CANAF GROUP INC.

January 31, 2009 and 2008

Consolidated Financial Statements

(Expressed in U.S. dollars)

(Unaudited – Prepared by Management)

The accompanying unaudited interim consolidated financial statements of Canaf Group Inc. for the three month periods ended January 31, 2009 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company's independent auditors.

CANAF GROUP INC.
Consolidated Balance Sheets
Unaudited

	January 31, 2008 US$	October 31, 2008 US$
ASSETS		
CURRENT		
Cash	338,856	377,539
Accounts receivable	319,832	878,132
Inventories	291,397	188,326
	950,085	1,443,997
Advance on exploration work program	100,000	-
Long-term investments (Note 4)	429,020	410,770
Plant and equipment (Note 5)	1,150,389	1,222,559
Mineral properties (Note 6)	59,535	57,515
Intangible assets	1	1
	2,689,030	3,134,842
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	767,758	874,333
Due to related parties (Note 10)	696,765	1,466,979
Current portion of long-term debts (Note 7)	483	2,418
Income tax payable	23,611	146,806
	1,488,617	2,490,536
Long-term debt (Note 7)	509,496	521,858
Future income tax liabilities	323,620	324,260
Debenture (Note 8)	100,000	-
	2,421,733	3,336,654
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 9)	8,079,463	7,491,950
Contributed surplus	738,885	738,885
Accumulated other comprehensive loss	(328,668)	(313,695)
Deficit	(8,222,383)	(8,118,952)
	267,297	(201,812)
	2,689,030	3,134,842

Nature of Operations and Ability to Continue as a Going Concern (Note 1)
Economic Dependence (Note 12)

Approved by the Directors:

"David Rolston Way"
Director

'Mike Hopley"
Director

See Accompanying Notes to Consolidated Financial Statements

CANAF GROUP INC.

Consolidated Statement of Operations and Deficit

Unaudited

	Three months period ended January 31, 2009 US$	2008 US$
SALES	1,144,942	2,157,332
COST OF SALES (SCHEDULE I)	(1,152,819)	(2,026,009)
	(7,877)	131,323
EXPENSES		
Accounting, audit and legal fees	27,907	27,934
Amortization	102	122,055
Automobile	-	1,834
Bank charges	985	472
Consulting fees	9,272	37,718
Directors' salaries	23,701	27,996
Financing charges	16,390	20,948
Foreign exchanges (gain) loss	(745)	5,251
Interest	1,931	-
Office and sundry	10,647	18,151
Office rent	-	1,510
Promotion	249	1,996
Telephone	6,973	1,529
Transfer agent and filing fees	1,080	3,015
Travel	2,229	6,123
	(100,721)	(276,532)
LOSS BEFORE OTHER ITEMS AND INCOME TAXES	(108,598)	(142,209)
OTHER ITEMS		
Interest income	5,167	5,848
LOSS BEFORE INCOME TAXES	(103,431)	(139,361)
INCOME TAXES (EXPENSE) RECOVERY	-	(32,737)
NET LOSS FOR THE PERIOD	(103,431)	(172,098)
Deficit, Beginning of Period	(8,118,952)	(5,479,628)
DEFICIT, END OF PERIOD	(8,222,383)	(5,651,726)
BASIC AND DILUTED LOSS PER SHARE	(0.00)	(0.00)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	47,277,355	43,140,420

CANAF GROUP INC.

Consolidated Statements of Comprehensive Loss and Other Accumulated Comprehensive Income

Unaudited

	Three months period ended January 31, 2009 US$	2008 US$
COMPREHENSIVE LOSS		
Net Loss for the Period	(103,431)	(172,098)
Other Comprehensive Loss:		
Foreign currency translation adjustment	(328,668)	(96,837)
COMPREHENSIVE LOSS FOR THE PERIOD	(432,099)	(268,935)
ACCUMULATED OTHER COMPREHENSIVE INCOME:		
Balance, Beginning of Period	(313,695)	-
Reclassification of cumulative translation adjustment		
Foreign currency translation adjustment	(14,973)	(96,837)
Balance, End of Period	(328,668)	(96,837)

See Accompanying Notes to Consolidated Financial Statements

CANAF GROUP INC.

Consolidated Statements of Cash Flows

Unaudited

	Three months period ended January 31, 2009 US$	2008 US$
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net loss for the period	(103,431)	(172,098)
Items not affecting cash:		
Amortization	102	298,861
Amortization – Manufacturing Expense	70,295	-
	(33,034)	126,763
Changes in non-cash working capital accounts:		
Accounts receivable	558,300	313,873
Prepaid expenses	-	(14,873)
Inventories	(103,071)	318,444
Advance on exploration work program	(100,000)	-
Accounts payable and accrued liabilities	(106,575)	(467,384)
Income tax payable	(123,835)	2,755
Due to related parties	(770,214)	119,044
	(678,429)	398,622
FINANCING ACTIVITIES		
Long term debt	(12,362)	(76,610)
Issuance of share capital	587,513	333,494
Debenture	100,000	-
	675,151	256,884
INVESTING ACTIVITIES		
Long term investments	(20,185)	1,959
Mineral property exploration costs	(2,020)	(326,355)
Plant and equipment	1,773	(325,652)
Purchase of subsidiary, net of cash acquired	-	(238,388)
	(20,432)	(888,436)
DECREASE IN CASH DURING THE PERIOD	(23,710)	(232,930)
Effect of exchange rate changes on cash and cash equivalents	(14,973)	-
Cash, Beginning of Period	377,539	751,677
CASH, END OF PERIOD	338,856	518,747

Supplementary cash flow information (Note 11)

CANAF GROUP INC.

Schedule I – Cost of Sales

Unaudited

	Three months period ended January 31, 2009 US$	2008 US$
COST OF SALES		
Opening inventories	188,326	446,141
Analysis fees	9,343	7,535
Amortization	70,293	176,806
Consulting	16,028	5,601
Electricity	42,803	66,914
Fuel, oil and lubricants	1,068	1,947
Professional and project management fee	146	19
Medical expenses	277	154
Product purchases	946,151	1,054,582
Protective clothing	1,083	1,324
Rent – machinery	18,924	32,409
Rent – buildings	1,439	1,268
Repairs and maintenance	56,605	113,130
Salaries, wages and labour	43,640	65,284
Transportation	53,754	226,468
Packaging	86	-
Foreign exchange gain	(5,750)	-
Closing inventories	(291,397)	(173,573)
	1,152,819	2,026,009

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"). 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.

As at January 31, 2009, the Company has not yet achieved profitable operations, has accumulated consolidated losses of $8,222,383 since inception, has a working capital deficiency of $538,532, 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 during the period (Note 6), 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.

These consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for consolidated interim financial information. Accordingly, they do not include all of the information and notes to the consolidated financial statements required by generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. The results for the three month period ended January 31, 2009 are not necessarily indicative of the results that may be expected for the year ended October 31, 2009 The balance sheet at October 31, 2008 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

These interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual consolidated financial statements for the year ended October 31, 2008, (except as described below and in note 3). For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report to Shareholders for the year ended October 31, 2008.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

NOTE 3 – ADOPTION OF NEW ACCOUNTING POLICIES (Continued)

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.

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.

(Expressed in U.S. Dollars)

NOTE 3 – ADOPTION OF NEW ACCOUNTING POLICIES (Continued)

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 15).

NOTE 4 - LONG-TERM INVESTMENTS

The Company is committed to making monthly fixed income investment of $9,327 to provide for the repayment of a loan in the amount of $459,924 due in January 2010 (Note 7). The long-term investments are classified as held–to-maturity financial assets and are recorded at amortized cost.

NOTE 5 - PLANT AND EQUIPMENT

	Cost US$	Accumulated Amortization US$	Net Book Value US$
January 31, 2009			
Plant and equipment	2,858,316	1,755,406	1,102,910
Office equipment	10,765	6,243	4,522
Computer equipment	11,845	10,551	1,294
Vehicles	56,538	24,206	31,332
Leasehold improvements	132,880	122,549	10,331
	3,070,344	1,919,955	1,150,389

	Cost US$	Accumulated Amortization US$	Net Book Value US$
October 31, 2008			
Plant and equipment (i)	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 (i)	56,538	24,599	31,939
Leasehold improvements	132,880	115,654	17,226
	3,069,899	1,847,346	1,222,559

NOTE 6 - MINERAL PROPERTIES

	October 31, 2008 US$	Additions 2009 US$	January 31, 2009 US$
Sierra Leone			
Gendema and Tongo Property			
Deferred exploration costs – field costs	57,515	2,020	59,535
TOTAL MINERAL PROPERTY COSTS	57,515	2,020	59,535

(Expressed in U.S. Dollars)

NOTE 6 - PLANT AND EQUIPMENT (Continued)

Gendema and Tongo Property, Sierra Leone

The Company has acquired a 25 acres 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 7 - LONG-TERM DEBTS

	Current	Long-term	Total
Coal Devolatising Plant – Standard Bank			
Instalments payable in monthly installments of	53,882	525,658	579,540
Less: finance charges	(53,399)	(16,162)	(69,561)
	$ 483	$ 509,496	$ 509,979

The above debts are secured with a fixed income investment (Note 5) made to provide for the capital repayable in fiscal 2010. The debts bear interest at rates between 11.0% to 13.5% per annum. The Company incurred finance fees totalling $16,390 for the period ended January 31, 2008 (2007 - $20,948).

Long-term debt principal repayments in subsequent periods are as follows:

2009	$ 483
2010	509,496
	$ 509,979

NOTE 8 - DEBENTURE

During the period ended January 31, 2009, the Company completed debt financing totalling $150,000 which included $50,000 being funded by a company controlled by the President of the Company. The debentures bear 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.

(Expressed in U.S. Dollars)

NOTE 9 - 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, 2008	44,533,753	7,491,950
Issued During the Period		
Debt settlement (1)	2,892,442	587,513
Balance, January 31, 2009	47,426,195	8,079,463

(1) During the period ended January 31, 2009, the Company settled CDN$723,111 of debt owing to related parties by the issuance of 2,892,442 common shares at CDN$0.25 per share.

c) STOCK OPTIONS

The Company has the following options outstanding:

	Number of Options	Weighted Average Exercise Price US$
Balance, October 31, 2008 and January 31, 2009	1,377,000	0.13

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

d) SHARE PURCHASE WARRANTS

The Company has the following warrants outstanding:

	Number of Warrants	Weighted Average Exercise Price US$
Balance, October 31, 2008	5,758,260	0.35
Expired	(1,758,260)	0.20
Balance, January 31, 2009	4,000,000	0.35

(Expressed in U.S. Dollars)

NOTE 9 - SHARE CAPITAL (Continued)

d) SHARE PURCHASE WARRANTS (Continued)

As at January 31, 2009, the Company has the following warrants outstanding:

Expiry Date		
August 9, 2009 (i)	2,259,250	0.35
September 13, 2009 (i)	1,740,750	0.35
	4,000,000	0.35

(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.

NOTE 10 - RELATED PARTY TRANSACTIONS

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

	January 31, 2009 US$	October 31, 2008 US$
Due to companies controlled by former directors of the Company (a)	-	42,330
Due to former directors of the Company (b)	-	142,301
Due to a company controlled by the President of the Company (also a director).	696,765	1,282,348
Amounts due to related parties	696,765	1,466,979

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

b) The amount is unsecured, bears interest at 7% per annum and has no specific terms of repayment. The amount includes accrued interest payable of $67,158 (October 31, 2008 - $126,521). The Company accrued interest expense of $1,931 (October 31, 2008 - $65,228) on the amounts owing.

c) The Company paid directors' salaries of $23,701 (2007 – $27,996) during the period ended January 31, 2009.

d) The Company paid consulting fees and expenses reimbursement of $Nil (2007 – $22,500) to a former director of the Company. As at January 31, 2009, CDN$100,000 (US$83,022) of the settlement payments remained outstanding.

e) The Company paid consulting fees of $9,272 (2007 – $15,217) to a director of the Company.

f) The Company paid administrative and accounting fees of $9,797 (2007 - $6,997) 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.

(Expressed in U.S. Dollars)

NOTE 11 – SUPPLEMENTAL CASH FLOW INFORMATION

a) During the period ended January 31, 2009, the Company, the Company settled US$587,513 of debt owing to related parties by the issuance of 2,892,442 common shares at CDN$0.25 per share.

NOTE 12 - 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 January 31, 2009, accounts receivable included $306,395 due from these two customers.

In light of the continuing deterioration in the global economy, these customers have indicated its intention to significantly reduce its purchases from the Company in 2009 and beyond. Reduced sales may have a significant adverse impact on the Company.

NOTE 13 - 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$
January 31, 2009					
Net (loss) income for the year	(40,946)	-	-	(62,485)	(103,431)
Current assets	12,853	-	565	936,667	950,085
Long term investments	-	-	-	429,020	429,020
Plant and equipment	1,125	-	-	1,149,264	1,150,389
Mineral properties	-	-	159,535	-	159,535
Intangible assets	-	-	-	1	1
Total Assets	13,978	-	160,100	2,514,952	2,689,030
October 31, 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

NOTE 14 – 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 its share 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 15 – 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 fund 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.

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 Notes 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.

NOTE 15 – MANAGEMENT OF FINANCIAL RISK, (Continued)

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 the South African subsidiary is experiencing vast reductions in orders - down more than 50% at the date of this report.