



FORBES & MANHATTAN COAL CORP.

**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

for the three months ended May 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	May 31, 2011	February 28, 2011 (Note 27)	January 1, 2010 (Notes 1 and 27)
ASSETS				
Current				
Cash and cash equivalents		\$ 19,782,871	\$ 15,252,651	\$ 52,177
Restricted cash		1,812,040	1,736,000	-
Accounts and other receivables		9,809,660	12,410,375	600
Inventories	15	13,340,637	10,526,681	-
Prepaid expenses		115,905	60,301	7,144
		44,861,113	39,986,008	59,921
Property, plant and equipment	13	79,203,221	79,316,581	-
Mine properties	12	5,955,580	5,911,567	-
Goodwill	8	18,672,014	18,672,014	-
Other assets	14	6,207,009	5,398,825	-
Deferred income taxes		54,827	120,061	-
Deferred charges		-	-	735,706
		\$ 154,953,764	\$ 149,405,056	\$ 795,627
LIABILITIES				
Current				
Accounts payable and accrued liabilities	16	\$ 6,791,714	\$ 7,031,196	\$ 32,355
Acquisition obligation	11	21,142,698	-	-
Other financial liabilities	17	1,703,125	2,660,467	-
Asset retirement obligation	18	401,272	389,177	-
Loans payable	19	184,351	261,934	-
		30,223,160	10,342,774	32,355
Acquisition obligation	11	-	20,300,925	-
Asset retirement obligation	18	2,854,154	2,665,329	-
Other financial liabilities	17	10,187,423	11,727,930	-
Deferred income taxes		19,004,181	18,654,227	-
		62,268,918	63,691,185	32,355
SHAREHOLDERS' EQUITY				
Issued capital	20	98,792,926	93,672,871	800,160
Share-based payment reserves	22	10,253,033	8,413,283	-
Deficit		(18,439,247)	(17,434,614)	(36,888)
Currency translation reserve		480,605	(535,198)	-
Equity attributable to the owners of the company		91,087,317	84,116,342	763,272
Non-controlling interest	8	1,597,529	1,597,529	-
		92,684,846	85,713,871	763,272
		\$ 154,953,764	\$ 149,405,056	\$ 795,627

Commitments and contingencies 1, 8, 25
Subsequent events 26

APPROVED ON BEHALF OF THE BOARD:

Signed "Stephan Theron" _____, Director

Signed "David Stein" _____, Director

The accompanying notes are an integral part of the condensed 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	
		May 31, 2011	June 30, 2010
		(Notes 1 and 27)	
REVENUE		\$ 19,607,959	\$ -
COST OF SALES			
Operating expenses		12,494,708	-
Amortization and depletion		2,927,693	-
		15,422,401	-
Gross profit		4,185,558	-
EXPENSES			
Consulting and professional fees		727,200	170,060
General and administration		761,550	115,573
Directors' fees		45,000	-
Stock based compensation	22	1,839,750	-
Mineral properties investigation costs		-	58,217
		3,373,500	343,850
Net income (loss) before other items		812,058	(343,850)
OTHER ITEMS			
Other income		236,169	-
Business combination transaction costs		(18,534)	-
Accretion	11	(537,259)	-
Interest income (expense)	10	(311,571)	-
Foreign exchange gain (loss)		(307,938)	(1,263)
NET (LOSS) before income tax		(127,075)	(345,113)
Income tax expense		(877,558)	-
NET (LOSS) for the period		(1,004,633)	(345,113)
Other comprehensive income items			
Unrealized gain on foreign currency translation		1,015,803	-
COMPREHENSIVE INCOME (LOSS) for the period		\$ 11,170	\$ (345,113)
Net loss per share - basic and diluted		(0.03)	(0.13)
Weighted average number of common shares outstanding - basic and diluted		34,839,636	2,700,000

The accompanying notes are an integral part of the condensed 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	
	May 31, 2011	June 30, 2010
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss for the period	\$ (1,004,633)	\$ (345,113)
Adjustments:		
Amortization and depletion	2,927,693	-
Fair value adjustment on financial assets	(50,048)	-
Deferred income taxes	(29,903)	-
Accretion	564,257	-
Foreign exchange	216,378	-
Stock based compensation	1,839,750	-
	4,463,494	(345,113)
Net change in non-cash working capital	110,124	66,561
	4,573,618	(278,552)
INVESTING ACTIVITIES		
Change in accounts payable attributable to property exploration	-	16,513
Additions to property, plant and equipment	(1,673,681)	-
Additional contribution to endowment policy	(310,972)	-
Restricted cash	(50,000)	-
Deferred charges	-	(3,219,106)
	(2,034,653)	(3,202,593)
FINANCING ACTIVITIES		
Change in accounts payable attributable to share issue costs	292,482	-
Shares issued for cash	5,460,000	-
Commitment to issue special warrants	-	3,194,550
Shares issue costs	(632,427)	-
Loans payable	(3,152,731)	-
Bank overdraft	-	5,172
	1,967,324	3,199,722
Effect of exchange rate change on cash and cash equivalents	23,931	-
CHANGE IN CASH AND CASH EQUIVALENTS	4,506,289	(281,423)
CASH AND CASH EQUIVALENTS, beginning of the period	15,252,651	281,423
CASH AND CASH EQUIVALENTS, end of the period	\$ 19,782,871	\$ -
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash	\$ 19,782,871	\$ -
SUPPLEMENTAL INFORMATION		
Interest and dividend income	\$ (311,571)	\$ -
Income taxes received (paid)	\$ 29,903	\$ -
Deferred charge payment made by Aberdeen	\$ -	\$ 3,091,500

The accompanying notes are an integral part of the condensed 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	Special warrant reserve	Option reserve			
Balance as at January 1, 2010	2,600,000	\$ 800,160	\$ -	\$ -	\$ -	\$ (36,888)	\$ -	\$ 763,272
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)
Balance as at March 31, 2010	2,700,000	\$ 1,300,160	\$ -	\$ -	\$ 104,000	\$ (416,057)	\$ -	\$ 988,103
Commitment to issue special warrants	-	-	-	3,194,550	-	-	-	3,194,550
Net loss for the three months ended June 30, 2010	-	-	-	-	-	(345,113)	-	(345,113)
Balance at June 30, 2010	2,700,000	\$ 1,300,160	\$ -	\$ 3,194,550	\$ 104,000	\$ (761,170)	\$ -	\$ 3,837,540
Shares issued on private placements	22,972,368	71,797,784	-	-	-	-	-	71,797,784
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	-	-	-	-	6,221,996	-	-	6,221,996
Options issued on Nyah transaction	-	-	-	-	119,684	-	-	119,684
Shares issued on exercise of options	75,000	426,000	-	-	(182,250)	-	-	243,750
Broker warrants granted on private placement	-	(2,149,853)	2,149,853	-	-	-	-	-
Commitment to issue special warrants	-	-	-	(3,194,550)	-	-	-	(3,194,550)
Other comprehensive loss for the period ended February 28, 2011	-	-	-	-	-	-	(535,198)	(535,198)
Net loss for the period ended February 28, 2011	-	-	-	-	-	(16,673,444)	-	(16,673,444)
Balance as at February 28, 2011	33,665,717	\$93,672,871	\$ 2,149,853	\$ -	\$ 6,263,430	\$(17,434,614)	\$ (535,198)	\$ 84,116,342
Shares issued on private placements	1,200,000	5,120,055	-	-	-	-	-	5,120,055
Stock-based compensation	-	-	-	-	1,839,750	-	-	1,839,750
Other comprehensive income for the three months ended May 31, 2011	-	-	-	-	-	-	1,015,803	1,015,803
Net loss for the three months ended May 31, 2011	-	-	-	-	-	(1,004,633)	-	(1,004,633)
Balance as at May 31, 2011	34,865,717	\$98,792,926	\$ 2,149,853	\$ -	\$ 8,103,180	\$(18,439,247)	\$ 480,605	\$ 91,087,317

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

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

May 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. The Company's head office is located at 65 Queen Street West, Suite 815, Toronto, Ontario, Canada.

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 8. The Slater Coal Properties comprise the operating Magdalena bituminous mine (the "Magdalena Property") and the Avimore anthracite mine (the "Avimore 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 three months ended May 31, 2011 are presented with comparatives for the three months ended June 30, 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

May 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 financial statements for the year ended February 28, 2011, as prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

As these are the Company's first set of condensed interim consolidated financial statements in accordance with IFRS, the Company's disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company's 2011 annual consolidated financial statements prepared in accordance with Canadian GAAP. In 2012 interim filings beyond the first quarter of 2012, the Company may not provide the same amount of disclosure as included in the May 31, 2011 Condensed Interim Consolidated Financial Statements under IFRS. In 2013 and beyond, the reader will be able to rely on the annual consolidated financial statements, which will be prepared in accordance with IFRS.

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.

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

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(Presented in Canadian dollars)

3) FUTURE ACCOUNTING CHANGES (Continued)

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.

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.

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2011 – Unaudited

(Presented in Canadian dollars)

4) PRINCIPLES OF CONSOLIDATION (Continued)

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.

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
- Determination of ore reserve estimates
- Recognition of deferred taxes
- Capitalization of exploration and evaluation costs
- Contingencies
- Acquisitions
- Determination of economic viability of a project
- Valuation of inventory
- Warrants
- Income tax accounts

6) SIGNIFICANT ACCOUNTING POLICIES

a) Presentation currency

The Company's functional and presentation currency is the Canadian dollar ("C\$"). The functional currency of Slater Coal and Zinoju is the South African Rand ("ZAR"). These condensed interim consolidated financial statements have been translated to the Canadian dollar in accordance with IAS 21 The Effects of Changes in Foreign Exchange Rates. These guidelines require that assets and liabilities be translated using the exchange rate at period end, and income, expenses and cash flow items be translated using the rate that approximates the exchange rates at the dates of the transactions (i.e. the average rate for the period). All resulting exchange differences on translation to the presentation currency are included in the currency translation reserve.

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2011 – Unaudited

(Presented in Canadian dollars)

6) SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Foreign currency translation

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the condensed interim consolidated statement of operations within "foreign exchange gain (loss)". All other foreign exchange gains and losses are also presented in the condensed interim consolidated statement of operations within "foreign exchange gain (loss)".

c) Property, plant and equipment and mineral rights

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

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

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

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

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

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

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

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(Presented in Canadian dollars)

6) SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Goodwill

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

e) Impairment of assets

When events or changes in circumstances suggest that the carrying amount of property, plant and equipment and intangible assets may not be recoverable, the carrying amounts are reviewed and tested. For impairment purposes, assets are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (cash generating units). If there are indications that impairment may have occurred, estimates of expected future cash flows for each group of assets are prepared. The impairment analysis compares the fair value of the cash generating unit to the carrying amount of the asset, including goodwill, if any. If the undiscounted cash flows are less than the carrying amount of the asset, any excess of fair value over carrying value is charged to operations.

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

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

Management has assessed as at May 31, 2011 and February 28, 2011 and January 1, 2010 that there are no impairments.

f) Inventories

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

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

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(Presented in Canadian dollars)

6) SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Deferred income taxes

Deferred income tax assets and liabilities

A deferred income tax liability is recognized for all taxable temporary differences. A deferred income tax asset is recognized for all deductible temporary differences.

Deferred income tax is recognized on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the condensed consolidated financial statements and on unused tax losses or tax credits in the Company.

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

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

Tax expenses

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

h) Accounts and other receivables

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

Accounts and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability the debtor will enter bankruptcy or financial reorganization, and default or delinquency payments are considered indicators that the trade receivable is impaired.

i) Accounts payable

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

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

Short-term employee benefits

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

Defined contribution plans

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

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

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(Presented in Canadian dollars)

6) SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

k) Asset retirement obligations

Asset retirement obligations ("ARO's") are recognised when:

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

ARO's are not recognized for future operating losses. ARO's are measured at the present value of the amount expected to be required to settle the obligation using a risk-free rate that reflects the rate of interest on monetary assets that are essentially free of default risk, adjusted for the effect of an entity's credit standing.

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

l) Revenue recognition and other income

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

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

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

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

Interest is recognised, in operations, using the effective interest rate method.

m) Other financial liabilities

Other financial liabilities are recognized initially at the fair value, net of transaction costs incurred. Other financial liabilities are subsequently stated at amortized cost. Interest expense is recognized on the basis of the effective interest method and is included in interest income (expense). Other financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, in which case they are classified as long-term liabilities.

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

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(Presented in Canadian dollars)

6) SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Financial instruments

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

o) Leases

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

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

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

p) Loss per share

Basic loss per common share has been computed by dividing the loss applicable to common shareholders by the weighted-average number of common shares outstanding during the representative periods. Diluted loss per common share is determined using the treasury stock method under which deemed proceeds on the exercise of stock options and other dilutive instruments are considered to be used to reacquire common shares at the average price for the period with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share. As at May 31, 2011 and June 30, 2010, all outstanding options and warrants were excluded from the diluted loss per share calculation as they were anti-dilutive.

q) Stock-based compensation

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

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

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(Presented in Canadian dollars)

7) TRANSACTION WITH NYAH RESOURCES CORPORATION (“NYAH”)

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

Prior to the effective time of the Transaction, Nyah consolidated its issued and outstanding common shares on the basis of one new Nyah common share for each 39.8 existing Nyah common shares (the “Consolidation”). Following the Consolidation, Nyah had 1,279,384 issued and outstanding common shares on a non-diluted basis immediately prior to the Transaction. Upon completion of the Transaction, the number of common shares of Forbes Coal (on a non-diluted basis) was 25,590,723 with Forbes & Manhattan (Coal) Inc. shareholders owning approximately 95% of the Company and the Nyah shareholders owning approximately 5% of the Company.

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

The purchase price was allocated as follows:

Common shares issued	\$ 4,073,578
Replacement stock options issued	119,684
	<hr/>
	\$ 4,193,262

Allocation of purchase price:

Cash and cash equivalents	\$ 968,356
Amounts receivable	1,015,574
Prepaid expenses	9,738
Current liabilities	(157,627)
Loss on share-based payments	2,357,221
	<hr/>
	\$ 4,193,262

In accordance with IFRS 2, Share-Based Payments, any excess of the fair value of the shares issued by the Company over the value of the net monetary assets of Nyah is recognized in the statement of operations and comprehensive loss. As the estimated fair values of the identified net assets acquired from Nyah were less than the consideration paid, the difference has been charged to the statement of operations and comprehensive loss.

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

Nyah and Forbes & Manhattan (Coal) Inc. had certain directors and officers in common.

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2011 – Unaudited

(Presented in Canadian dollars)

8) 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 \$85,260,000) 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 \$19,894,000) payable by March 1, 2012.

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

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

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

The purchase price is also subject to an adjustment pursuant to variations on the consolidated net short term assets ("CNSTA") of the Company to the extent that they exceed or fall short of ZAR14.9 million. An amount of \$2,062,437 was included in the purchase price and included in accounts payable related to the CNSTA adjustment. This amount has been paid on February 24, 2011.

Given the fact that the final amount of the March 1, 2011 and March 1, 2012 payments are subject to Slater Coal meeting certain production targets, the incumbent management team and a majority of the board of directors of Slater Coal have been given a certain amount of autonomy to be able to reach these targets.

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2011 – Unaudited

(Presented in Canadian dollars)

8) PURCHASE OF SLATER COAL (Continued)

(a) Purchase of Slater Coal (continued)

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 11).

The Company received approval from the South African Reserve Bank ("SARB") for the acquisition by Forbes Coal of all of the issued and outstanding shares of Slater Coal (Pty) Ltd. ("Slater Coal"). As part of granting the approval, Forbes Coal has agreed to undertake to list the common shares of the Company on the Johannesburg Stock Exchange within 12 months of the date hereof (Note 26).

The allocation of the purchase price has been substantially finalized, however management is in the process of concluding the fair values of identifiable assets acquired and liabilities assumed and measuring the associated future income tax assets and liabilities. A provisional allocation of the purchase price is as follows:

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

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

Fair value of net assets acquired was allocated as follows:

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

(b) Slater Coal financial results

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

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2011 – Unaudited

*(Presented in Canadian dollars)***9) OPERATING SEGMENTS**

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

	Current assets	Properties, plant and equipment	Mine properties	Other non-current assets	Total assets
January 1, 2010					
Canada	\$ 59,921	\$ -	\$ -	\$ 735,706	\$ 795,627
South Africa	-	-	-	-	-
	\$ 59,921	\$ -	\$ -	\$ 735,706	\$ 795,627
February 28, 2011					
Canada	\$ 14,794,690	\$ -	\$ -	\$ -	\$ 14,794,690
South Africa	25,191,318	79,316,581	5,911,567	24,190,900	134,610,366
	\$ 39,986,008	\$ 79,316,581	\$ 5,911,567	\$ 24,190,900	\$ 149,405,056
May 31, 2011					
Canada	\$ 15,581,779	\$ -	\$ -	\$ -	\$ 15,581,779
South Africa	29,279,334	79,203,221	5,955,580	24,933,850	139,371,985
	\$ 44,861,113	\$ 79,203,221	\$ 5,955,580	\$ 24,933,850	\$ 154,953,764

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

10) INTEREST INCOME (EXPENSE)

	Three months ended	
	May 31, 2011	June 30, 2010
Interest bearing borrowings	\$ 360,106	\$ -
Unwinding discount on rehabilitation provision	26,921	-
Interest expense	387,027	-
Cash and cash equivalents	51,072	-
Restricted cash	24,384	-
Interest income	75,456	-
Net interest income (expense)	\$ (311,571)	\$ -

11) ACQUISITION OBLIGATION

	Current	Long-term
Balance as at February 28, 2011	\$ -	\$ 20,300,925
Effect of foreign currency exchange difference	-	304,514
Reclassification due to current maturity in March 2012	20,605,439	(20,605,439)
Accretion	537,259	-
Balance as at May 31, 2011	\$ 21,142,698	\$ -

See Note 8 (a) for details of the acquisition obligation.

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2011 – Unaudited

*(Presented in Canadian dollars)***12) MINE PROPERTIES**

	Richards Bay Coal Terminal entitlements	Mineral and prospecting rights	Total
Cost as at January 1, 2010	\$ -	\$ -	\$ -
Additions through Slater Coal acquisition	4,983,794	1,058,250	6,042,044
Effect of foreign currency exchange difference	(38,854)	(8,250)	(47,104)
Cost as at February 28, 2011	4,944,940	1,050,000	5,994,940
Effect of foreign currency exchange difference	74,174	15,750	89,924
Cost as at May 31, 2011	\$ 5,019,114	\$ 1,065,750	\$ 6,084,864
Accumulated depreciation, depletion and impairment as at January 1, 2010	\$ -	\$ -	\$ -
Charge for the period	(79,912)	(3,460)	(83,373)
Depreciation, depletion and impairment as at February 28, 2011	(79,912)	(3,460)	(83,373)
Effect of foreign currency exchange difference	(1,199)	(52)	(1,251)
Charge for the period	(43,289)	(1,371)	(44,660)
Depreciation, depletion and impairment as at May 31, 2011	\$ (124,400)	\$ (4,883)	\$ (129,284)
Net book value as at January 1, 2010	\$ -	\$ -	\$ -
Net book value as at February 28, 2011	\$ 4,865,028	\$ 1,046,540	\$ 5,911,567
Net book value as at May 31, 2011	\$ 4,894,714	\$ 1,060,867	\$ 5,955,580

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

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(Presented in Canadian dollars)

13) PROPERTY, PLANT AND EQUIPMENT

	Mining assets	Office equipment, radio equipment, fixtures and fittings	Land and buildings	Development costs	Mining rights	Total
Cost as at January 1, 2010	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions through Slater Coal acquisition	29,066,801	186,770	497,032	-	43,590,587	73,341,190
Effect of foreign currency exchange difference	(226,601)	(1,456)	(3,875)	-	(339,827)	(571,759)
Additions	8,817,437	14,540	57,425	2,433,150	-	11,322,552
Change in rehabilitation provision	1,471,197	-	-	-	-	1,471,197
Disposals	(72,331)	-	-	-	-	(72,331)
Cost as at February 28, 2011	39,056,503	199,854	550,582	2,433,150	43,250,760	85,490,849
Effect of foreign currency exchange difference	585,848	2,998	8,259	36,497	648,761	1,282,363
Additions	1,520,242	93,833	63,720	-	-	1,677,795
Change in rehabilitation provision	128,037	-	-	-	-	128,037
Cost as at May 31, 2011	\$ 41,290,630	\$ 296,685	\$ 622,561	\$ 2,469,647	\$ 43,899,521	\$ 88,579,044
Accumulated depreciation, depletion and impairment as at January 1, 2010	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charge for the period	(4,238,477)	(49,126)	(19,595)	-	(1,867,070)	(6,174,268)
Depreciation and depletion as at February 28, 2011	(4,238,477)	(49,126)	(19,595)	-	(1,867,070)	(6,174,268)
Effect of foreign currency exchange difference	(63,577)	(737)	(294)	-	(28,006)	(92,614)
Charge for the period	(2,154,688)	(15,429)	(10,638)	-	(928,186)	(3,108,941)
Depreciation and depletion as at May 31, 2011	\$ (6,456,742)	\$ (65,292)	\$ (30,527)	\$ -	\$ (2,823,262)	\$ (9,375,823)
Net book value as at January 1, 2010	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net book value as at February 28, 2011	\$ 34,818,026	\$ 150,728	\$ 530,987	\$ 2,433,150	\$ 41,383,690	\$ 79,316,581
Net book value as at May 31, 2011	\$ 34,833,888	\$ 231,393	\$ 592,034	\$ 2,469,647	\$ 41,076,259	\$ 79,203,221

Land and building includes a net book value balance of \$ 97,555 for a property that is not used in production and mine operations.

14) OTHER ASSETS

	May 31, 2011	February 28, 2011	January 1, 2010
Endowment policy	\$ 3,892,696	\$ 3,478,609	\$ -
Long term investments	850,793	838,219	-
Long term receivables	1,463,520	1,081,997	-
	\$ 6,207,009	\$ 5,398,825	\$ -

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

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

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*(Presented in Canadian dollars)***14) OTHER ASSETS (Continued)**

The table below sets forth the summary of changes in the endowment policy for the period ended May 31, 2011:

Balance as at January 1, 2010	\$	-
Acquired as part of Slater transaction		2,892,627
Effect of exchange rate change		(22,551)
Current year contributions		861,498
Fair value adjustment		226,883
Policies matured		(479,848)
Balance as at February 28, 2011	\$	3,478,609
Effect of exchange rate change		52,179
Current year contributions		311,737
Fair value adjustment		50,171
Balance as at May 31, 2011	\$	3,892,696

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

15) INVENTORIES

	May 31, 2011	February 28, 2011	January 1, 2010
Consumables	\$ 265,872	\$ 267,631	\$ -
Work in progress	370,916	154,899	-
Finished goods	12,703,849	10,104,151	-
	\$ 13,340,637	\$ 10,526,681	\$ -

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

16) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	May 31, 2011	February 28, 2011	January 1, 2010
Trade payables	\$ 4,638,679	\$ 5,129,462	\$ -
Payroll and other statutory liabilities	660,332	389,042	-
Current tax payable	203,017	-	-
Other payables and accruals	1,289,686	1,512,692	32,355
	\$ 6,791,714	\$ 7,031,196	\$ 32,355

FORBES & MANHATTAN COAL CORP.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2011 – Unaudited

*(Presented in Canadian dollars)***17) OTHER FINANCIAL LIABILITIES**

	May 31, 2011	February 28, 2011	January 1, 2010
Capital lease agreements (*)	\$ 99,042	\$ 97,579	\$ -
Installment sale agreements(*)	11,343,831	13,590,838	-
Third party institutional loans (**)	447,675	699,980	-
Total interest bearing borrowings	11,890,548	14,388,397	-
Less:			
Current portion of capital lease agreements	(99,042)	(97,579)	-
Current portion of instalment sale agreements	(1,462,357)	(2,460,583)	-
Current portion of third party institutional loans	(141,726)	(102,305)	-
Total current portion of interest bearing borrowings	(1,703,125)	(2,660,467)	-
Total long-term portion of interest bearing borrowings	\$ 10,187,423	\$ 11,727,930	\$ -

(*) The lease related liabilities are payable over periods from three to five years, at interest rates linked to prime. Both the capital lease and the installment sale related liabilities are secured by mining assets and an endowment policy with a book value of approximately \$13,900,000.

(**) 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	\$ 1,703,125
2013	8,788,905
2014	1,348,546
2015	49,972
	\$ 11,890,548

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

Leases at floating rates	\$ 11,442,873
Loan at rates of 8.9%	447,675
	\$ 11,890,548

18) ASSET RETIREMENT OBLIGATION

Balance as at January 1, 2010	\$ -
Additions through Slater Coal acquisition	1,693,283
Effect of foreign currency exchange difference	(13,201)
Accretion expense	94,180
Net additional provision	1,280,244
Balance as at February 28, 2011	\$ 3,054,506
Effect of foreign currency exchange difference	45,818
Accretion expense	27,065
Net additional provision	128,037
Balance as at May 31, 2011	\$ 3,255,426

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

Current portion	\$ 401,272
Long-term portion	2,854,154
	\$ 3,255,426

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.

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*(Presented in Canadian dollars)***19) LOANS PAYABLE**

	May 31, 2011	February 28, 2011	January 1, 2010
Directors and officers of Slater Coal	\$ 182,689	\$ 260,297	\$ -
Other	1,662	1,637	-
	\$ 184,351	\$ 261,934	\$ -

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

20) ISSUED CAPITAL

Authorized unlimited number of common shares without par value:

Issued	Number of shares	Stated value
Balance as at January 1, 2010	2,600,000	\$ 800,160
Private placement (i)	100,000	500,000
Private placement (iii)	14,972,368	41,922,630
Private placement (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
Balance as at February 28, 2011	33,665,717	93,672,871
Private placement (vii)	1,200,000	5,460,000
Issue costs	-	(339,945)
Balance as at May 31, 2011	34,865,717	\$ 98,792,926

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 24 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 24 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.

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20) ISSUED CAPITAL (Continued)

- (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 Notes 7 and 24).
- (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 Notes 7, 22 and 25).
- (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.

21) 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%

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22) 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 January 1, 2010	-	\$ -	\$ -	-	\$ -	\$ -	\$ -
Granted	2,435,000	3.20	6,325,996	1,243,887	3.48	2,149,853	8,475,849
Issued on Nyah transaction	122,798	8.99	119,684	-	-	-	119,684
Grant of special performance warrants	-	-	-	2,700,000	2.80	7,196,100	7,196,100
Conversion of special performance warrants	-	-	-	(2,700,000)	2.80	(7,196,100)	(7,196,100)
Exercised	(75,000)	3.25	(182,250)	-	-	-	(182,250)
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	825,000	4.10	1,839,750	-	-	-	1,839,750
Balance as at May 31, 2011	3,307,798	\$ 2.62	\$ 8,103,180	1,243,887	\$ 3.48	\$ 2,149,853	\$ 10,253,033

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.

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 three months ended May 31, 2011, 825,000 (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 \$1,839,750 (period ended February 28, 2011 - \$8,475,849) and are to vest immediately. 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 May 31, 2011:

Share options

Number of options outstanding	Number of options exercisable	Grant date	Expiration date	Exercise price	Grant date estimated fair value	Expected volatility	Expected life years	Expected dividend yield	Risk-free interest rate
36,432	36,432	20-Sep-10	31-May-12	\$ 2.39	\$ 65,512	100%	1.70	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%
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%
11,023	11,023	20-Sep-10	4-Jan-13	\$ 7.96	\$ 12,343	100%	2.29	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%
3,307,798	3,307,798			\$ 3.64	\$8,103,180		4.88		

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22) SHARE-BASED PAYMENT RESERVES (Continued)
Broker warrants

Number of warrants outstanding	Number of warrants exercisable	Grant date	Expiration date	Exercise price	Grant date estimated fair value	Expected volatility	Expected life years	Expected dividend yield	Risk-free interest rate
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%
1,243,887	1,243,887			\$ 3.48	\$2,149,853		1.70		

23) 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.

The Company's financial assets and financial liabilities as at March 31, 2011, December 31, 2010 and January 1, 2010 were as follows:

	Cash, loans and receivables	Assets / (liabilities) at fair value through profit	Available for sale	Other financial assets/ (liabilities)	Total
January 1, 2010					
Cash	\$ 52,177	\$ -	\$ -	\$ -	\$ 52,177
Receivables	600	-	-	-	600
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 32,355	\$ 32,355
February 28, 2011					
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
May 31, 2011					
Cash	\$ 19,782,871	\$ -	\$ -	\$ -	\$ 19,782,871
Restricted cash	1,812,040	-	-	-	1,812,040
Receivables	9,809,660	-	-	-	9,809,660
Other financial assets non-current	1,463,520	4,743,489	-	-	6,207,009
Accounts payable and accrued liabilities	-	-	-	6,791,714	6,791,714
Acquisition obligation	-	-	-	21,142,698	21,142,698
Other financial liabilities - current	-	-	-	1,703,125	1,703,125
Other financial liabilities - long term	-	-	-	10,187,423	10,187,423
Loan payable	\$ -	\$ -	\$ -	\$ 184,351	\$ 184,351

At May 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.

FORBES & MANHATTAN COAL CORP.

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23) FINANCIAL INSTRUMENTS (Continued)

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 May 31, 2011, the capital structure of the Company consists of shareholders' equity totaling \$91,087,317 (February 28, 2011 - \$84,116,342).

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 (\$200,000). A 10% increase in the United States dollar would have increased (decreased) the Company's income by \$900,000.

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

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*(Presented in Canadian dollars)***23) FINANCIAL INSTRUMENTS (Continued)****FINANCIAL RISK FACTORS (continued)***(a) Market risk (continued)*

The following assets and liabilities were denominated in different currencies as at May 31, 2011, February 28, 2011 and January 1, 2010:

	Denominated in				Total
	CAD	ZAR	AUD	USD	
Cash and cash equivalents	52,177	-	-	-	52,177
Amounts receivable	600	-	-	-	600
Prepaid expenses	7,144	-	-	-	7,144
Deferred charges	735,706	-	-	-	735,706
Accounts payable and accrued liabilities	(23,553)	-	-	(8,802)	(32,355)
Net balance sheet exposure as at January 1, 2010	\$ 772,074	\$ -	\$ -	\$ (8,802)	\$ 763,272
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)
Net balance sheet exposure as at February 28, 2011	\$33,918,375	\$46,209,227	\$ -	\$ 5,586,269	\$85,713,871
Cash and cash equivalents	14,395,057	5,380,947	-	6,867	19,782,871
Restricted cash	50,000	1,762,040	-	-	1,812,040
Amounts receivable	994,608	4,602,466	-	4,212,586	9,809,660
Inventories	-	13,340,637	-	-	13,340,637
Prepaid expenses	97,503	18,402	-	-	115,905
Property, plant and equipment	-	79,203,221	-	-	79,203,221
Mine properties	-	5,955,580	-	-	5,955,580
Goodwill	18,672,014	-	-	-	18,672,014
Other assets	-	6,207,009	-	-	6,207,009
Deferred income taxes	-	54,827	-	-	54,827
Accounts payable and accrued liabilities	(344,817)	(6,320,553)	(3,948)	(122,396)	(6,791,714)
Acquisition obligation	-	(21,142,698)	-	-	(21,142,698)
Other financial liabilities - current	-	(1,703,125)	-	-	(1,703,125)
Other financial liabilities - long term	-	(10,187,423)	-	-	(10,187,423)
Asset retirement obligation - current	-	(401,272)	-	-	(401,272)
Asset retirement obligation - long term	-	(2,854,154)	-	-	(2,854,154)
Loans payable	-	(184,351)	-	-	(184,351)
Deferred income taxes	1,289,802	(20,293,983)	-	-	(19,004,181)
Net balance sheet exposure as at May 31, 2011	\$35,154,167	\$53,437,570	\$ (3,948)	\$ 4,097,057	\$92,684,846

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 \$36,000.

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23) 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 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 \$2,000,000.

(b) Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents and accounts and other receivables. Cash equivalents consist of guaranteed investment certificates and bankers acceptances, which have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Other receivables primarily consist of goods and services tax due from the Federal Government of Canada and amounts owing from coal sales. Management believes that the credit risks concentration with respect to these amounts receivables are remote.

Restricted cash totaling \$1,812,040 was primarily on deposit with the First National Bank, to be released to a supplier if payments are not made to them and in GIC investment with Royal Bank of Canada held as collateral against credit card limits used by the Company.

(c) Liquidity risk

As May 31, 2011, the Company had net working capital of \$14,637,953 (February 28, 2011 – \$29,643,234) which included cash and cash equivalents and restricted cash of \$21,594,911 (February 28, 2011 – \$16,988,651), accounts receivable and other receivables of \$9,809,660 (February 28, 2011 – \$12,410,375), and inventories of \$13,340,637 (February 28, 2011 – \$10,526,681), offset by current liabilities of \$30,223,160 (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).

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23) FINANCIAL INSTRUMENTS (Continued)

FINANCIAL RISK FACTORS (continued)

(d) Fair value of financial instruments (continued)

As at May 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 May 31, 2011 and February 28, 2011:

<u>May 31, 2011</u>	Level 1	Level 2	Level 3
Endowment policy and investments	\$ -	\$ -	\$4,743,489
<u>February 28, 2011</u>	Level 1	Level 2	Level 3
Endowment policy and investments	\$ -	\$ -	\$4,316,828

24) RELATED PARTY DISCLOSURE

In March 2010, a company with common directors solely participated in two private placements of common shares of the Company (Note 20 (i)).

The Transaction with Nyah (Note 7) 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 20 (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 May 31, 2011 an amount of \$nil (February 28, 2011 - \$nil) was prepaid and \$31,123 (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. 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 consolidated financial statements an amount of \$182,689 in loans payable to directors and officers of Slater Coal was recorded. Also an amount of \$791,118 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 three months being for services purchased being \$1,209,000 and for sales of goods being \$852,000.

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

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(Presented in Canadian dollars)

24) 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:

	Three months ended	
	May 31, 2011	June 30, 2010
Short-term benefits	\$ 314,973	\$ 133,933
Share-based payments	1,617,000	-
	\$ 1,931,973	\$ 133,933

25) COMMITMENTS AND CONTINGENCIES

Management contracts

The Corporation is party to certain management contracts. These contracts require that additional payments of approximately \$2,390,000 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.

Lease and installment payment obligations

The Company is committed to minimum amounts under long-term capital lease and installment payment agreements for plant and equipment. Minimum commitments remaining under these leases were \$11,442,873 over the following years:

Year	Amount
2012	\$ 1,561,399
2013	8,647,179
2014	1,206,820
2015	27,475
	\$ 11,442,873

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.

Stock exchange listing

As part of the South African regulatory approval process in connection with the purchase of Slater Coal (Note 8), the Company agreed to complete a listing of the Company's common shares on the Johannesburg Stock Exchange ("JSE") by August 2011 (Note 26).

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26) SUBSEQUENT EVENTS

Subsequently to the May 31, 2011, the Company granted 137,500 common stock options to certain officers and consultants.

On July 11, 2011, the Company announced that its common shares have received approval for secondary trading on the Johannesburg Stock Exchange under the symbol "FMC" effective July 28, 2011.

27) 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.

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27) TRANSITION TO IFRS (Continued)

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.

(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

	February 28, 2011	June 30, 2010
Increase in 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 statement of financial position and equity as at January 1, 2010;
- (ii) Reconciliation of the condensed interim statement of financial position and equity as at June 30, 2010;
- (iii) Reconciliation of the condensed interim statement of operations for the three months ended June 30, 2010;
- (iv) Reconciliation of the condensed interim consolidated statement of financial position and equity as at February 28, 2011 and
- (v) Reconciliation of the condensed interim consolidated statement of operations for the fourteen months ended February 28, 2011

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*(Presented in Canadian dollars)***27) TRANSITION TO IFRS (Continued)****(i) Reconciliation of the condensed interim statement of financial position and equity as at January 1, 2010**

Canadian GAAP accounts	Note 27	Canadian GAAP balances	IFRS adjustments	IFRS balances
ASSETS				
Current				
Cash and cash equivalents		\$ 52,177	\$ -	\$ 52,177
Accounts and other receivables		600	-	600
Prepaid expenses		7,144	-	7,144
		<u>59,921</u>	<u>-</u>	<u>59,921</u>
Deferred charges		735,706	-	735,706
		<u>\$ 795,627</u>	<u>\$ -</u>	<u>\$ 795,627</u>
LIABILITIES				
Current				
Accounts payable and accrued liabilities		\$ 32,355	\$ -	\$ 32,355
		<u>32,355</u>	<u>-</u>	<u>32,355</u>
SHAREHOLDERS' EQUITY				
Share capital		800,160	-	800,160
Deficit		(36,888)	-	(36,888)
		<u>763,272</u>	<u>-</u>	<u>763,272</u>
		<u>\$ 795,627</u>	<u>\$ -</u>	<u>\$ 795,627</u>

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*(Presented in Canadian dollars)***27) TRANSITION TO IFRS (Continued)****(ii) Reconciliation of the condensed interim statement of financial position and equity as at June 30, 2010**

Canadian GAAP accounts	Note 27	Canadian GAAP balances	IFRS adjustments	IFRS balances
ASSETS				
Current				
Accounts and other receivables		\$ 57,862	\$ -	\$ 57,862
Prepaid expenses		79,862	-	79,862
		137,724	-	137,724
Deferred charges		3,954,812	-	3,954,812
		\$ 4,092,536	\$ -	\$ 4,092,536
LIABILITIES				
Current				
Accounts payable and accrued liabilities		\$ 249,824	\$ -	\$ 249,824
Bank overdraft		5,172	-	5,172
		254,996	-	254,996
SHAREHOLDERS' EQUITY				
Share capital		1,300,160	-	1,300,160
Commitment to issue special warrants		3,194,550	-	3,194,550
Contributed surplus		104,000	-	104,000
Deficit		(761,170)	-	(761,170)
		3,837,540	-	3,837,540
		\$ 4,092,536	\$ -	\$ 4,092,536

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*(Presented in Canadian dollars)***27) TRANSITION TO IFRS (Continued)****(iii) Reconciliation of the condensed interim statement of operations for the three months ended June 30, 2010**

Canadian GAAP accounts	Note 27	Canadian GAAP balances	IFRS adjustments	IFRS balances
EXPENSES				
Consulting and professional fees		\$ 170,060	\$ -	\$ 170,060
General and administration		115,573	-	115,573
Mineral properties investigation costs		58,217	-	58,217
		343,850	-	343,850
Net loss before other items		(343,850)	-	(343,850)
OTHER ITEMS				
Foreign exchange gain (loss)		(1,263)	-	(1,263)
NET LOSS before income tax		(345,113)	-	(345,113)
Income tax expense		-	-	-
NET LOSS for the period		(345,113)	-	(345,113)
Other comprehensive income items				
Unrealized gain on foreign currency translation		-	-	-
COMPREHENSIVE LOSS for the period		\$ (345,113)	\$ -	\$ (345,113)
Net loss per share - basic and diluted		(0.13)	-	(0.13)
Weighted average number of common shares outstanding - basic and diluted		2,700,000	2,700,000	2,700,000

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*(Presented in Canadian dollars)***27) TRANSITION TO IFRS (Continued)****(iv) Reconciliation of the condensed interim consolidated statement of financial position and equity as at February 28, 2011**

Canadian GAAP accounts	Note 27	Canadian GAAP balances	IFRS adjustments	IFRS balances
ASSETS				
Current				
Cash and cash equivalents		\$ 15,252,651	\$ -	\$ 15,252,651
Restricted cash		1,736,000	-	1,736,000
Accounts and other receivables		12,410,375	-	12,410,375
Inventories		10,526,681	-	10,526,681
Prepaid expenses		60,301	-	60,301
		39,986,008	-	39,986,008
Property, plant and equipment		79,316,581	-	79,316,581
Intangibles		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
		\$ 149,405,056	\$ -	\$ 149,405,056
LIABILITIES				
Current				
Accounts payable and accrued liabilities		\$ 7,031,196	\$ -	\$ 7,031,196
Other financial liabilities		2,660,467	-	2,660,467
Deferred income taxes	c	2,200,000	(2,200,000)	-
Asset retirement obligation		389,177	-	389,177
Loans payable		261,934	-	261,934
		12,542,774	(2,200,000)	10,342,774
Acquisition obligation		20,300,925	-	20,300,925
Asset retirement obligation		2,665,329	-	2,665,329
Other financial liabilities		11,727,930	-	11,727,930
Deferred income taxes	c	16,454,227	2,200,000	18,654,227
		63,691,185	-	63,691,185
SHAREHOLDERS' EQUITY				
Share capital	b	91,315,650	2,357,221	93,672,871
Warrants		2,149,853	-	2,149,853
Contributed surplus		6,263,430	-	6,263,430
Deficit	b	(15,077,393)	(2,357,221)	(17,434,614)
Currency translation reserve		(535,198)	-	(535,198)
Equity attributable to the owners of the company		84,116,342	-	84,116,342
Non-controlling interest		1,597,529	-	1,597,529
		85,713,871	-	85,713,871
		\$ 149,405,056	\$ -	\$ 149,405,056

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*(Presented in Canadian dollars)***27) TRANSITION TO IFRS (Continued)****(v) Reconciliation of the condensed interim consolidated statement of operations for the fourteen months ended February 28, 2011**

Canadian GAAP accounts	Note 27	Canadian GAAP balances	IFRS adjustments	IFRS balances
REVENUE		\$ 27,677,608	\$ -	\$ 27,677,608
COST OF SALES				
Operating expense		19,925,113	-	19,925,113
Amortization and depletion		3,509,727	-	3,509,727
		23,434,840	-	23,434,840
Gross profit		4,242,768	-	4,242,768
EXPENSES				
Consulting and professional fees		1,813,024	-	1,813,024
General and administration		2,729,598	-	2,729,598
Directors' fees		72,500	-	72,500
Stock based compensation		13,522,096	-	13,522,096
Mineral properties investigation costs		111,686	-	111,686
		18,248,904	-	18,248,904
Net loss before other items		(14,006,136)	-	(14,006,136)
OTHER ITEMS				
Other income		454,504	-	454,504
Business combination transaction costs		(1,340,196)	-	(1,340,196)
Accretion		(2,241,896)	-	(2,241,896)
Change of estimates on contingent acquisition liability		2,724,711	-	2,724,711
Interest income (expense)		(576,753)	-	(576,753)
Foreign exchange gain (loss)		630,924	-	630,924
Loss on share-based payments	b	-	(2,357,221)	(2,357,221)
NET LOSS before income tax		(14,354,842)	(2,357,221)	(16,712,063)
Income tax expense		(685,663)	-	(685,663)
NET LOSS for the period		(15,040,505)	(2,357,221)	(17,397,726)
Other comprehensive income items				
Unrealized loss on foreign currency translation		(535,198)	-	(535,198)
COMPREHENSIVE LOSS for the period		\$ (15,575,703)	\$ (2,357,221)	\$ (17,932,924)
Net loss per share - basic and diluted		(1.06)	(0.17)	(1.23)
Weighted average number of common shares outstanding - basic and diluted		14,187,763	14,187,763	14,187,763