	<b>\$ (79,912)</b>	<b>\$ (3,460)</b>	<b>\$ (83,373)</b>
Effect of foreign currency exchange difference	171	7	178
Charge for the period	(82,401)	(2,469)	(84,870)
<b>Depreciation, depletion and impairment as at August 31, 2011</b>	<b>\$ (162,142)</b>	<b>\$ (5,922)</b>	<b>\$ (168,065)</b>
<b>Net book value as at February 28, 2011</b>	<b>\$ 4,865,028</b>	<b>\$ 1,046,540</b>	<b>\$ 5,911,567</b>
<b>Net book value as at August 31, 2011</b>	<b>\$ 4,772,202</b>	<b>\$ 1,041,828</b>	<b>\$ 5,814,029</b>

**FORBES & MANHATTAN COAL CORP.**

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*(Presented in Canadian dollars)***11) PROPERTY, PLANT AND EQUIPMENT**

	<b>Mining assets</b>	<b>Office equipment, radio equipment, fixtures and fittings</b>	<b>Land and buildings</b>	<b>Development costs</b>	<b>Mining rights</b>	<b>Total</b>
<b>Cost as at February 28, 2011</b>	<b>\$ 39,056,503</b>	<b>\$ 199,854</b>	<b>\$ 550,582</b>	<b>\$ 2,433,150</b>	<b>\$ 43,250,760</b>	<b>\$ 85,490,849</b>
Effect of foreign currency exchange difference	(83,693)	(428)	(1,180)	(5,214)	(92,680)	(183,195)
Additions	3,767,257	110,690	72,610	-	-	3,950,557
Change in rehabilitation provision	125,874	-	-	-	-	125,874
Disposals	(29,613)	-	-	-	-	(29,613)
<b>Cost as at August 31, 2011</b>	<b>\$ 42,836,328</b>	<b>\$ 310,116</b>	<b>\$ 622,012</b>	<b>\$ 2,427,936</b>	<b>\$ 43,158,080</b>	<b>\$ 89,354,472</b>
<b>Depreciation and depletion as at February 28, 2011</b>	<b>\$ (4,238,477)</b>	<b>\$ (49,126)</b>	<b>\$ (19,595)</b>	<b>\$ -</b>	<b>\$ (1,867,070)</b>	<b>\$ (6,174,268)</b>
Effect of foreign currency exchange difference	9,082	105	42	-	4,001	13,230
Charge for the period	(4,358,332)	(19,196)	(24,194)	-	(2,349,947)	(6,751,669)
<b>Depreciation and depletion as at August 31, 2011</b>	<b>\$ (8,587,727)</b>	<b>\$ (68,217)</b>	<b>\$ (43,747)</b>	<b>\$ -</b>	<b>\$ (4,213,016)</b>	<b>\$ (12,912,707)</b>
<b>Net book value as at February 28, 2011</b>	<b>\$ 34,818,026</b>	<b>\$ 150,728</b>	<b>\$ 530,987</b>	<b>\$ 2,433,150</b>	<b>\$ 41,383,690</b>	<b>\$ 79,316,581</b>
<b>Net book value as at August 31, 2011</b>	<b>\$ 34,248,601</b>	<b>\$ 241,899</b>	<b>\$ 578,265</b>	<b>\$ 2,427,936</b>	<b>\$ 38,945,064</b>	<b>\$ 76,441,765</b>

Land and building includes a net book value balance of \$ 95,907 for a property that is not used in production and mine operations.

**12) OTHER ASSETS**

	<b>August 31, 2011</b>	<b>February 28, 2011</b>
Endowment policy	\$ 4,090,162	\$ 3,478,609
Security investments	250,000	-
Long term investments	836,423	838,219
Long term receivables	3,164,852	1,081,997
	<b>\$ 8,341,437</b>	<b>\$ 5,398,825</b>

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 August 31, 2011:

<b>Balance as at February 28, 2011</b>	<b>\$ 3,478,609</b>
Effect of exchange rate change	(7,454)
Current year contributions	638,923
Fair value adjustment	(19,916)
<b>Balance as at August 31, 2011</b>	<b>\$ 4,090,162</b>

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*(Presented in Canadian dollars)***13) INVENTORIES**

	August 31, 2011	February 28, 2011
Consumables	\$ 366,471	\$ 267,631
Work in progress	393,268	154,899
Finished goods	5,706,420	10,104,151
	<b>\$ 6,466,159</b>	<b>\$ 10,526,681</b>

As at August 31, 2011, all inventories were presented at cost.

**14) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	August 31, 2011	February 28, 2011
Trade payables	\$ 7,495,232	\$ 5,129,462
Payroll and other statutory liabilities	1,051,644	389,042
Current tax payable	1,365,845	-
Other payables and accruals	2,077,909	1,512,692
	<b>\$ 11,990,630</b>	<b>\$ 7,031,196</b>

**15) OTHER FINANCIAL LIABILITIES**

	August 31, 2011	February 28, 2011
Capital lease agreements (*)	\$ -	\$ 97,579
Installment sale agreements(*)	10,247,552	13,590,838
Third party institutional loans (**)	405,269	699,980
Total interest bearing borrowings	10,652,821	14,388,397
Less:		
Current portion of capital lease agreements	-	(97,579)
Current portion of instalment sale agreements	(547,290)	(2,460,583)
Current portion of third party institutional loans	(139,332)	(102,305)
Total current portion of interest bearing borrowings	(686,622)	(2,660,467)
<b>Total long-term portion of interest bearing borrowings</b>	<b>\$ 9,966,199</b>	<b>\$ 11,727,930</b>

(\*) The lease and installment sale agreements related liabilities are payable over periods from three to five years, at interest rates linked to prime. Installment sale related liabilities are secured by mining assets and an endowment policy with a book value of approximately \$12,900,000.

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

The other financial liabilities are repayable as follows:

Year	Amount
2012	\$ 686,623
2013	8,461,790
2014	1,346,357
2015	158,051
	<b>\$ 10,652,821</b>

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

Leases at floating rates	\$ 10,247,552
Loan at rates of 8.9%	405,269
	<b>\$ 10,652,821</b>

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*(Presented in Canadian dollars)***16) ASSET RETIREMENT OBLIGATION**

<b>Balance as at February 28, 2011</b>	<b>\$ 3,054,506</b>
Effect of foreign currency exchange difference	(6,545)
Accretion expense	53,715
Net additional provision	125,874
<b>Balance as at August 31, 2011</b>	<b>\$ 3,227,550</b>

Total asset retirement obligation as at August 31, 2011 is comprised of:

Current portion	\$ 389,753
Long-term portion	2,837,797
	<b>\$ 3,227,550</b>

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 condensed interim consolidated statements of financial position date and is expected to be paid out over 1 to 10 years using a 9.5% discount rate.

**17) LOANS PAYABLE**

	August 31, 2011	February 28, 2011
Directors and officers of Slater Coal	\$ 165,066	\$ 260,297
Other	14,427	1,637
	<b>\$ 179,493</b>	<b>\$ 261,934</b>

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

**18) ISSUED CAPITAL**

Authorized unlimited number of common shares without par value:

<b>Issued</b>	<b>Number of shares</b>	<b>Stated value</b>
<b>Balance as at January 1, 2010</b>	<b>2,600,000</b>	<b>\$ 800,160</b>
Private placement (i)	100,000	500,000
Private placement (iii)	14,972,368	41,922,630
Public offering (vii)	8,000,000	36,400,000
Issue costs	-	(8,674,699)
Shares issued on business combination (iv)	3,938,965	11,029,102
Shares issued on Nyah transaction (v)	1,279,384	4,073,578
Performance shares issued into escrow (vi)	2,700,000	7,196,100
Options exercised	75,000	243,750
Options exercised - valuation reallocation	-	182,250
<b>Balance as at February 28, 2011</b>	<b>33,665,717</b>	<b>93,672,871</b>
Public offering (vii)	1,200,000	5,460,000
Issue costs	-	(339,945)
<b>Balance as at August 31, 2011</b>	<b>34,865,717</b>	<b>\$ 98,792,926</b>

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### **18) ISSUED CAPITAL (Continued)**

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 condensed consolidated financial statements to reflect the consolidation.

- (i) 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 22 Related Party Transactions).
- (ii) 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.
- (iii) 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 22 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.

- (iv) 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).
- (v) 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 \$4,073,578 (\$3.18 per share). (See Note 22 Related Party Transactions).
- (vi) 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 Note 20).
- (vii) On February 22, 2011, the Company closed a bought deal offering (the "Offering") of 8,000,000 common shares (the "Offered Shares") of the Company at a price of \$4.55 per Offered Share for aggregate gross proceeds of \$36,400,000. A syndicate of underwriters have also been granted an over-allotment option to purchase up to an additional 1,200,000 common shares of the Company at a price of \$4.55 per common share which was exercised on March 3, 2011.

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.

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### 19) SHARES IN ESCROW

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

- i) 50% of the Escrowed Shares (the "First Tranche Escrowed Shares") will be released once the Company achieves US\$22,000,000 in EBITDA from the Slater Coal Properties over a 12 consecutive month period by July 20, 2013. In the event of not achieving US\$22,000,000 in EBITDA from Slater Coal Properties, the above mentioned Escrowed Shares will be cancelled;
- ii) The remaining Escrowed Shares will be released once the Company achieves US\$35,000,000 in EBITDA from the Slater Coal Properties over a 12 consecutive month period within a three year period following the release of the First Tranche Escrowed Shares. For further clarity, EBITDA generated from the Slater Coal Properties will exclude any gains or losses generated by the combined company from the disposition of the Slater Coal Properties. In the event of not achieving US\$35,000,000 in EBITDA from Slater Coal Properties, the above mentioned Escrowed Shares will be cancelled. (EBITDA is a non-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 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%

### 20) SHARE-BASED PAYMENT RESERVES

	No. of options	Weighted average exercise price	Value of options	No. of warrants	Weighted average exercise price	Value of warrants	Total value
Balance as at February 28, 2011	2,482,798	\$ 3.49	\$ 6,263,430	1,243,887	\$ 3.48	\$ 2,149,853	\$ 8,413,283
Granted and vested	962,500	3.93	1,931,750	-	-	-	1,931,750
Balance as at August 31, 2011	3,445,298	\$ 3.61	\$ 8,195,180	1,243,887	\$ 3.48	\$ 2,149,853	\$ 10,345,033

#### 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.



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*(Presented in Canadian dollars)***20) SHARE-BASED PAYMENT RESERVES (Continued)**

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.

During the six months ended August 31, 2011, 962,500 (period ended February 28, 2011 - 2,435,000) share options were granted to directors, officers, employees and consultants of the Company. These options had a grant date estimated fair value of \$1,931,750 (period ended February 28, 2011 - \$8,475,849) and are to vest immediately, over 4 quarters and over 8 quarters. The options expire five years from the date of issue, or 30 days after the resignation of the director, officer, employee or consultant.

The following share-based payment arrangements were in existence as at August 31, 2011:

*Share options*

<b>Number of options outstanding</b>	<b>Number of options exercisable</b>	<b>Grant date</b>	<b>Expiration date</b>	<b>Exercise price</b>	<b>Grant date estimated fair value</b>	<b>Expected volatility</b>	<b>Expected life years</b>	<b>Expected dividend yield</b>	<b>Risk-free interest rate</b>
17,662	17,662	20-Sep-10	27-Feb-12	\$ 7.96	\$ 12,579	100%	1.44	0.00%	1.54%
2,405	2,405	20-Sep-10	27-Feb-12	\$ 7.96	\$ 1,713	100%	1.44	0.00%	1.54%
36,432	36,432	20-Sep-10	31-May-12	\$ 2.39	\$ 65,512	100%	1.70	0.00%	1.54%
55,276	55,276	20-Sep-10	31-May-12	\$ 13.93	\$ 27,537	100%	1.70	0.00%	1.54%
11,023	11,023	20-Sep-10	4-Jan-13	\$ 7.96	\$ 12,343	100%	2.29	0.00%	1.54%
260,000	260,000	15-Mar-10	15-Mar-15	\$ 2.80	\$1,040,746	100%	5.00	0.00%	2.39%
2,100,000	2,100,000	13-Oct-10	13-Oct-15	\$ 3.25	\$5,103,000	100%	5.00	0.00%	1.74%
825,000	825,000	24-Mar-11	24-Mar-16	\$ 4.10	\$1,839,750	63%	5.00	0.00%	2.15%
100,000	25,000	6-Jun-11	6-Jun-16	\$ 3.00	\$ 38,750	61%	5.00	0.00%	2.23%
37,500	37,500	13-Jun-11	13-Jun-16	\$ 2.77	\$ 53,250	61%	5.00	0.00%	2.24%
<b>3,445,298</b>	<b>3,370,298</b>			<b>\$ 3.61</b>	<b>\$8,195,180</b>		<b>4.88</b>		

*Broker warrants*

<b>Number of warrants outstanding</b>	<b>Number of warrants exercisable</b>	<b>Grant date</b>	<b>Expiration date</b>	<b>Exercise price</b>	<b>Grant date estimated fair value</b>	<b>Expected volatility</b>	<b>Expected life years</b>	<b>Expected dividend yield</b>	<b>Risk-free interest rate</b>
763,887	763,887	23-Jul-10	23-Jan-12	\$ 2.80	\$ 993,053	100%	1.50	0.00%	1.53%
480,000	480,000	22-Feb-11	22-Feb-13	\$ 4.55	\$1,156,800	100%	2.00	0.00%	1.79%
<b>1,243,887</b>	<b>1,243,887</b>			<b>\$ 3.48</b>	<b>\$2,149,853</b>		<b>1.70</b>		

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### 21) 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 condensed interim consolidated financial statements for the three months ended May 31, 2011.

The Company's financial assets and financial liabilities as at August 31, 2011 and February 28, 2011 were as follows:

	Cash, loans and receivables	Assets / (liabilities) at fair value through profit	Other financial assets/(liabilities)	Total
<b>February 28, 2011</b>				
Cash	\$ 15,252,651	\$ -	\$ -	\$ 15,252,651
Restricted cash	1,736,000	-	-	1,736,000
Receivables	12,410,375	-	-	12,410,375
Other financial assets non-current	1,081,997	4,316,828	-	5,398,825
Accounts payable and accrued liabilities	-	-	7,031,196	7,031,196
Acquisition obligation	-	-	20,300,925	20,300,925
Other financial liabilities - current	-	-	2,660,467	2,660,467
Other financial liabilities - long term	-	-	11,727,930	11,727,930
Loan payable	\$ -	\$ -	\$ 261,934	\$ 261,934
<b>August 31, 2011</b>				
Cash	\$ 24,218,841	\$ -	\$ -	\$ 24,218,841
Restricted cash	2,076,100	-	-	2,076,100
Receivables	13,634,282	-	-	13,634,282
Other financial assets non-current	3,164,852	5,176,585	-	8,341,437
Accounts payable and accrued liabilities	-	-	11,990,630	11,990,630
Acquisition obligation	-	-	21,313,792	21,313,792
Other financial liabilities - current	-	-	686,622	686,622
Other financial liabilities - long term	-	-	9,966,199	9,966,199
Loan payable	\$ -	\$ -	\$ 179,493	\$ 179,493

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

### CAPITAL MANAGEMENT

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

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.

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 changes in the risks, objectives, policies and procedures in 2010 or 2011.

As at August 31, 2011, the capital structure of the Company consists of equity attributable to the owners, share based payment reserves attributable to directors, officers, employees and consultants of the company totaling \$88,560,057 (February 28, 2011 - \$84,116,342).

## **FORBES & MANHATTAN COAL CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

August 31, 2011 – Unaudited

*(Presented in Canadian dollars)*

### **21) FINANCIAL INSTRUMENTS (Continued)**

#### **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 (\$300,000) for the six months ended August 31, 2011. A 10% increase in the United States dollar would have increased (decreased) the Company's income by \$3,100,000 for the six months ended August 31, 2011.

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

**FORBES & MANHATTAN COAL CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

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*(Presented in Canadian dollars)***21) 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 August 31, 2011 and February 28, 2011:

	Denominated in				Total
	CAD	ZAR	AUD	USD	
Cash and cash equivalents	13,786,713	1,455,408	-	10,530	15,252,651
Restricted cash	-	1,736,000	-	-	1,736,000
Amounts receivable	905,161	5,766,954	-	5,738,260	12,410,375
Inventories	-	10,526,681	-	-	10,526,681
Prepaid expenses	54,434	5,867	-	-	60,301
Property, plant and equipment	-	79,316,581	-	-	79,316,581
Mine properties	-	5,911,567	-	-	5,911,567
Goodwill	18,672,014	-	-	-	18,672,014
Other assets	-	5,398,825	-	-	5,398,825
Deferred income taxes	-	120,061	-	-	120,061
Accounts payable and accrued liabilities	(789,749)	(6,078,926)	-	(162,521)	(7,031,196)
Acquisition obligation	-	(20,300,925)	-	-	(20,300,925)
Other financial liabilities - current	-	(2,660,467)	-	-	(2,660,467)
Other financial liabilities - long term	-	(11,727,930)	-	-	(11,727,930)
Asset retirement obligation - current	-	(389,177)	-	-	(389,177)
Asset retirement obligation - long term	-	(2,665,329)	-	-	(2,665,329)
Loans payable	-	(261,934)	-	-	(261,934)
Deferred income taxes	1,289,802	(19,944,029)	-	-	(18,654,227)
<b>Net balance sheet exposure as at February 28, 2011</b>	<b>\$33,918,375</b>	<b>\$46,209,227</b>	<b>\$ -</b>	<b>\$ 5,586,269</b>	<b>\$85,713,871</b>
Cash and cash equivalents	13,134,155	11,077,889	-	6,797	24,218,841
Restricted cash	50,000	1,732,280	-	293,820	2,076,100
Amounts receivable	501,205	12,453,688	-	679,389	13,634,282
Inventories	-	6,466,159	-	-	6,466,159
Prepaid expenses	73,827	5,854	-	-	79,681
Property, plant and equipment	-	76,441,765	-	-	76,441,765
Mine properties	-	5,814,029	-	-	5,814,029
Goodwill	18,672,014	-	-	-	18,672,014
Other assets	250,000	8,091,437	-	-	8,341,437
Deferred income taxes	-	149,648	-	-	149,648
Accounts payable and accrued liabilities	(689,643)	(10,896,133)	(15,084)	(389,770)	(11,990,630)
Acquisition obligation	-	(21,313,792)	-	-	(21,313,792)
Other financial liabilities - current	-	(686,622)	-	-	(686,622)
Other financial liabilities - long term	-	(9,966,199)	-	-	(9,966,199)
Asset retirement obligation - current	-	(389,753)	-	-	(389,753)
Asset retirement obligation - long term	-	(2,837,797)	-	-	(2,837,797)
Loans payable	-	(179,493)	-	-	(179,493)
Deferred income taxes	1,289,802	(19,661,886)	-	-	(18,372,084)
<b>Net balance sheet exposure as at August 31, 2011</b>	<b>\$33,281,360</b>	<b>\$56,301,074</b>	<b>\$ (15,084)</b>	<b>\$ 590,236</b>	<b>\$90,157,586</b>

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 income of approximately \$51,000 per month.

## **FORBES & MANHATTAN COAL CORP.**

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(Presented in Canadian dollars)

### **21) FINANCIAL INSTRUMENTS (Continued)**

#### **FINANCIAL RISK FACTORS (Continued)**

##### *(a) Market risk (continued)*

###### *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 commodity prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. A 10% change in the market price of coal would have resulted in a corresponding change in revenues of approximately \$5,500,000 for the six months ended August 31, 2011.

##### *(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. Management believes that the credit risks concentration with respect to these amounts receivables are remote.

Restricted cash totaling \$2,076,100 was primarily on deposit with the First National Bank, to be released to a supplier if payments are not made to them, in GIC investment with Royal Bank of Canada held as collateral against credit card limits used by the Company and in a lawyer's trust account.

##### *(c) Liquidity risk*

As August 31, 2011, the Company had net working capital of \$11,914,773 (February 28, 2011 – \$29,643,234) which included cash and cash equivalents and restricted cash of \$26,294,941 (February 28, 2011 – \$16,988,651), accounts receivable and other receivables of \$13,634,282 (February 28, 2011 – \$12,410,375), and inventories of \$6,466,159 (February 28, 2011 – \$10,526,681), offset by current liabilities of \$34,560,290 (February 28, 2011 – \$10,342,774).

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

##### *(d) Fair value of financial instruments*

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

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

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

## FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

August 31, 2011 – Unaudited

(Presented in Canadian dollars)

### 21) FINANCIAL INSTRUMENTS (Continued)

#### FINANCIAL RISK FACTORS (Continued)

(d) Fair value of financial instruments (continued)

As at August 31, 2011, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the limited term of these instruments. The following table illustrates the classification of the Company's Financial Instruments within the fair-value hierarchy as at August 31, 2011 and February 28, 2011:

<u>August 31, 2011</u>	Level 1	Level 2	Level 3
Endowment policy and investments	\$ 250,000	\$ -	\$4,926,585
<u>February 28, 2011</u>	Level 1	Level 2	Level 3
Endowment policy and investments	\$ -	\$ -	\$4,316,828

### 22) RELATED PARTY DISCLOSURE

In March 2010, a company with common directors solely participated in two private placements of common shares of the Company (Note 18 (i)).

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

During the Special Warrants offering (Note 18 (iii)) 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 August 31, 2011 an amount of \$23,516 (February 28, 2011 - \$nil) was prepaid and \$nil (February 28, 2011 – \$33,718) was payable in relation to these expenses. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

As a result of the Nyah transaction, Forbes Coal acquired a receivable of \$1,015,574 which consisted primarily of a receivable from Valencia Ventures Inc. ("Valencia") in the amount of \$1,000,000 for the sale of the Agnew Lake Project. In October 2010, \$500,000 of this amount was received from Valencia and in July 2011 the second payment of \$250,000 was received in form of the shares of 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 condensed interim consolidated financial statements an amount of \$165,066 in loans payable to directors and officers of Slater Coal was recorded. Also an amount of \$777,347 in loans receivable from directors and officers of Slater Coal was recorded.

Also as a result of Slater Coal acquisition, business relationships with certain related parties were inherited which resulted in total transactions for six months being for services purchased being \$2,166,000 and for sales of goods being \$1,389,000.

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.

## FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

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(Presented in Canadian dollars)

### 22) RELATED PARTY DISCLOSURE (Continued)

#### Compensation of key management personnel

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

	Six months ended	
	August 31, 2011	September 30, 2010
Short-term benefits	\$ 880,479	\$ 1,650,833
Share-based payments	1,672,125	-
	<b>\$ 2,552,604</b>	<b>\$ 1,650,833</b>

### 23) COMMITMENTS AND CONTINGENCIES

#### Management contracts

The Corporation is party to certain management contracts. These contracts require that additional payments of approximately \$2,230,000 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 condensed consolidated financial statements. Minimum commitments remaining under these contracts were approximately \$475,000 all due within one year.

#### Installment sale agreements payment obligations

The Company is committed to minimum amounts under installment sale agreements for plant and equipment. Minimum commitments remaining under these leases were \$10,247,552 over the following years:

Year	Amount
2012	\$ 547,290
2013	8,322,458
2014	1,219,753
2015	158,051
	<b>\$ 10,247,552</b>

#### 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 condensed consolidated financial statements.

### 24) SUBSEQUENT EVENTS

No material events occurred subsequent to the period end.

## **FORBES & MANHATTAN COAL CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

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### **25) TRANSITION TO IFRS**

The Company's financial statements for the year ending February 28, 2012 will be the first annual financial statements that comply with IFRS and these condensed interim financial statements were prepared as described in Note 2, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its 2012 annual financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be February 28, 2012. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

#### **Initial elections upon adoption**

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

#### **IFRS Exemption Applied**

- (a) *Share-based payments* - IFRS 2, Share-based Payments, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date
- (b) *Business combinations and Consolidated and Separate Financial Statements*, IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The Company has elected to apply IFRS 3 prospectively. The Company did not apply IFRS 3 retrospectively to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. In accordance with IFRS 1, if a Company elects to apply IFRS 3 Business Combinations retrospectively, IAS 27 Consolidated and Separate Financial Statements must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

#### **IFRS Mandatory Exceptions**

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

#### **Reconciliations of Canadian GAAP to IFRS**

IFRS 1 requires an entity to reconcile its equity, comprehensive income (loss) and cash flows for prior periods. The changes made to the condensed interim consolidated statements of financial position and condensed interim consolidated statements of comprehensive income (loss) have resulted in reclassifications of various amounts on the statements of cash flows. However, as there have been no changes to the net cash flows, no reconciliations have been presented.

#### **Adjustments on transition to IFRS:**

In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by the Company. Please refer to the Company's May 31, 2011 condensed interim consolidated financial statements for a complete description of the accounting policies used.



## FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

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(Presented in Canadian dollars)

### 25) TRANSITION TO IFRS (Continued)

#### (a) Share-based compensation - Forfeitures

**Canadian GAAP** - Forfeitures of awards are recognized as they occur.

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

#### (b) Reverse Acquisition

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

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

#### Impact on Condensed Interim Consolidated Statements of Financial Position and Statements of Operations

	September 30, 2010
Share capital	\$ 2,537,221
Loss on share-based payments	\$ (2,537,221)

#### (c) Deferred Income Taxes

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

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

#### Transitional reconciliations

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

- (i) Reconciliation of the condensed interim consolidated statement of financial position as at September 30, 2010;
- (ii) Reconciliation of the condensed interim consolidated statement of operations and comprehensive income (loss) for the six months ended September 30, 2010;
- (iii) Reconciliation of the condensed interim consolidated statement of operations and comprehensive income (loss) for the three months ended September 30, 2010;

**FORBES & MANHATTAN COAL CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

August 31, 2011 – Unaudited

*(Presented in Canadian dollars)***25) TRANSITION TO IFRS (Continued)****(i) Reconciliation of the condensed interim consolidated statement of financial position as at September 30, 2010**

<b>Canadian GAAP accounts</b>	<b>Note 25</b>	<b>Canadian GAAP balances</b>	<b>IFRS adjustments</b>	<b>IFRS balances</b>
<b>ASSETS</b>				
Current				
Cash and cash equivalents		\$ 9,215,718	\$ -	\$ 9,215,718
Restricted cash		3,145,973	-	3,145,973
Accounts and other receivables		7,541,503	-	7,541,503
Inventories		6,863,597	-	6,863,597
Prepaid expenses		42,617	-	42,617
		<b>26,809,408</b>	<b>-</b>	<b>26,809,408</b>
Property, plant and equipment		33,921,183	-	33,921,183
Mineral property and rights		68,745,687	-	68,745,687
Investment property		116,954	-	116,954
Goodwill		1,400,558	-	1,400,558
Other assets		4,212,993	-	4,212,993
Deferred income taxes		72,327	-	72,327
		<b>\$ 135,279,110</b>	<b>\$ -</b>	<b>\$ 135,279,110</b>
<b>LIABILITIES</b>				
Current				
Accounts payable and accrued liabilities		\$ 5,958,648	\$ -	\$ 5,958,648
Acquisition obligation		21,983,266	-	21,983,266
Other financial liabilities		1,936,408	-	1,936,408
Loans payable		1,153,389	-	1,153,389
		<b>31,031,711</b>	<b>-</b>	<b>31,031,711</b>
Acquisition obligation		20,052,969	-	20,052,969
Asset retirement obligation		1,792,156	-	1,792,156
Other financial liabilities		7,759,910	-	7,759,910
Deferred income taxes		25,569,374	-	25,569,374
		<b>86,206,120</b>	<b>-</b>	<b>86,206,120</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	b	58,266,624	2,357,221	60,623,845
Warrants		993,053	-	993,053
Contributed surplus		650,084	-	650,084
Deficit	b	(11,747,645)	(2,357,221)	(14,104,866)
Currency translation reserve		910,874	-	910,874
Equity attributable to the owners of the company		<b>49,072,990</b>	<b>-</b>	<b>49,072,990</b>
		<b>\$ 135,279,110</b>	<b>\$ -</b>	<b>\$ 135,279,110</b>

**FORBES & MANHATTAN COAL CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

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*(Presented in Canadian dollars)***25) TRANSITION TO IFRS (Continued)****(ii) Reconciliation of the condensed interim consolidated statement of operations and comprehensive income (loss) for the six months ended September 30, 2010**

Canadian GAAP accounts	Note 25	Canadian GAAP balances	IFRS adjustments	IFRS balances
<b>REVENUE</b>		\$ 6,627,239	-	\$ 6,627,239
<b>COST OF SALES</b>				
Operating expense		3,389,874	-	3,389,874
Amortization and depletion		1,790,695	-	1,790,695
		5,180,569	-	5,180,569
<b>Gross profit</b>		1,446,670	-	1,446,670
<b>EXPENSES</b>				
Consulting and professional fees		442,869	-	442,869
General and administration		700,081	-	700,081
Stock based compensation		7,622,500	-	7,622,500
Mineral properties investigation costs		78,573	-	78,573
		8,844,023	-	8,844,023
<b>Net loss before other items</b>		(7,397,353)	-	(7,397,353)
<b>OTHER ITEMS</b>				
Other income		151,109	-	151,109
Business combination transaction costs		(1,027,235)	-	(1,027,235)
Accretion		(639,036)	-	(639,036)
Interest income (expense)		(205,990)	-	(205,990)
Foreign exchange gain (loss)		(1,408,671)	-	(1,408,671)
Loss on share-based payments	b	-	(2,357,221)	(2,357,221)
<b>NET LOSS before income tax</b>		(10,527,176)	(2,357,221)	(12,884,397)
Income tax expense		(804,412)	-	(804,412)
<b>NET LOSS for the period</b>		(11,331,588)	(2,357,221)	(13,688,809)
<b>Other comprehensive income items</b>				
Unrealized gain on foreign currency translation		910,874	-	910,874
<b>COMPREHENSIVE LOSS for the period</b>		\$ (10,420,714)	\$ (2,357,221)	\$ (12,777,935)
Net loss per share - basic and diluted		(2.23)	(0.46)	(2.69)
Weighted average number of common shares outstanding - basic and diluted		5,091,652	5,091,652	5,091,652

**FORBES & MANHATTAN COAL CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

August 31, 2011 – Unaudited

*(Presented in Canadian dollars)***25) TRANSITION TO IFRS (Continued)****(iii) Reconciliation of the condensed interim consolidated statement of operations and comprehensive income (loss) for the three months ended September 30, 2010**

<b>Canadian GAAP accounts</b>	<b>Note 25</b>	<b>Canadian GAAP balances</b>	<b>IFRS adjustments</b>	<b>IFRS balances</b>
<b>REVENUE</b>		<b>\$ 6,627,239</b>	<b>\$ -</b>	<b>\$ 6,627,239</b>
<b>COST OF SALES</b>				
Operating expense		3,389,874	-	3,389,874
Amortization and depletion		1,790,695	-	1,790,695
		<b>5,180,569</b>	<b>-</b>	<b>5,180,569</b>
<b>Gross profit</b>		<b>1,446,670</b>	<b>-</b>	<b>1,446,670</b>
<b>EXPENSES</b>				
Consulting and professional fees		387,529	-	387,529
General and administration		469,788	-	469,788
Stock based compensation		7,622,500	-	7,622,500
Mineral properties investigation costs		20,356	-	20,356
		<b>8,500,173</b>	<b>-</b>	<b>8,500,173</b>
<b>Net loss before other items</b>		<b>(7,053,503)</b>	<b>-</b>	<b>(7,053,503)</b>
<b>OTHER ITEMS</b>				
Other income		151,109	-	151,109
Business combination transaction costs		(1,027,235)	-	(1,027,235)
Accretion		(639,036)	-	(639,036)
Interest income (expense)		(205,990)	-	(205,990)
Foreign exchange gain (loss)		(1,407,408)	-	(1,407,408)
Loss on share-based payments	b	-	(2,357,221)	(2,357,221)
<b>NET LOSS before income tax</b>		<b>(10,182,063)</b>	<b>(2,357,221)</b>	<b>(12,539,284)</b>
Income tax expense		(804,412)	-	(804,412)
<b>NET LOSS for the period</b>		<b>(10,986,475)</b>	<b>(2,357,221)</b>	<b>(13,343,696)</b>
<b>Other comprehensive income items</b>				
Unrealized gain on foreign currency translation		910,874	-	910,874
<b>COMPREHENSIVE LOSS for the period</b>		<b>\$ (10,075,601)</b>	<b>\$ (2,357,221)</b>	<b>\$ (12,432,822)</b>
Net loss per share - basic and diluted		(0.63)	(0.13)	(0.76)
Weighted average number of common shares outstanding - basic and diluted		17,521,600	17,521,600	17,521,600