CANAF GROUP INC.

October 31, 2008 and 2007

Consolidated Financial Statements

(Expressed in U.S. dollars)

- Auditors’ Report
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- Consolidated Statements of Operations and Deficit
- Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Income
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Auditors' Report

To the Shareholders of:
CANAF GROUP INC.

We have audited the Consolidated Balance Sheet of **Canaf Group Inc.** as at October 31, 2008 and the Consolidated Statements of Operations and Deficit, Comprehensive Loss and Accumulated Other Comprehensive Loss, and Cash Flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at October 31, 2007 and for the year then ended were audited by other auditors who expressed an opinion without reservation in their report dated March 31, 2008.

"Watson Dauphinee & Masuch"
Chartered Accountants

Vancouver, B.C.
February 11, 2009

CANAF GROUP INC.

Consolidated Balance Sheets

As at October 31, 2008 and 2007

	2008 US$	2007 US$
ASSETS		
CURRENT		
Cash	377,539	751,677
Reclamation bond	-	4,994
Accounts receivable	878,132	1,336,836
Inventories	188,326	492,017
	1,443,997	2,585,524
Long-term investments (Note 5)	410,770	445,863
Plant and equipment (Note 6)	1,222,559	2,052,440
Mineral properties (Note 7)	57,515	96,128
Intangible assets (Note 8)	1	2,023,165
	3,134,842	7,203,120
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	874,333	1,569,224
Due to related parties (Note 12)	1,466,979	1,093,317
Current portion of long-term debts (Note 9)	2,418	6,391
Income tax payable	146,806	37,024
	2,490,536	2,705,956
Long-term debt (Note 9)	521,858	797,216
Future income tax liabilities (Note 14(b))	324,260	1,164,000
Non-controlling interest	-	155,808
	3,336,654	4,822,980
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 10)	7,491,950	7,174,545
Contributed surplus (Note 11)	738,885	685,223
Accumulated other comprehensive loss	(313,695)	-
Deficit	(8,118,952)	(5,479,628)
	(201,812)	2,380,140
	3,134,842	7,203,120

Nature of Operations and Ability to Continue as a Going Concern (Note 1)
Economic Dependence (Note 16)
Subsequent Events (Note 18)

Approved by the Directors:

"David Way"	**"Mike Hopley"**
Director	Director

CANAF GROUP INC.

Consolidated Statement of Operations and Deficit

For the Years Ended October 31, 2008 and 2007

	2008 US$	2007 US$
SALES	9,038,397	6,193,884
COST OF SALES (SCHEDULE I)	(8,207,714)	(5,455,041)
	830,683	738,843
EXPENSES		
Accounting, audit and legal fees	204,612	36,609
Amortization	615,847	325,702
Automobile	5,793	15,328
Bank charges	3,203	1,721
Consulting fees	92,545	82,847
Directors' fees (Note 12(c))	166,427	110,556
Financing charges (Note 9)	81,878	68,983
Foreign exchanges (gain) loss	(45,903)	1,869
Interest (Note 12(b))	72,373	61,308
Office and sundry	67,538	91,693
Property investigation fees	-	100,000
Promotion	5,915	6,216
Property exploration expenses	-	28,102
Stock-based compensation (Note 10(e))	53,662	272,355
Telephone	17,288	11,591
Transfer agent and filing fees	22,591	28,084
Travel	54,480	38,905
	(1,418,249)	(1,281,869)
LOSS BEFORE OTHER ITEMS AND INCOME TAXES	(587,566)	(543,026)
OTHER ITEMS		
Interest income	13,042	16,558
Gain (loss) on disposal of equipment	2,988	(50,592)
Gain on settlement of debt (Note 12(d))	69,260	-
Write-off of mineral properties (Note 7(a))	(146,208)	(31,312)
Write-off of deposits on acquisition of subsidiary (Note 4(b))	(661,567)	-
Write-down of intangible assets (Note 8)	(1,996,709)	-
Non-controlling interest	-	(76,093)
LOSS BEFORE INCOME TAXES	(3,306,760)	(684,465)
INCOME TAXES (EXPENSE) RECOVERY (Note 14(a))		
Current	(342,900)	(189,000)
Future	1,010,336	152,000
NET LOSS FOR THE YEAR	(2,639,324)	(721,465)
Deficit, Beginning of Year	(5,479,628)	(4,758,163)
DEFICIT, END OF YEAR	(8,118,952)	(5,479,628)
BASIC AND DILUTED LOSS PER SHARE	(0.06)	(0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	44,223,313	34,854,780

See Accompanying Notes to Consolidated Financial Statements

CANAF GROUP INC.

Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Income

For the Years Ended October 31, 2008 and 2007

	2008 US$	2007 US$
COMPREHENSIVE LOSS		
Net Loss for the Year	(2,639,324)	(721,465)
Other Comprehensive Loss:		
Foreign currency translation adjustment	(313,695)	-
COMPREHENSIVE LOSS FOR THE YEAR	(2,953,019)	(721,465)
ACCUMULATED OTHER COMPREHENSIVE INCOME:		
Balance, Beginning of year	-	-
Reclassification of cumulative translation adjustment (Note 2(b))	-	-
Foreign currency translation adjustment	(313,695)	-
Balance, End of year	(313,695)	-

CANAF GROUP INC.

Consolidated Statements of Cash Flows

For the Years Ended October 31, 2008 and 2007

	2008 US$	2007 US$
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net loss for the year	(2,639,324)	(721,465)
Items not affecting cash:		
Amortization	615,847	325,702
Amortization – Manufacturing Expense	695,120	511,374
(Gain) loss on disposal of equipment	(2,988)	50,592
Gain on settlement of debt	(69,260)	-
Write-off of mineral properties	146,208	31,312
Write-off of deposits on acquisition of subsidiary	661,567	-
Write-down of intangible assets	1,996,709	-
Non-controlling interest	-	76,093
Stock-based compensation	53,662	272,355
Future income tax recovery	(1,010,336)	-
	447,205	545,963
Changes in non-cash working capital accounts:		
Reclamation bond	-	(4,994)
Accounts receivable	(10,049)	(356,717)
Prepaid expenses	-	1,360
Inventories	183,198	(492,017)
Accounts payable and accrued liabilities	(256,526)	100,163
Income tax payable	171,725	(115,215)
Due to related parties	442,923	725,253
	978,476	403,796
FINANCING ACTIVITIES		
Long term debt	(12,529)	(3,998)
Issuance of share capital (net of issue costs)	-	2,060,985
Dividend paid to non-controlling interest	-	(28,283)
	(12,529)	2,028,704
INVESTING ACTIVITIES		
Long term investments	(151,667)	(115,061)
Proceeds on disposal of equipment	8,500	70,896
Mineral property exploration costs	(102,602)	(123,868)
Purchase of plant and equipment	(4,881)	(44,480)
Deposits on acquisition of subsidiary (Note 4(b))	(661,567)	-
Purchase of subsidiary, net of cash acquired (Note 4(a))	(205,609)	(1,479,123)
	(1,117,826)	(1,691,636)
(DECREASE) INCREASE IN CASH DURING THE YEAR	(151,879)	740,864
Effect of exchange rate changes on cash and cash equivalents	(222,259)	-
Cash, Beginning of Year	751,677	10,813
CASH, END OF YEAR	377,539	751,677

Supplementary cash flow information (Note 15)

CANAF GROUP INC.

Schedule I – Consolidated Cost of Sales

For the Years Ended October 31, 2008 and 2007

	2008 US$	2007 US$
COST OF SALES		
Opening inventories	492,017	-
Analysis fees	36,617	24,390
Amortization	695,120	511,374
Commission	3,597	62,503
Consulting	30,773	33,691
Electricity	317,703	244,944
Fuel, oil and lubricants	8,456	5,423
Professional and project management fee	1,458	7,993
Medical expenses	3,669	339
Product purchases	5,722,883	4,176,733
Site establishment	1,073	137
Protective clothing	7,031	5,073
Rent – machinery	153,870	46,627
Rent – buildings	7,668	5,378
Repairs and maintenance	279,869	202,357
Salaries, wages and labour	162,922	135,039
Transportation	591,807	480,908
Design fees	-	4,149
Foreign exchange gain	(120,493)	-
Closing inventories	(188,326)	(492,017)
	8,207,714	5,455,041

NOTE 1 - NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN

Canaf Group Inc. (the "Company") is incorporated in the Province of Alberta and through its subsidiaries, Canaf (SL) Ltd., Nabisoga Mining Ltd. and Rwenzori Cobalt Company Ltd., is engaged in the acquisition and exploration of mineral properties in Canada, Uganda and Sierra Leone. The Company also owns 100% of Quantum Screening and Crushing (Proprietory) Limited ("Quantum") (Note 4(a)). Quantum is a South African company carrying on the business of processing of coal products into calcine, a coke substitute with a high carbon content. On May 3, 2007, the Company changed its name from CanAfrican Metals and Mining Group to Canaf Group Inc.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Several adverse conditions as set out below cast material uncertainties on the Company's ability to continue as a going concern.

As at October 31, 2008, the Company has not yet achieved profitable operations, has accumulated consolidated losses of $8,118,952 since inception, has a working capital deficiency of $1,046,539, and expects to incur further losses in the development of its business.

The Company's ability to continue as a going concern is dependent upon its ability to generate profitable operations from its coal processing business and from future production of its mineral properties. The Company is dependent on the operating cash flows from Quantum's coal processing business, and the continuing financial support of its shareholders and related parties to finance its exploration projects and to discharge liabilities in the normal course of business. The Company's coal processing business is expected to be severely impacted by the global financial turmoil in 2009. The Company is economically dependent on two customers for its revenues, and the deepening recession and declining demand for commodities have significantly reduced the sales orders from these customers. The current tight credit market is also making it harder for the Company to raise funds by private placement of shares. Although the Company has completed debt financing of $150,000 for its exploration project in Sierra Leone subsequent to year-end (Note 18), there is no assurance that the Company will be successful with future financing ventures in light of the current world economic situation.

These financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of Consolidation

The consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") applicable in Canada and include the accounts of the Company, its 51% owned subsidiary, Canaf (SL) Ltd., and its wholly-owned subsidiaries, Nabisoga Mining Ltd. ("Nabisoga"), Rwenzori Cobalt Company Ltd. ("Rwenzori"), and Quantum Screening and Crushing (Proprietory) Limited ("Quantum"). All significant intercompany transactions and balances have been eliminated on consolidation.

b) Foreign Currency Translation

The Company's functional currency is the Canadian dollar for Canadian and head office operations, and the South African Rand for operations in African countries (Note 4). The Company reports its consolidated financial statements in U.S. dollars.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Foreign Currency Translation (Continued)

The monetary assets and liabilities of the Company which are denominated in foreign currencies are translated at the year end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. All exchange gains or losses are recognized currently in earnings except those relating to the translation of self-sustaining foreign subsidiaries.

The financial statements of foreign subsidiaries, all of which are self-sustaining, are translated using the current rate method, whereby assets and liabilities are translated at year-end exchange rates and revenues and expenses at average exchange rates for the year. Resulting unrealized foreign exchange gains or losses are accumulated and reported in other comprehensive income.

c) Inventories and Cost of Sales

Inventories consist of raw materials and finished goods - calcine.

Inventories are valued at the lower of cost or estimated net realizable value. Estimated net realizable value is the estimated selling price in the ordinary course of business less any cost of disposal. Raw materials and packing material are valued at average cost. Finished goods are valued at raw material cost plus labour cost and an appropriate portion of related fixed and variable manufacturing overhead expenses based on normal capacity.

Cost of sales is determined on a weighted average cost basis and includes transport and handling costs. On an annual basis, provision is made for obsolete, slow moving and defective inventories.

d) Plant and equipment and amortization

Plant and equipment are stated at cost less amortization using the following rates and basis, except in the year of acquisition, when, under the declining balance method, one half of the rate is used:

	Canada and Uganda Operations (Declining Balance)	South African Operations (Straight Line)
Computer equipment	30%	3 Years
Leasehold improvements	-	5 Years
Office equipment	20%	5 Years
Plant and equipment	-	5 Years
Vehicle	30%	5 Years

e) Mineral Properties

The Company's mineral properties are in the exploration stage and as such, the Company capitalizes all expenditures related to the acquisition, exploration and development of mineral properties until such time as the properties are placed into commercial production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on an unit-of-production basis based on proven and probable reserves. Costs of abandoned properties are written off to operations. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Adjustments to carrying value due to impairment are charged to operations.

Property option payments received are credited against the cost of mineral properties. Where option payments received exceed the recorded acquisition costs of mineral claims, the amount in excess of the capitalized costs is credited to operations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Mineral Properties (Continued)

The Company has not yet determined the amount of reserves available on the properties owned. The recoverability of the capitalized costs for mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties and on future production or proceeds of disposition. The Company assesses the impairment of a mineral property whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Recoverability of the capitalized costs is then determined by a comparison of the carrying amount of the property to future undiscounted net cash flows expected to be generated by the mineral property. If such mineral property is considered to be impaired, that property is written down to its estimated net realizable value.

Although the Company has taken steps to verify the title to mineral properties in which it has an interest in accordance with general industry standards, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and, as such, title may be affected.

f) Asset Retirement Obligation

The Company records a liability for the fair value of the statutory, contractual or legal asset retirement obligations ("ARO") associated with the retirement and reclamation of tangible long-lived assets when the related assets are put into use, with a corresponding increase to the carrying amount of the related assets. This corresponding increase to capitalized costs is amortized to earnings on a basis consistent with depreciation, depletion and amortization of the underlying assets. Subsequent changes in the estimated fair value of the ARO are capitalized and amortized over the remaining useful life of the underlying asset. The ARO liabilities are carried on the consolidated balance sheet at their discounted present value and are accreted over time for the change in their present value, with this accretion charge included in depreciation, depletion and amortization.

As at October 31, 2008 and 2007, the Company has determined that it does not have any material obligations for asset retirement obligations.

g) Impairment of Long-lived Assets

Long-lived assets are reviewed by the Company for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds the undiscounted future cash flows expected to result from the use of the asset and its eventual disposition.

h) Intangible Assets

Intangible assets represent the identifiable value of customer contracts acquired on the purchase of Quantum (Note 4(a)) which are recorded at cost less accumulated amortization. Intangible assets have a definite life, and are amortized on a straight–line basis over the length of the contract terms of five years with an annual review for impairment.

i) Revenue Recognition

Revenue, net of trade discounts and excluding value added tax, comprises the total invoice value of goods, services, co-marketing fees and royalties. Revenue from the sale of calcine is recognized upon transfer of title which is completed when the physical product is delivered to customers and when collection is reasonably assured.

Interest income is recognized when earned and collection is reasonably assured.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Share Capital

The Company records proceeds from share issuances net of related share issue costs. Common shares issued for non-monetary consideration are recorded at their fair market value based upon the trading price of the Company's shares on the TSX Venture Exchange on the date of the agreement.

k) Stock-Based Compensation

The Company has a stock option plan for its directors, officers, employees and consultants. Under this plan, stock options are not issued at less than their fair market value.

The Company recognizes compensation cost for options and other stock-based awards granted using the fair value based method. Compensation cost is measured using the Black-Scholes option pricing model at the date of the grant and is expensed over the vesting period of the equity instrument awarded, with the offsetting amounts credited to contributed surplus.

Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus amount is transferred to share capital.

l) Loss per Common Share

Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of shares issued and outstanding during the year. Diluted loss per share is the same as basic loss per share as the effect of issuance of shares on the exercise of stock options and warrants is anti-dilutive.

m) Future Income Taxes

The Company accounts for income taxes using the asset and liability method, whereby future tax assets and liabilities are determined based on differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using substantively enacted tax rates that will be in effect when the temporary differences are expected to be settled. When the future realization of future income tax assets does not meet the test of being more likely than not to occur, a valuation allowance is applied against those assets.

n) Flow-through Shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for income tax purposes for qualified resource expenditures can be renounced and claimed by the flow-through share subscribers. The Company records issuances of flow-through shares by crediting share capital for the full value of cash consideration received. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized with a corresponding reduction to share capital for the cost of the future tax benefits foregone.

If the Company has sufficient unused tax losses and deductions to offset all or part of the future income tax liability and no future income tax assets have been previously recognized on such losses, the Company may reverse a portion of the Company's valuation allowance on future income tax assets and recognize a recovery of future income taxes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses incurred during the periods. Significant areas requiring the use of management estimates include the assessment of recoverability of mineral properties, plant and equipment, and intangible assets, the determination of the amortization period of plant and equipment and intangible assets, the estimated amount of accrued liabilities and asset retirement obligations, the realization of future income tax assets, and the determination of the fair value of stock-based compensation. Actual results could differ from those estimated.

p) Future Accounting Changes

i) Going Concern

The CICA approved amendments to Handbook Section 1400, *General Standards of Financial Statement Presentation.* These amendments require management to assess an entity's ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity's ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The new requirements of the standard are applicable for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

ii) Goodwill and Intangible Assets

Effective for fiscal years beginning on or after October 01, 2008 the CICA introduced new CICA Handbook Section 3064 to replace existing standards and guidance on accounting for goodwill and other intangible assets. The new section specifically excludes mining activities related to prospecting, acquisition of mineral rights, exploration, drilling and mineral development as intangibles, as existing Handbook Section 3061 Property, Plant and Equipment contains standards for measurement, presentation, and disclosure of mining properties.

The financial reporting impact of this new standard cannot be reasonably estimated at this time.

iii) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 and will be applicable to the Company commencing with its fiscal year beginning October 1, 2011. The transition date of October 1, 2011 for the Company will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2012.

While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year. These reclassifications have no effect on the consolidated net loss for the years ended October 31, 2008 and 2007.

NOTE 3 – ADOPTION OF NEW ACCOUNTING POLICIES

Effective November 01, 2006, the Company adopted CICA Handbook Sections 1530 “Comprehensive Income”, Section 3251 “Equity, Section 3855 “Financial Instruments – Recognition and Measurement”, Section 3861 “Financial Instruments – Disclosure and Presentation”, and Section 3865 “Hedges”.

Effective November 01, 2007, the Company adopted Sections 3862 “Financial Instruments – Disclosure” and 3863 “Financial Instruments – Presentation” which place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

These standards have been adopted on a prospective basis with no restatement to the prior years’ financial statements.

a) Comprehensive Income

Comprehensive income consists of net earnings and other comprehensive income. Other comprehensive income is the change in net assets from transactions related to non-shareholder sources, and includes items that would not normally be included in net earnings such as foreign exchange gains or losses arising from the translation of the financial statements of a self-sustaining foreign operation. The Company’s comprehensive income and its components are presented in the statements of comprehensive income and accumulated other comprehensive income.

Prior to the adoption of new standards on November 01, 2007, foreign exchange gains and losses arising from the translation of the financial statements of self-sustaining foreign operations were recorded in the cumulative translation account as a separate component of shareholders’ equity. Upon adoption of the new standard, such gains and losses are recognized in a separate component of other comprehensive income with restatement of prior periods pursuant to the transition rules. There was no cumulative translation adjustment from years prior to 2008.

b) Financial Instruments

Financial instrument guidelines require all financial assets, except those held to maturity and derivative financial instruments, to be measured at fair market value. All financial liabilities are measured at fair value if they are held for trading. Other financial liabilities are measured at amortized cost.

Under the new Handbook sections, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

NOTE 3 – ADOPTION OF NEW ACCOUNTING POLICIES (Continued)

b) Financial Instruments (Continued)

Under adoption of these new standards, the Company designated its accounts receivable as loans and receivable which are measured at amortized costs. Accounts payable and accrued liabilities, amounts owing to related parties, and long-term debts are classified as other financial liabilities which are measured at amortized cost. Long-term investments are designated as held-to-maturity investments, and are recorded at amortized cost.

The classification and remeasurement of the Company's opening balances for financial instruments has no impact on the Company's opening deficit balance as at November 01, 2006.

c) Hedging

Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as for those related to the hedged item. The Company currently does not have any financial instruments which qualify for hedge accounting.

d) Capital Disclosure

Effective October 1, 2007, Handbook Section 1535 "Capital Disclosures" requires disclosure of information on the Company's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with any externally imposed capital requirements, and if the entity has not complied, the consequences of such noncompliance (see Note 19).

NOTE 4 – BUSINESS ACQUISITIONS

a) Quantum Screening and Crushing (Proprietary) Ltd. ("Quantum")

On March 1, 2007, the Company completed its acquisition of 85% of the outstanding shares of Quantum, a private South African company. Pursuant to an agreement dated January 30, 2007, the Company acquired 85% of Quantum by issuing 5,929,876 common shares of the Company valued at $1,125,702 (based on the quoted market price of the Company's share on the date of the agreement), and cash payment of $2,222,339.

On November 1, 2007, the Company acquired the remaining 15% of the outstanding shares of Quantum, thereby increasing its ownership of Quantum from 85% to 100%. The Company acquired the remaining 15% of Quantum by issuing 1,527,072 common shares of the Company valued at $361,878 (based on the quoted market price of the Company's share on the date of the agreement), and cash payment of $205,609.

The above step-by-step acquisitions have been accounted for using the purchase method with the fair value of the consideration paid being allocated to the identifiable assets acquired and liabilities assumed on the acquisition dates. The consolidated financial statements include the results of operations of Quantum from the dates of acquisition. The allocation of the purchase price for the step-by-step acquisitions is summarized in the following table.

NOTE 4 – BUSINESS ACQUISITIONS

a) Quantum Screening and Crushing (Proprietary) Ltd. ("Quantum") (Continued)

	October 31, 2008 US$ (15% Acquisition)	October 31, 2007 US$ (85% Acquisition)
Assets		
Current assets (includes cash and cash equivalents of $54,876 on November 1, 2007 and $743,216 on March 1, 2007)	367,362	1,676,414
Investments	66,879	330,802
Plant and equipment	92,734	2,614,541
Intangible assets	571,776	2,334,421
	1,098,751	6,956,178
Liabilities		
Current liabilities	236,410	1,376,295
Long-term debt	119,582	807,605
Future income tax liability	175,272	1,316,239
Non-controlling interest	-	107,998
	531,264	3,608,137
	567,487	3,348,041
Consideration		
Common shares	361,878	1,125,702
Cash	205,609	2,222,339
	567,487	3,348,041

b) New Stone Mining SPRL ("NSM")

On November 16, 2007, the Company entered into a purchase agreement to acquire 51% of the outstanding shares of NSM, a privately-owned mining company registered in the Democratic Republic of the Congo ("DRC") and owner of four mining concessions in DRC. The total purchase price was to be based on NSM's operating results for the first 12 months after the closing date with a maximum price of $20,000,000. Pursuant to the terms of the agreement, the Company was required to make an initial deposit of $1,000,000 payable as follows: $75,000 on signing and $925,000 upon meeting certain conditions. Subsequently, the terms of the $925,000 payment were modified such that it was to be paid as follows: $300,000 in January 2008 with monthly payments of $70,000 thereafter until $925,000 is fully paid. As at October 31, 2008, the Company has made payments totalling $661,567.

Subsequent to year-end, the Company decided to terminate the agreement due to non-performance by the vendors and has taken legal action to recover the deposit payments. In the opinion of management, the likelihood of recovering the deposits is uncertain, and accordingly, the Company has written off the deposits in the year ended October 31, 2008.

NOTE 5 - LONG-TERM INVESTMENTS

The Company is committed to making monthly fixed income investment of $12,154 to provide for the repayment of a loan in the amount of $660,898 due in January 2010 (Note 9(b)). The long-term investments are classified as held–to- maturity financial assets and are recorded at amortized cost.

NOTE 6 - PLANT AND EQUIPMENT

	Cost US$	Accumulated Amortization US$	Net Book Value US$
2008			
Plant and equipment	2,857,934	1,691,107	1,166,827
Office equipment	10,702	5,596	5,106
Computer equipment	11,845	10,384	1,461
Vehicles	56,538	24,599	31,939
Leasehold improvements	132,880	115,654	17,226
	3,069,899	1,847,340	1,222,559
2007			
Plant and equipment	3,497,821	1,578,203	1,919,618
Office equipment	12,029	5,811	6,218
Computer equipment	26,858	23,698	3,160
Vehicles	87,835	30,337	57,498
Leasehold improvements	200,061	134,115	65,946
	3,824,604	1,772,164	2,052,440

NOTE 7 - MINERAL PROPERTIES

	October 31, 2006 US$	Additions 2007 US$	October 31, 2007 US$	Additions 2008 US$	October 31, 2008 US$
British Columbia, Canada					
Bonaparte Property					
Deferred exploration costs – field costs	3,572	92,556	96,128	77,586	-
Abandonment of property	-	-	-	(173,714)	-
	3,572	92,556	96,128	(96,128)	-
Alaska, United States					
Bowser Creek Property					
Acquisition costs	-	25,000	-	-	-
Deferred exploration costs – field costs	-	6,312	-	-	-
Abandonment of property	-	(31,312)	-	-	-
	-	-	-	-	-
Sierra Leone					
Gendema Property					
Deferred exploration costs – field costs	-	-	-	57,515	57,515
	-	-	-	57,515	57,515
TOTAL MINERAL PROPERTY COSTS	3,572	92,556	96,128	(38,613)	57,515

NOTE 7 - MINERAL PROPERTIES (Continued)

a) Bonaparte Property, British Columbia, Canada

The Company owns six mining claims located approximately 45 kilometres west of the Thompson River in the Kamloops Mining Division. In June 2008, the Company transferred the property to a former director for settlement of outstanding compensation for past services in the amount of $32,500. Accordingly, the Company recorded a loss of $146,208 on disposition of mineral property, net of the reclamation bond write-off of $4,994.

b) Bowser Creek Property, Alaska, USA

The Company signed an option agreement dated November 15, 2006 to earn up to a 75% interest in the Bowser Creek property located in Alaska. Pursuant to the terms of the agreement, the Company was required to spend $1,571,700 in exploration expenditures to earn a 50% interest and an additional $1,047,800 in exploration expenditures to earn the remaining 25% interest. During the year ended October 31, 2007, the Company terminated the agreement and capitalized mineral and deferred explorations costs totalling $31,312 were charged to operations.

c) Gendema Property, Sierra Leone

The Company has acquired a 25 acre mining lease for a period of 3 years to October 31, 2011. The annual lease payment for the property is approximately US$6,250.

NOTE 8 - INTANGIBLE ASSETS

	Cost US$	Accumulated Amortization US$	Impairment Charge US$	Net Book Value US$
2008				
Customer Contracts	2,906,197	909,487	1,996,709	1
2007				
Customer Contracts	2,334,421	311,256	-	2,023,165

Intangible assets represent the identifiable value of customer contracts acquired on the purchase of Quantum (Note 4(a)).

As at October 31, 2008, the Company completed an impairment test for customer contracts as a result of the global declines in equity markets and significant reduction in sales expected in 2009 and beyond. The determination of the customer contracts recoverability is based on an estimate of undiscounted cash flow, and the measurement of the impairment loss is based on the amount that the carrying value exceeds the fair value. Management relied on a number of assumptions including anticipated sales, margins and market conditions. Based on the test performed, the Company concluded that intangible assets were not fully recoverable.

In light of the current economic conditions, there are material uncertainties in management sales assumptions which may materially affect future cash flows. As such, the Company wrote down its intangible assets to a nominal amount and recorded an impairment charge of $1,996,709 in the year ended October 31, 2008.

NOTE 9 - LONG-TERM DEBTS

	2008 US$	2007 US$
a) Ford Credit – Ford Ranger		
Car loan repayable by December 2008 with monthly principal and interest payments of $286.	576	4,310
Less: Financing charges	(13)	(363)
	563	3,947
b) Standard Bank – Coal Devolatising Plant		
Bank loan secured with a fixed income investment (Note 5) and plant and equipment, bears interest at rates from 11% to 13.5% per annum, and is due in January 2010. Monthly principal and interest payments are approximately $6,094. The Company incurred financing charges totalling $81,878 for the year ended October 31, 2008 (2007 - $68,983).	611,537	1,003,633
Less: Financing charges	(87,824)	(203,973)
	523,713	799,660
	524,276	803,607

The estimated future principal repayments are as follows:

2009	2,418
2010	521,858
	524,276

NOTE 10 - SHARE CAPITAL

a) AUTHORIZED

An unlimited number of common and preferred shares without par value

b) ISSUED AND OUTSTANDING

	Number of Shares	Amount US$
Balance, October 31, 2006	25,865,545	4,000,623
Issued During the Year		
For Cash – Private placements (1), (2), (3)	10,758,260	2,007,625
For Cash – Options exercised	453,000	40,595
Acquisition of subsidiary (Note 4(a))	5,929,876	1,125,702
Balance, October 31, 2007	43,006,681	7,174,545
Issued During the Year		
Acquisition of subsidiary (Note 4(a))	1,527,072	361,878
Future Income Taxes on Renunciation of Flow Through Shares (Note 14(c))	-	(44,473)
Balance, December 31, 2008	44,533,753	7,491,950

NOTE 10 - SHARE CAPITAL (Continued)

b) ISSUED AND OUTSTANDING (Continued)

(1) On December 29, 2006, the Company completed a flow-through private placement of 1,758,260 units at a price of $0.07 (CDN$0.115) per unit for total gross proceeds of $131,424 (CDN$202,200). One unit consists of one common share and one share purchase warrant. One warrant entitles the holder to purchase one additional common share at a price of CDN$0.15 until December 29, 2007 and at CDN$0.20 until December 29, 2008. Finders' fees, corporate and legal costs totaling CDN$28,856 have been offset against the proceeds. The Company also issued 175,826 agent's warrants with a fair value of $12,765.

(2) During the year ended October 31, 2007, the Company completed a private placement of 1,000,000 units at a price of CDN$0.10 per unit for total gross proceeds of CDN$100,000. One unit consists of one common share and one share purchase warrant. One warrant entitles the holder to purchase one additional common share at a price of CDN$0.15 until October 31, 2008.

(3) During the year ended October 31, 2007, the Company completed a private placement of 8,000,000 units at a price of CDN$0.25 for total gross proceeds of CDN$2,000,000. One unit consists of one common share and one half of a share purchase warrant. One warrant entitles the holder to purchase one additional common share at a price of CDN$0.35 until October 31, 2008. Finders' fees, corporate and legal costs totaling CDN$136,647 have been offset against the proceeds.

c) STOCK OPTIONS

The Company has the following options outstanding:

	Number of Options	Weighted Average Exercise Price US$
Balance, October 31, 2006	1,155,000	0.16
Granted	2,750,000	0.11
Exercised	(453,000)	0.10
Cancelled	(500,000)	0.10
Balance, October 31, 2007	2,952,000	0.18
Cancelled	(1,575,000)	0.11
Balance, October 31, 2008	1,377,000	0.13

As at October 31, 2008, the outstanding options expire between June 7, 2009 and June 14, 2012.

NOTE 10 - SHARE CAPITAL (Continued)

d) SHARE PURCHASE WARRANTS

The Company has the following warrants outstanding:

	Number of Warrants	Weighted Average Exercise Price US$
Balance, October 31, 2006	2,357,619	0.21
Issued	6,758,260	0.27
Expired	(2,357,619)	0.21
Balance, October 31, 2007	6,758,260	0.27
Expired	(1,000,000)	0.15
Balance, October 31, 2008	5,758,260	0.30

As at October 31, 2008, the Company has the following warrants outstanding:

Expiry Date		
December 29, 2008	1,758,260	0.20
August 9, 2009 (i)	2,259,250	0.35
September 13, 2009 (i)	1,740,750	0.35
	5,758,260	0.30

(i) On July 28, 2008, the Company obtained approval from the TSX Venture to extend the expiry dates of these warrants by one year to August and September 2009.

e) Stock-based compensation

The fair value of stock options and brokers warrants granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for the grants made during the year ended October 31, 2007:

Risk-Free Annual Interest Rate	3.5%
Expected Annual Dividend Yield	0%
Expected Stock Price Volatility	113%
Expected Life of Options	5 years

The weighted average fair value per share of stock options granted during the year ended October 31, 2007 was $0.12 per share. During the years ended October 31, 2008 and 2007, the Company recognized, respectively, $53,662 and $272,355 of stock based compensation expense for options vested in the period.

The weighted average fair value per share of agents warrants issued during the year ended October 31, 2007 was $0.07 per share. The Company recognized stock based compensation expense of $12,765 in share issuance costs for agents warrants issued in 2007.

Option pricing models require the input of highly subjective assumptions. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models may not necessarily provide a single reliable measure of the fair value of the Company's stock options and brokers warrants.

NOTE 11 – CONTRIBUTED SURPLUS

	2008 US$	2007 US$
Balance, beginning of year	685,223	400,103
Stock-Based Compensation (Note 10(e))	53,662	285,120
Balance, end of year	738,885	685,223

NOTE 12 - RELATED PARTY TRANSACTIONS

In addition to those transactions disclosed elsewhere in these financial statements, the Company had the following transactions with related parties:

	2008 US$	2007 US$
Due to companies controlled by former directors of the Company (a)	42,330	19,197
Due to former directors of the Company (a)	142,301	351,009
Due to a company controlled by the President (also a director) of the Company (b)	1,282,348	723,111
Amounts due to related parties	1,466,979	1,093,317

a) The balances due to these related parties are unsecured, non-interest bearing and have no specific terms for repayment.

b) The amount payable is unsecured, bears interest at 7% per annum and has no specific terms of repayment. The amount includes accrued interest payable of $126,521 (2007 - $61,293). The Company accrued interest expense of $65,228 (2007 - $61,293) during the year ended October 31, 2008 on the amounts owing. Subsequent to year end, the Company issued 2,892,442 common shares with a deemed value of CDN$0.25 per share in settlement of amounts owing of CDN$723,111 (Note 18(a)).

c) The Company paid directors' fees of $166,427 (2007 – $110,556) during the year ended October 31, 2008.

d) The Company paid consulting fees and expense reimbursements of $45,000 (2007 – $62,902) to a former director of the Company. Pursuant to the settlement agreement dated June 11, 2008 with the former director, the Company agreed to transfer the Bonaparte Gold Property to the former director in settlement of outstanding compensation of $32,500 (Note 7(a)). In addition, the Company agreed to pay a total of CDN$210,000 (US$206,000) in settlement of $273,918 of exploration expenditures owing to a company controlled by the former director, and accordingly, recorded a gain on settlement of debt $69,260 in the year ended October 31, 2008. As at October 31, 2008, CDN$100,000 (US$83,022) of the settlement payments remained outstanding.

e) The Company paid consulting fees of $47,546 (2007 – $Nil) to a director of the Company.

f) The Company paid administrative and accounting fees of $59,891 (2007 - $15,590) to a director of the Company.

All related party transactions were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

NOTE 13 - PRODUCT REVENUE

Product revenue included subsidy income of $35,977 (2007 - $169,053) from the Small and Medium Enterprises Development Program. This subsidy is received from the South Africa Department of Trade and Industry and is only recorded upon receipt.

NOTE 14 - INCOME TAXES

a) Provision for Income Taxes

A reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2008 US$	2007 US$
Loss for the year before taxes and non-controlling interest	(3,306,760)	(609,070)
Statutory income tax rate	31.60%	34.12%
Expected income tax recovery	(1,045,047)	(208,000)
Ugandan taxes not provided for	(25,130)	21,000
Net adjustment for non-deductible amounts	10,101	100,000
Lower tax rate in foreign jurisdictions	(38,249)	(11,000)
Effect of reduction in statutory rate	112,196	148,000
Expiry of loss carry-forward	20,226	-
South African secondary tax	56,131	-
Other	(18,657)	-
Change in valuation allowance	260,993	(13,000)
Income tax expense (recovery)	(667,436)	37,000
Provision for taxes applicable to:		
Current income tax expense	342,900	189,000
Future income tax recovery	(1,010,336)	(152,000)
Income tax expense (recovery)	(667,436)	37,000

b) Future Income Taxes

The significant components of the Company's Canadian and South African future income tax assets and liabilities are as follows:

	2008 US$	2007 US$
Future income tax assets		
Mineral properties	7,631	12,000
Non-capital losses carried forward	621,994	345,000
Share issue costs	24,368	36,000
	653,993	393,000
Valuation allowance for future income tax assets	(653,993)	(393,000)
Net future income tax assets	-	-

NOTE 14 - INCOME TAXES (Continued)

b) Future Income Taxes (Continued)

	2008 US$	2007 US$
Future income tax liabilities		
Plant and equipment	324,260	549,000
Intangible assets	-	615,000
Net future income tax liabilities	324,260	1,164,000

As at October 31, 2008, the Company has Canadian accumulated non-capital losses of approximately $2,392,000 which are available to reduce future taxable income in Canada and which expire as follows:

	US$
2009	72,000
2010	43,000
2011	161,000
2015	332,000
2026	278,000
2027	394,000
2028	1,112,000
	2,392,000

As at October 31, 2008, the Company has cumulative foreign exploration expenditures of $28,614 which can be carried forward indefinitely to offset future taxable income in Canada. The Company's unamortized share issue costs for tax purposes which are available to reduce taxable income of years 2009 to 2011 amounts to $93,725.

The Company has provided a valuation allowance against the future benefit for these tax losses and deductions as they are not more likely than not to be realized.

No provision for Ugandan income taxes has been recorded. The Company is unable to accurately determine the amount of its loss carry forwards and other tax attributes at this time. The Company expects to have non-capital operating loss carry forwards available to offset any taxable income that may exist. Future tax benefits which may arise as a result of these losses have not been recognized in these financial statements and would be offset by a valuation allowance.

c) Flow-Through Expenditures

In connection with the Company's flow-through share financing that closed on December 19, 2006, the Company renounced $171,050 of qualifying exploration expenditures to the participating shareholders. The Company recorded a future income tax liability of $44,473 upon renunciation during fiscal 2008, with an offsetting reduction in share capital for the future income taxes related to the deductions foregone by the Company.

Since the Company had unused tax losses and deductions in excess of the renunciation, the future tax liability is offset by the reversal of a portion of the Company's valuation allowance on future income tax assets and a corresponding recovery of future income taxes in the amount of $44,473 was recorded in the year ended October 31, 2008.

NOTE 15 – SUPPLEMENTAL CASH FLOW INFORMATION

a) During the year ended October 31, 2008, the Company issued 1,527,072 (2007 - 5,929,876) common shares valued at $361,878 (2007 - $1,125,702) for the acquisition of a subsidiary (Note 4(a)).

b) During the year ended October 31, 2008, the Company paid South African income taxes of $173,896 (2007 - $437,504) and South African secondary tax of $23,006 (2007 - $26,417).

c) During the year ended October 31, 2008, the Company paid interest of $7,679 (2007 - $15) and received interest income of $13,042 (2007 - $16,558).

NOTE 16 - ECONOMIC DEPENDENCE

The Company's revenue is substantially derived from two customers, and as a result is economically dependent upon these two customers. The Company's exposure to credit risk is limited to the carrying value of its accounts receivable. As at October 31, 2008, accounts receivable from these two customers totalled $868,089, which were collected subsequent to year end.

In light of the continuing deterioration in the global economy, these customers have indicated their intentions to significantly reduce its purchases from the Company in 2009 and beyond. Reduced sales may have a significant adverse impact on the Company's sales (Notes 1 and 8).

NOTE 17 - SEGMENTED INFORMATION

The Company operates in two reportable operating segments, one being the exploration of mineral resource properties in Canada, Uganda and Sierra Leone. The other segment relates to the production and sale of calcine in South Africa.

	Canada US$	Uganda US$	Sierra Leone US$	South Africa US$	Total US$
2008					
Net (loss) income for the year	(1,258,325)	83,766	-	(1,464,765)	(2,639,324)
Current assets	15,592	-	2,585	1,425,820	1,443,997
Long term investments	-	-	-	410,770	410,770
Plant and equipment	1,227	-	-	1,221,332	1,222,559
Mineral properties	-	-	57,515	-	57,515
Intangible assets	-	-	-	1	1
Total Assets	16,819	-	60,100	3,057,923	3,134,842
2007					
Net (loss) income for the year	(1,167,260)	(61,492)	-	507,287	(721,465)
Current assets	136,183	251	-	2,449,090	2,585,524
Long term investments	-	-	-	445,863	445,863
Plant and equipment	46,022	8,176	-	1,998,242	2,052,440
Mineral properties	96,128	-	-	-	96,128
Intangible assets	-	-	-	2,023,165	2,023,165
Total Assets	278,333	8,427	-	6,916,360	7,203,120

NOTE 18- SUBSEQUENT EVENTS

a) Shares Issued for Debt

On January 12, 2009, the Company issued 2,892,442 common shares with a deemed value of CDN$0.25 per share in settlement of amounts of CDN$723,111 owing to a company controlled by the President of the Company.

b) Debt Financing

In January 2009, the Company completed debt financing totalling $150,000 which includes $50,000 funded by a company controlled by the President of the Company. The loan bears interest at 12% per annum compounded annually, is repayable by January 31, 2010, and is secured by a first floating charge on all property and assets of the Company.

NOTE 19 – CAPITAL MANAGEMENT

The Company's capital consists of cash and cash equivalents and share capital. The Company may also utilize debt facilities or instruments, including convertible debt instruments for capital management.

The Company's objectives in managing its capital are: to maintain adequate levels of funding to support its operating and capital expenditure obligations arising from the Company's investment in the Sierra Leone acquisition; to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; to perform mineral exploration activities on the Company's exploration projects; and to seek out and acquire new projects of merit.

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured through the sale of calcine and coke through its subsidiary Quantum Screening & Crushing Ltd. in South Africa and, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of operating cash deficits.

The Company may, from time to time, invest capital that is surplus to immediate operational needs in short-term, liquid, and highly rated financial instruments held with major financial institutions, or in marketable securities. The Company may also, from time to time, enter into forward foreign exchange and commodity price contracts to hedge a portion of its exposure to movements in foreign exchange and commodity prices.

NOTE 20 – MANAGEMENT OF FINANCIAL RISK

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

a) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is dependent upon on the availability of credit from its supplier and its ability to generate sufficient funds from equity financing or from third parties to meet current and future obligations. There can be no assurances that such financing will be available on terms acceptable to the Company.

NOTE 20 – MANAGEMENT OF FINANCIAL RISK (Continued)

b) Credit Risk

Credit risk on financial instruments arises from the potential for counterparties to default on their obligations to the Company. Current credit exposure is on the loss that would be incurred if the Company's counterparties were to default at the same time.

The Company has a credit risk exposure related to its counterparties under its calcine and coke sales as disclosed in Note 16 to the consolidated financial statements. The Company has assessed its exposure to credit risk and has determined that no significant risks exist from these concentrations of credit.

c) Interest Rate Risk

Interest on the Company's long-term debt is based on both fixed and variable rates and exposes the Company to interest rate risk. The Company has not entered into any derivative agreements to mitigate this risk.

d) Foreign Currency Risk

Foreign exchange risk arises because of fluctuations in exchange rates. The Company conducts a significant portion of its business activities in foreign currencies. The Company's subsidiaries, principally located in South Africa, routinely transact in the local currency rather than the United States dollar, exposing the Company to potential foreign exchange risk in its financial position and cash flows.

The assets, liabilities, revenue and expenses that are denominated in foreign currencies will be affected by changes in the exchange rate between the United States dollar and these foreign currencies. The Company has outstanding debt obligations that are payable in Canadian dollars and has issued securities convertible or exercisable into common shares at values expressed in Canadian dollars.

The Company does not currently use financial instruments to mitigate this risk.

e) Commodity Price Risk

The Company's revenues, earnings and cash flows are directly related to the volume and price of calcine and coke sold and are sensitive to changes in market prices for calcine and coke over which it has little or no control. The Company has the ability to address its price-related exposures through the use of calcine and coke sales contracts.

The Company is in great deal of uncertainty in the medium term future owing to the fact that Quantum Screening & Crushing Ltd. is experiencing vast reductions in orders – down more than 50% at the date of this report – due to the current economic and financial crisis.