CANAF GROUP INC.

For the Three Months Ended January 31, 2012

Condensed Consolidated Interim Financial Statements

(Expressed in U.S. dollars)

(Unaudited – Prepared by Management)

- Condensed Consolidated Statements of Financial Position
- Condensed Consolidated Statements of Comprehensive Income/Loss
- Condensed Consolidated Statements of Changes In Equity
- Condensed Consolidated Statements of Cash Flows
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NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Canaf Group Inc. for the period ended January 31, 2012 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of condensed consolidated interim financial statements by an entity's auditor.

CANAF GROUP INC.

Condensed Consolidated Interim Statement of Financial Position
(Expressed in U.S. Dollars)
(Unaudited)

	Notes	January 31, 2012 $	October 31, 2011 $ Note 27	November 1, 2010 $ Note 27
ASSETS				
Current Assets				
Cash	5	735,794	208,915	956,894
Trades and Other Receivable	6	1,390,633	1,675,054	1,749,114
Sales Tax Receivable	7	2,777	34,061	-
Inventories	8	916,088	1,300,373	518,035
Prepaid Expense and Deposits		100,970	34,134	-
Due to Related Party	19	2,001	3,462	-
Total Current Assets		3,148,263	3,255,999	3,224,043
Non-Current Assets				
Plant and Equipment	9	699,757	448,897	510,589
Intangible Assets	4(g)	1	1	1
Total Non-Current Assets		699,758	448,898	510,590
Total Assets		3,848,021	3,704,897	3,734,633
LIABILITIES				
Current Liabilities				
Trades and Other Payable	10	1,177,024	1,527,461	1,544,515
Sales Tax Payable		-	-	52,313
Income Tax Payable		217,288	117,247	291,857
Current Portion of Long-Term Debt	11	43,358	40,035	-
Due to Related Parties	19	631,995	694,898	796,841
Total Current Liabilities		2,069,665	2,379,641	2,685,526
Non-Current Liabilities				
Deferred Tax Liability		155,846	65,758	136,786
Debentures	12	150,000	150,000	184,611
Long-Term Debt	11	65,867	78,537	-
Total Non-Current Liabilities		371,713	294,295	321,397
Total Liabilities		2,441,378	2,673,936	3,006,923
SHAREHOLDERS' EQUITY				
Share Capital	13	8,079,463	8,079,463	8,079,463
Reserve for Stock Option		120,285	120,285	120,285
Accumulated Other Comprehensive Income	15	(3,316)	(271,515)	-
Deficit		(6,789,789)	(6,897,272)	(7,472,038)
Total Shareholder's Equity		1,406,643	1,030,961	727,710
Total Liabilities and Shareholder's Equity		3,848,021	3,704,897	3,736,633

Approved by the Directors:

"Christopher Way"
Christopher Way, Director

"Zeny Manalo"
Zeny Manalo, Director

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

CANAF GROUP INC.

Condensed Consolidated Interim Statements of Comprehensive Loss/Income
(Expressed in U.S. Dollars)
(Unaudited)

	Notes	Three Months Period Ended January 31, 2012 $	Three Months Period Ended January 31, 2011 $ Note 27
SALES		2,401,314	2,753,589
COST OF SALES – SCHEDULE	23	(2,073,949)	(2,572,874)
GROSS PROFIT		327,365	180,715
EXPENSES			
Amortization	9	2,224	7,993
General and Administrative Expenses	17	130,972	125,919
Finance (Income)		(2,897)	(4,248)
Finance Cost - Interest on Debentures		3,024	10,889
Finance Costs – Interest on Long-Term Debt		2,323	-
Finance Cost - Interest on Related Party Loan		8,098	10,975
Foreign Exchange (Gain) Loss		(4,665)	(405)
		139,079	151,123
INCOME BEFORE INCOME TAXES		188,286	29,592
Income Tax		(80,803)	(77,821)
NET INCOME (LOSS) FOR THE PERIOD		107,483	(48,229)
Other Comprehensive Income		268,199	-
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		375,682	(48,229)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE		0.00	(0.00)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED		47,426,195	48,526,195

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

CANAF GROUP INC.

Condensed Consolidated Interim Statements of Changes In Equity
(Expressed in US Dollars)
(Unaudited)

		Share Capital		Share-based Payment	Accumulated Other Comprehensive		
		Number	Amount	Reserve	Income	Deficit	Total
		#	$	$	$	$	$
Balance, November 1, 2010	(Note 27)	47,426,195	8,079,463	120,285	-	(7,472,038)	727,710
Loss For The Period						(48,229)	(48,229)
Foreign Currency Translation					(54,561)		(54,561)
Balance, January 31, 2011	(Note 27)	47,426,195	8,079,463	120,285	(54,561)	(7,520,267)	624,920
Balance, November 1, 2011		47,426,195	8,079,463	120,285	(271,515)	(6,897,272)	1,030,961
Loss For The Period						107,483	107,483
Foreign Currency Translation					268,199		268,199
Balance, January 31, 2012		47,426,195	8,079,463	120,285	(3,316)	(6,789,789)	1,406,643

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

CANAF GROUP INC.

Condensed Consolidated Interim Statements of Cash Flows
(Expressed in U.S. Dollars)
(Unaudited)

	Notes	Three Months Period Ended January 31, 2012 $	Three Months Period Ended January 31, 2011 $ Note 27
CASH PROVIDED BY (USED FOR):			
OPERATING ACTIVITIES			
Net Income (Loss) for the Period		107,483	(48,229)
Non-Cash Items			
Amortization	9	2,224	7,993
Amortization – Cost of Sales		112,430	86,025
Future Tax Recovery		(11,824)	-
		210,313	45,789
Changes in Non-Cash Working Capital Accounts	18	423,228	(97,561)
		633,541	(51,772)
FINANCING ACTIVITIES			
Repayment of Long-Term Debt		(9,347)	-
Debentures – Accrued Interest		-	(23,722)
		(9,347)	(23,722)
INVESTING ACTIVITIES			
Purchase of Plant and Equipment		(365,514)	(94,019)
		(365,514)	(94,019)
DECREASE IN CASH		258,680	(169,513)
Effect of Exchange Rate Changes on Cash		268,199	(54,561)
Cash, Beginning of the Period		208,915	956,894
CASH, END OF THE PERIOD		735,794	732,820

Supplemental Cash Flow Information (Note 18)

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

NOTE 1 – GENERAL BUSINESS DESCRIPTION

The condensed consolidated interim financial statements of Canaf Group Inc. (the "Company") for the three months ended January 31, 2012 were authorized for issue by the Board of Directors on April 2, 2012.

Canaf Group Inc. (the "Company") is incorporated in the Province of Alberta and owns and operates a coal processing plant in South Africa which processes coal and coal products into calcine, a coke substitute with a high carbon content.

The address of the Company's corporate office and principal place of business is Suite 500-666 Burrard Street, Vancouver, British Columbia, Canada V6C 2P6.

NOTE 2 – BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance to IAS 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These are the Company's first IFRS interim financial statements for part of the period covered by the Company's first IFRS annual financial statements for the year ended October 31, 2012. Previously, the Company prepared its annual and interim financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

The condensed consolidated interim financial statements are presented in U.S. Dollars. The Company's functional currency is the Canadian dollar for head office operations in Canada and the South African Rand for its coal processing operations in South Africa.

These condensed consolidated interim financial statements have been prepared on the historical cost basis except where noted in the accounting policies or where the items have been restated in compliance with IFRS 1.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving degree of judgement of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The Company has a working capital of $1,078,598 during the three months period ended January 31, 2012 and, as of the date the Company deficit was $6,789,789. The Company has sufficient cash resources to meet its obligations for at least twelve months from the end of the reporting period. The Company's ability to continue as a going concern is dependent upon its ability to generate profitable operations from its coal processing business which the Company has been able to achieve in the last two fiscal years. The Company is dependent on the operating cash flows from its coal processing business, and the continuing financial support of its shareholders and related parties to finance its operations and to discharge liabilities in the normal course of business. Sales of the Company are substantially derived from two customers and as a result the Company is economically dependent on these customers. There is no assurance that the Company will be successful with future financing ventures, and the inability to secure such financing may have a material adverse effect on the Company's financial condition.

NOTE 3 - SIGNIFICANT ACCOUNT JUDGMENT, ESTIMATES AND ASSUMPTIONS

The preparation of these condensed consolidated interim financial statements in conformity of IFRS requires management to make certain estimates, judgments 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 unaudited condensed interim consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited 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 future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of other receivables that are included in the unaudited condensed interim consolidated statements of financial position;

Critical accounting judgments

- The Company's assumption of no material restoration, rehabilitation and environmental provisions, based on the facts and circumstances that existed during the period;

- The assumptions used for determining the amount of deferred income taxes and deferred income tax assets and liabilities including future income tax rate and recoverability; and

- Going concern presentation of the financial statements which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES

The preparation of the condensed consolidated interim financial statements in accordance with IAS 34 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening IFRS balance sheet at November 1, 2010 for the purposes of the transition to IFRSs, as required by IFRS 1. The impact of the transition from Canadian GAAP to IFRS is explained in Note 27.

a) Basis of Consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned South African subsidiary, Quantum Screening and Crushing (Proprietary) Limited, its 51% owned inactive Sierra Leonean subsidiary, Canaf (SL) Limited, and its two wholly-owned inactive subsidiaries, Nabisoga Mining Ltd. and Rwenzori Cobalt Company Ltd. All intercompany transactions and balances have been eliminated upon consolidation.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES, continued

b) Foreign Currency Translation

The Company's functional currency is the Canadian dollar for head office operations in Canada and the South African Rand for its coal processing operations in South Africa. The Company reports its condensed consolidated interim financial statements in U.S. dollars.

The financial statements of the Company's integrated inactive subsidiaries are translated using the temporal method, whereby monetary assets and liabilities are translated at year-end exchange rates and non-monetary assets and liabilities are translated at their applicable historical rates. Revenues and expenses are translated at average exchange rates for the year, except for amortization, which is translated at the historical rates associated with the assets being amortized. Foreign exchange gains and losses from the translation of integrated foreign operations are reflected in the consolidated statement of operations.

The financial statements of the Company's South African self-sustaining subsidiary 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 as other comprehensive income or loss.

c) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty.

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. Revenue is measured at the fair value of the consideration received or receivable.

Interest income is recognized in the consolidated interim statement of comprehensive income as it accrues, using the effective interest method.

d) Interest income

Interest income is recognized as earned on an accruals basis using the effective interest method in the income statement.

e) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits in banks and highly liquid investments with an original maturity of three months or less.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES, continued

f) Inventories

Inventories consist of raw materials and finished goods (calcine), and are valued at the lower of cost and estimated net realizable value. Estimated net realizable value is the estimated selling price in the ordinary course of business less any cost of disposal.

Cost is determined on the following basis: 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 the related fixed and variable manufacturing overhead expenses based on normal capacity.

Cost of sales is determined on a weighted average cost basis and includes transportation and handling costs.

g) Intangible Assets

Intangible assets represent the identifiable value of customer contracts acquired on the purchase of the South African subsidiary in 2007. On October 31, 2008, the Company wrote down the carrying value of its intangible assets to a nominal amount.

h) Property, Plant and Equipment (PPE)

General

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within PPE.

i) Depreciation/Amortization

Plant and equipment are recorded at cost and amortized at the following rates, except in the year of acquisition, when one half of the rates are used:

	Canadian and Sierra Leonean Operations (Declining Balance)	South African Operations (Straight Line)
Computer Equipment	30%	3 Years
Leasehold Improvements	N/A	5 Years
Office Equipment	20%	5 Years
Plant and Equipment	N/A	5 Years
Vehicles	30%	5 Years

An item of PPE is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

The asset’s residual values, useful lives and methods of depreciation/amortization are reviewed at each reporting period, and adjusted prospectively if appropriate

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES, continued

i) Depreciation/Amortization, continued

Major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced, and it is probable that future economic benefits associated with the item will flow to the Company through an extended life, the expenditure is capitalized.

Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. All other day-to-day maintenance costs are expensed as incurred.

j) Exploration and evaluation assets

The Company's exploration and evaluation assets are intangible assets relating to mineral rights acquired and exploration and evaluation expenditure capitalized in respect of projects that are at the exploration/pre-development stage.

No amortization charge is recognized in respect of exploration and evaluation assets. These assets are transferred to mine development assets in property, plant and equipment upon the commencement of mine development.

Exploration and evaluation expenditure in the relevant area of interest comprises costs which are directly attributable to:

- Acquisition;
- Surveying, geological, geochemical and geophysical;
- Exploratory drilling;
- Land maintenance;
- Sampling; and
- Assessing technical feasibility and commercial viability.

Exploration and evaluation expenditure related to an area of interest where the Company has tenure are capitalized as intangible assets and are initially recorded at cost less impairment.

Exploration and evaluation expenditure also includes the costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects. Capitalized costs, including general and administrative costs, are only allocated to the extent that those costs can be related directly to operational activities in the relevant area of interest.

All capitalized exploration and evaluation expenditure is assessed for impairment if facts and circumstances indicate that impairment may exist. In circumstances where a property is abandoned, the cumulative capitalized costs relating to the property are written off in the period.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES, continued

k) Impairment of Non-Financial Assets

At the end of each reporting period, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

l) Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short-term investments, receivables, accounts payable and accrued liabilities and due to related parties. Cash and cash equivalents and short-term investments are classified as fair value through profit or loss and recorded at fair value. Receivables are classified as loans and receivables and are measured at amortized costs. Accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities, which are measured at amortized cost. The fair value of cash and cash equivalents, short-term investments, receivables, accounts payable and accrued liabilities and due to related parties are equal to their carrying value due to their short-term maturity.

Financial assets

Financial assets are classified as into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES, continued

l) Financial Instruments, continued

Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized a fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Held-to-maturity investments

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the income statement.

Available-for-sale investments

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise principally the Company's strategic investments in entities not qualifying as subsidiaries or associates. Available-for-sale investments are carried at fair value with changes in fair value recognized in accumulated other comprehensive loss/income. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment) the full amount of the impairment, including any amount previously recognized in other comprehensive loss/income, is recognized in profit or loss. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost.

Purchases and sales of available-for-sale financial assets are recognized on a trade date basis. On sale or impairment, the cumulative amount recognized in other comprehensive loss/income is reclassified from accumulated other comprehensive loss/income to profit or loss.

Impairment on financial assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if and only if there is objective evidence of impairment as a result of one or more events, that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES, continued

l) Financial Instruments, continued

Impairment on financial assets, continued

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding accounts receivable, is directly reduced by the impairment loss. The carrying amount of trade receivable is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For fnancial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Derecognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise of trade payables and accrued liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the period which are unpaid. Trade payable amounts are unsecured and are usually paid within days of recognition.

m) Interest-Bearing Loans and Other Borrowings

Interest-bearing loans and other borrowings are recognized initially at fair value less related transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of borrowings on an effective interest basis.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES, continued

n) Convertible debentures

The component parts of compound instruments (convertible notes) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option is classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. The conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share capital. Where the conversion option remains unexercised, the balance will remain in contributed surplus. No gain or loss in recognized in profit or loss upon conversion or expiration of the conversion option.

o) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

p) Share Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects.

q) Share-Based Payment

The Company grants stock options to buy common shares of the Company to directors, officers and employees. The board of directors grants such options for periods of up to five years, with vesting periods determined at its sole discretion and at prices equal to the weighted average price of the common shares for the five days on which they were funded immediately preceding the date the options were granted.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period that the employees earn the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES, continued

q) Share-Based Payment, continued

Where the terms of a stock option is modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the stock-based compensation arrangement, or is otherwise beneficial to the employee as measured at the date of modification over the remaining vesting period.

r) Income Taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries, and associates to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

s) Earnings (Loss) Per Share

The Company presents basic and diluted earnings/loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings/loss per share does not adjust the loss attributable to common shareholders or the weight average number of common shares outstanding when the effect is anti-dilutive.

(Expressed in U.S. Dollars)

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES, continued

t) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

u) Recent accounting announcements

IFRS 9 Financial Instruments, as issued in November 2009 and revised in October 2010 is required to be adopted by 2013, subject to confirmation by the International Accounting Standards Board. The standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 and divides all financial assets that are currently in the scope of IAS 39 into two classifications; amortized cost and those measured at fair value.

IFRS 10 - Consolidated Financial Statements builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent Company.

IFRS 11 - Joint Arrangements establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled.

IFRS 12 Disclosure of Interest in Other Entities provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities.

IFRS 13 - Fair Value Measurement defines fair value, requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.

IAS 28 - Investments in Associate and Joint Ventures revised the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Corporation has not completed its evaluation of the effect of adopting these standards on its consolidated financial statements.

NOTE 5 - CASH AND CASH EQUIVALENT

	January 31, 2012	October 31, 2011	November 1, 2010
	$	$	$
Cash at banks and on hand	735,794	208,915	956,894
Total	735,794	208,915	956,894

Cash at banks earn interests at floating rates based on daily bank deposit rates. The fair value of cash and short-term deposits equals book value.

(Expressed in U.S. Dollars)

NOTE 6 - TRADE AND OTHER RECEIVABLES

	January 31, 2012	October 31, 2011	November 1, 2010
	$	$	$
Trade and Other Receivables	1,390,633	1,675,054	1,749,114
Total	1,390,633	1,675,054	1,749,114

Trades receivable s are the sale of calcine. The management considers that the fair values of these receivables, which are expected to be recovered within one year, are not materially different from their carrying amounts because these amounts have short maturity periods on inception.

NOTE 7 – SALES TAX RECEIVABLES

	January 31, 2012	October 31, 2011	November 1, 2010
	$	$	$
GST/HST Receivables	2,777	3,307	-
VAT Receivables	-	30,754	-
Total	2,777	34,061	-

NOTE 8 - INVENTORIES

	January 31, 2012	October 31, 2011	November 1, 2010
	$	$	$
Stock consist of anthracite coal and calcine	916,088	1,300,373	518,035
Total	916,088	1,300,373	518,035

Inventories includes raw material and finished of Calcine.

(Expressed in U.S. Dollars)

NOTE 9 – PLANT AND EQUIPMENT

	Computer Equipment $	Leasehold Improvements $	Office Equipment $	Plant and Equipment $	Vehicles $	Total $
Cost						
Balance, November 1, 2010	16,285	188,760	15,202	3,560,826	65,610	3,846,683
Additions	-	-	-	385,720	-	385,720
Foreign Currency Translation	(1,797)	(22,618)	(1,821)	(239,100)	(6,053)	(271,389)
Balance, October 31, 2011	14,488	166,142	13,381	3,707,446	59,557	3,961,014
Additions	-	-	-	-	-	-
Foreign Currency Translation	(1,013)	1,177	1,201	(1,601)	107	(129)
Balance, January 31, 2012	13,475	167,319	14,582	3,705,845	59,664	3,960,885

	Computer Equipment $	Leasehold Improvements $	Office Equipment $	Plant and Equipment $	Vehicles $	Total $
Depreciation and Impairment losses						
Balance, November 1, 2010	15,940	186,468	13,114	3,072,306	48,266	3,336,094
Depreciation for the period	347	1,848	762	411,208	8,896	423,061
Foreign Currency Translation	(1,799)	(22,547)	(1,655)	(218,984)	(2,053)	(247,038)
Balance, October 31, 2011	14,488	165,769	12,221	3,264,530	55,109	3,512,117
Depreciation for the period	171	127	-	17,517	2,224	20,039
Foreign Currency Translation	(2,181)	1,171	2,361	-272,486	107	(271,028)
Balance, January 31, 2012	12,478	167,067	14,582	3,009,561	57,440	3,261,128
Net book vale						
November 1, 2010	345	2,292	2,088	488,520	17,344	510,589
October 31, 2011	-	373	1,160	442,916	4,448	448,897
January 31, 2012	997	252	-	696,284	2,224	669,757

NOTE 10 - TRADE AND OTHER PAYABLES

	January 31, 2012	October 31, 2011	November 1, 2010
	$	$	$
Trade payables	1,127,024	1,487,461	1,504,515
Accrued liabilities	50,000	40,000	40,000
Total	1,177,024	1,527,461	1,544,515

NOTE 11 – INTEREST – BEARING LOANS AND OTHER BORROWING

	January 31, 2012	October 31, 2011	November 1, 2010
	$	$	$
Current Liabilities	43,358	40,035	-
Non-Current Liabilities	65,867	78,537	-
Secured bank loans	109,225	118,572	-

The bank loan bears interest at 8% per annum, matures on July 1, 2014, and is secured by the Company's pilot modular impact crusher acquired in June 2011. During the period ended January 31, 2012, the Company incurred interest expense totaling $2,323 (October 31, 2011 – $3,775; November 1, 2010-NIL).

The bank loan is repayable in South African Rand with a monthly blended payment of Rand 31,591. As at January 31, 2012, the outstanding bank loan balance was $109,225 ($118,572).

NOTE 12 – DEBENTURES

	January 31, 2012	October 31, 2011	November 1, 2010
	$	$	$
Debenture	150,000	150,000	150,000
Interest Expenses	-	-	34,611
Total	150,000	150,000	184,611

In January 2009, the Company issued debentures totalling $150,000 which included $50,000 subscribed by a related company controlled by the President of the Company.

The debentures bear interest at 8% per annum compounded annually effective May 1, 2011, and are secured by a first floating charge on all property and assets of the Company. The maturity of the debentures has been extended to May 1, 2013, at which date the debentures may be converted to common shares of the Company at $0.25 per common share. Prior to May 1, 2011, the debentures were subject to an interest rate of 12% per annum compounded annually.

(Expressed in U.S. Dollars)

NOTE 13 – SHARE CAPITAL

a) Authorized, issued and outstanding common shares

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

b) The following is a summary of change in common shares from November 1, 2010 to January 31, 2012:

	Number of Shares #	Issue Price $
Balance, November 1, 2010	47,426,195	8,079,463
Share Issued - Nil	-	-
Balance, October 31, 2011 and January 31, 2012	47,426,195	8,079,463

NOTE 14 - SHARE-BASED PAYMENT

The Company has adopted an incentive stock option plan (the "Option Plan") which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with TSX-V requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 5,000,000 of the issued and outstanding common shares. Such options will be exercisable for a period of up to 5 years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors.

The following is a summary of change in stock options from November 1, 2010 to January 31, 2012:

	Options Outstanding	
	Number of Shares #	Weighted Average Exercise Price $
Balance, November 1, 2010	1,100,000	0.13
Issued	-	-
Balance, October 31, 2011	1,100,000	0.10
Expired	(1,100,000)	0.10
Balance, January 31, 2012	-	-

(Expressed in U.S. Dollars)

NOTE 15 – ACCUMULATED OTHER COMPRENSIVE INCOME

	January 31, 2012	October 31, 2011	November 1, 2010
	$	$	$
Beginning Balance	(271,515)	-	-
Unrealized gain (loss) on available-for-sale marketable securities	268,199	(271,515)	-
Total	(3,316)	(271,515)	-

NOTE 16 - BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

The calculation of basic loss per share for the period ended January 31, 2012 was based on the gain attributable to common shareholders of $107,483 (2011 loss - $48,229) and the weighted average number of common shares outstanding of 47,426,195 (2011 – 48,526,195) respectively.

The Company does not have any instruments that would give rise to a dilution effect.

NOTE 17 - GENERAL AND ADMINISTRATIVE EXPENSES

The administrative expenses for the Company are broken down as follows:

	Three Months Period Ended January 31, 2012	Three Months Period Ended January 31, 2011
	$	$
Bank Charges and Interest	908	1,516
Consulting Fees	12,119	12,000
Management Fees	52,736	46,211
Office, Insurance and Sundry	16,517	12,190
Professional Fees	26,301	40,513
Promotion	215	270
Telephone	3,083	4,400
Transfer Agent and Filing Fees	722	1,024
Travel	18,371	7,795
Total General and Administrative Expenses	130,972	125,919

(Expressed in U.S. Dollars)

NOTE 18 – SUPPLEMENTAL CASH FLOW INFORMATION

a) Change in Non-Cash Working Capital Accounts

	Three Months Period Ended January 31, 2012 $	Three Months Period Ended January 31, 2011 $
Trade and Other Receivable	284,421	492,866
Sales Tax Receivable	31,284	-
Due from Related Party	1,461	-
Inventories	384,285	(378,336)
Prepaid Expenses and Deposits	(66,836)	(4,932)
Trades and Other Payable	(350,437)	16,170
Income Tax Payable	201,953	(153,348)
Due to Related Parties	(62,903)	(69,981)
	423,228	(97,561)

b) Other Items

South Africa Income and Secondary Tax Paid	283,501	12,299
Interest Paid	13,445	-
Interest Received	2,897	217,474

NOTE 19 – RELATED PARTY TRANSACTIONS

In addition to those transactions disclosed elsewhere in these consolidated financial statements, the Company has amounts owed to the following related parties:

	January 31, 2012 $	October 31, 2011 $	November 1, 2010 $
Due from Director (a)	2,001	3,462	-
Due to Related Parties			
Director (b)	-	-	22,653
Company Controlled by a Director (c)	88,000	88,000	88,000
Company Controlled by a Director Interest-Bearing (d)	543,995	606,898	686,188
	631,995	694,898	796,841

(Expressed in U.S. Dollars)

NOTE 19 – RELATED PARTY TRANSACTIONS, continued

a) The amount due from a director (also an officer) for an advance made is unsecured, non-interest bearing, and has no specified terms of repayment. The Company incurred accounting fees of $13,020 (December 31, 2011 $54,626; November 1, 2010 $56, 513) to this director for monthly administration and bookkeeping services.

b) The amount due to a director (also an officer) is unsecured, non-interest bearing and has no specific terms of repayment. The Company incurred consulting fees of $12, 119 (December 31, 2011 $48,295; November 1, 2010 $37, 833) to the director for administration and management services.

c) The amount due to a company controlled by a director (also an officer) for advances made is unsecured, non-interest bearing and has no specific terms of repayment.

d) The amount due to a company controlled by a director (also an officer) for advances made is unsecured, bears interest at 6% per annum effective November 1, 2010, and has no specific terms of repayment. As at January 31, 2012, the outstanding amount included accrued interest of $285,370 (December 31, 2011 - $277,273; November 1, 2010 – $242,418). The Company recorded interest expense of $ 8,098 (December 31, 2011 $34,855; November 1, 2010 $54,537).

c) The Company paid management fees of $52,736 (December 31, 2011 - $ 230, 289; November 1, 2010 – $173,956) to the directors for administration and management services in relation to the Company's coal processing business in South Africa.

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

NOTE 20 – ECONOMIC DEPENDENCE

Sales from the Company's South African coal processing business are substantially derived from two customers, and as a result, the Company is economically dependent on these customers. The Company's exposure to credit risk is limited to the carrying value of its accounts receivable. As at January 31, 2012, accounts receivable included $1,390,633 due from these customers which were subsequently collected.

NOTE 21 – COMMITMENT

The Company has entered into an agreement to lease premises for its coal processing plant in South Africa for a term of five years expiring on January 1, 2016. Minimum annual lease payments are as follows:

Year	$
2012	304,149
2013	304,149
2014	304,149
2015	304,149
2016	50,691
	1,267,287

(Expressed in U.S. Dollars)

NOTE 22 – SEGMENTED INFORMATION

The Company operates in three reportable operating segments, including the head office operations in Canada, the exploration of mineral property in Sierra Leone, and the coal processing business in South Africa.

	Canada $	Sierra Leone $	South Africa $	Total $
January 31, 2012				
Net Income (Loss) for the Period	(58,213)	-	165,696	107,483
Revenues	-	-	2,401,314	2,401,314
Gross Profit	-	-	327,365	327,365
Amortization	-	-	2,224	2,224
Amortization – Cost of Sales	-	-	112,430	112,430
Interest Expense	11,122	-	2,323	13,445
Income Tax Expense – Current	-	-	96,627	96,627
Income Tax Expense – Future	-	-	(11,824)	(11,824)
Current Assets	73,815	-	3,074,448	3,148,263
Plant and Equipment	-	-	699,757	699,757
Intangible Assets	-	-	1	1
Total Assets	73,815	-	3,774,206	3,848,021
October 31, 2011				
Net Income (Loss) Income for the Year	(326,804)	-	901,570	574,766
Revenues	-	-	13,336,725	13,336,725
Gross Profit	-	-	1,666,356	1,666,356
Amortization	345	-	8,896	9,241
Amortization – Cost of Sales	-	-	413,818	413,818
Interest Expense	51,110	-	3,775	54,885
Income Tax Expense – Current	-	-	504,447	504,447
Income Tax Recovery - Future	-	-	(67,215)	(67,215)
Current Assets	89,592	-	3,166,407	3,255,999
Plant and Equipment	-	-	448,894	448,897
Intangible Assets	-	-	1	1
Total Assets	89,592	-	3,703,827	3,704,897

(Expressed in U.S. Dollars)

NOTE 22 – SEGMENTED INFORMATION, continued

November 1, 2011

Net Income (Loss) for the Period	(264,061)	(412,481)	1,228,094	551,552
Revenues	-	-	11,807,383	11,807,383
Gross Profit	-	-	1,993,723	1993,723
Amortization	474	-	8,896	9,370
Amortization – Cost of Sales	-	-	375,418	375,418
Interest Expense	75,148	-	76,333	151,481
Income Tax Expense – Current			655,750	655,740
Income Tax Expense – Future	-	-	(91,230)	(91,230)
Current Assets	25,457	1,004	3,197,582	3,224,043
Plant and Equipment	345	4,000	506,244	510,589
Intangible Assets	-	-	1	1
Total Assets	25,802	5,004	3,703,827	3,734,633

NOTE 23 – COST OF SALES

	Three Months Period Ended January 31, 2012 $	Three Months Period Ended January 31, 2011 $
Inventories, Beginning of the Period	1,300,373	518,035
Amortization	112,430	86,025
Analysis Fees	6,371	8,433
Electricity	113,632	115,137
Electricity Upgrade – Distribution Conversion Fees	3,746	-
Fuel, Oil and Lubricants	2,634	1,871
Medical Expenses	444	-
Product Purchases	1,162,665	2,453,750
Professional and Project Management Fee	326	1,709
Protective Clothing	3,401	1,698
Rent – Buildings	1,550	2,433
Rent – Machinery	46,304	35,777
Repairs and Maintenance	63,331	100,254
Salaries, Wages and Labour	85,287	103,492
Site Establishment		-
Transportation	77,079	60,662
Foreign Exchange Loss	13,382	(13,295)
Inventories, End of the Period	(919,006)	(903,107)
	2,073,949	2,572,874

(Expressed in U.S. Dollars)

NOTE 24 – CAPITAL RISK MANAGEMENT

The Company's objectives in managing its capital are to ensure adequate resources are available to fund its coal processing business in South Africa, to seek out and acquire new projects of merit, and to safeguard its ability to continue as a going concern. The Company manages its share capital as capital, which at January 31, 2012 totalled $8,079,463 (October 31, 2011 and November 1, 2011– $8,079,463).

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 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.

The Company has no externally imposed capital requirements, and has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future. There were no changes in the Company's approach to capital management during the period ended January 31, 2012.

NOTE 25 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

a. Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities
b. Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
c. Level 3 – inputs that are not based on observable market data.

	Financial assets at fair value			
	Level 1	Level 2	Level 3	January 31, 2012
Held-for-trading financial asset				
Cash and cash equivalents	735,794			735,794
Total financial assets at fair value	735,794			735,794

	Financial assets at fair value			
	Level 1	Level 2	Level 3	October 31, 2011
Held-for-trading financial asset				
Cash and cash equivalents	208,915			208,915
Total financial assets at fair value	208,915			208,915

NOTE 25 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT, Continued

	Financial assets at fair value			
	Level 1	Level 2	Level 3	August 1, 2010
Held-for-trading financial asset				
Cash and cash equivalents	956,894			956,894
Total financial assets at fair value	956,894			956,894

The Company is exposed to varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes, inclusive of counterparty limits, controlling and reporting structures.

The type of risk exposure and the way in which such exposure is managed is provided as follows:

a) Fair Values

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, long-term debt, debentures, and amounts due to related parties and the joint venture partner approximate their fair value as at the balance sheet date.

b) 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.

c) 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 economic dependence on two customers for its calcine sales (Note 20). The Company has assessed its exposure to credit risk and has determined that no significant risks exist from these concentrations of credit.

d) 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.

e) Commodity Price Risk

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

NOTE 25 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT, continued

f) 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, 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.

NOTE 26 - COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current period presentation.

NOTE 27 - FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The condensed consolidated interim financial statements for the period ended January 31, 2012 are the Company's first financial statements prepared in accordance with IFRS. The Company adopted IFRS in accordance with IFRS 1 "First Time Adoption of International Financial Reporting Standards" which requires that comparative financial information be provided. As a result the first date at which the Company has applied IFRS was November 1, 2010 (the "Transition Date").

IFRS requires the Company to retrospectively apply all effective IFRS standards effective as of the Company's first IFRS annual reporting date as of October 31, 2012. IFRS are applied retrospectively at the Transition Date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings, unless certain optional exemptions and mandatory exceptions are applied.

a) First-time Adoption Exemptions Applied

IFRS 1 permits certain exemptions from full retrospective application upon transition. The Company has applied the following optional exemptions to its opening consolidated statement of financial position at November 1, 2010:

i) Business Combinations

The Company has elected not to retrospectively apply IFRS 3 "Business Combinations" to business combinations that occurred before the Transition Date.

ii) Share-Based Payment Transactions

The Company has elected not to apply IFRS 2 "Share-Based Payment" to equity instruments that vested prior to the Transition Date.

NOTE 27 - FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS"), continued

a) First-time Adoption Exemptions Applied, continued

iii) Compound Financial Instruments

The Company has elected not to retrospectively separate the liability and equity components of compound instruments under IAS 32 "Financial Instruments – Presentation" if the liability component is no longer outstanding at the Transition Date.

iv) Cumulative Translation Differences

The Company has elected not to apply IAS 21 "The Effects of Changes in Foreign Exchange Rates" for cumulative translation differences that existed on the Transition Date. Accordingly, the Company has deemed the cumulative translation differences for all foreign operations to be zero at November 1, 2010, and adjusted retained earnings by the same amount. The gain or loss on a subsequent disposal of a foreign operation shall exclude translation differences that arose before November 1, 2010.

b) First-time Adoption Exception Applied

IFRS 1 also prohibits retrospective application of some aspects of other IFRSs. The Company has applied the following mandatory exception to its opening statement of financial position at November 1, 2010:

i) Estimates

An entity's estimates under IFRS at the Transition Date to IFRS must be consistent with estimates made for the same date under Canadian GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of November 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

c) Notes to the Reconciliation of Canadian GAAP to IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in changes to the Company's reported financial position and results of operations. Presented in Note 27(d), (e) and (f) are reconciliations to IFRS of the Company's assets, liabilities, equity, comprehensive income, and cash flows from those reported under Canadian GAAP, with the resulting adjustments explained below.

i) Reserves in Equity

Under Canadian GAAP – A balance within contributed surplus existed to record the issuance of stock options and broker's warrants. Such amounts remained in contributed surplus upon expiry of the equity instruments.

Under IFRS – The components of contributed surplus are presented separately and reclassified into "reserve for stock options" and "reserve for broker's warrants". Such amounts are transferred to retained earnings upon expiry of the equity instruments. On the Transition Date, the Company transferred the value of expired equity instruments in the amount of $618,600 from reserves to retained earnings.

NOTE 27 - FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS"), continued

c) Notes to the Reconciliation of Canadian GAAP to IFRS

ii) Deferred Tax Asset and Liability

Under Canadian GAAP – Deferred tax assets and liabilities (previously referred to as future income tax assets and liabilities) were classified as current or non-current based on the classification of the underlying assets and liabilities to which they relate.

Under IFRS – All deferred tax assets and liabilities must be classified as non-current.

iii) Cumulative Translation Differences

The Company has deemed the cumulative translation difference of $130,095 that existed on the Transition Date to be zero and adjusted retained earnings by the same amount as elected under IFRS 1 (Note 27(a)(iv)).

iv) Property and Equipment

IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at the Transition Date and using those amounts as the deemed cost or using the historical cost valuation under Canadian GAAP. The Company has chosen to continue applying the cost model and has not restated its property and equipment under IFRS.

v) Presentation of Expenses

Under Canadian GAAP – Costs on the statement of comprehensive loss have been classified by nature.

Under IFRS – Costs on the statement of comprehensive loss have been classified by function in accordance with IAS 1. These costs have been reclassified to general and administrative expenses under IFRS from individual presentation by nature under Canadian GAAP.

(Expressed in U.S. Dollars)

d) Reconciliation of Consolidated Statement of Financial Position

The consolidated statement of financial position at the Transition Date on November 1, 2010 is reconciled to the amounts reported under Canadian GAAP as follows:

	Note	Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
ASSETS				
Current Assets				
Cash		956,894	-	956,894
Trades and Other Receivable		1,749,114	-	1,749,114
Inventories		518,035	-	518,035
Total Current Assets		3,224,043	-	3,224,043
Non-Current Assets				
Plant and Equipment	27(c)(iv)	510,589	-	510,589
Intangible Assets		1	-	1
Total Non-Current Assets		510,590	-	510,590
Total Assets		3,734,633	-	3,734,633
LIABILITIES				
Current Liabilities				
Trades and Other Payable		1,544,515	-	1,544,515
Sales Tax Payable		52,313	-	52,313
Income Tax Payable		291,857	-	291,857
Due to Related Parties		796,841	-	796,841
Total Current Liabilities		2,685,526	-	2,685,526
Non-Current Liabilities				
Deferred Tax Liability	27(c)(ii)	136,786	-	136,786
Debentures		184,611	-	184,611
Total Non-Current Liabilities		321,397	-	321,397
Total Liabilities		3,006,923	-	3,006,923
SHAREHOLDERS' EQUITY				
Share Capital		8,079,463	-	8,079,463
Contributed Surplus	27(c)(i)	738,885	(738,885)	-
Reserve for Stock Options	27(c)(i)	-	120,285	120,285
Accumulated Other Comprehensive Income	27(c)(iii)	130,095	(130,095)	-
Deficit		(8,220,733)	748,695	(7,472,038)
Total Shareholder's Equity		727,710	-	727,710
Total Liabilities and Shareholder's Equity		3,734,633	-	3,734,633

(Expressed in U.S. Dollars)

The consolidated statement of financial position at January 31, 2011 is reconciled to the amounts reported under Canadian GAAP as follows:

	Note	Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
ASSETS				
Current Assets				
Cash		732,820	-	732,820
Trades and Other Receivable		1,256,248	-	1,256,248
Inventories		896,371	-	896,371
Prepaid Expense		4,932	-	4,932
Total Current Assets		2,890,371	-	2,890,371
Non-Current Assets				
Plant and Equipment	27(c)(iv)	510,590	-	510,590
Intangible Assets		1	-	1
Total Non-Current Assets		510,591	-	510,591
Total Assets		3,400,962	-	3,400,962
LIABILITIES				
Current Liabilities				
Trades and Other Payable		1,612,998	-	1,612,998
Income Tax Payable		138,556	-	138,556
Due to Related Parties		726,860	-	726,860
Total Current Liabilities		2,478,414	-	2,478,414
Non-Current Liabilities				
Deferred Tax Liability	27(c)(ii)	136,739	-	136,739
Debentures		160,889	-	160,889
Total Non-Current Liabilities		297,628	-	297,628
Total Liabilities		2,776,042	-	2,776,042
SHAREHOLDERS' EQUITY				
Share Capital		8,079,463	-	8,079,463
Contributed Surplus	27(c)(i)	738,885	(738,885)	-
Reserve for Stock Options	27(c)(i)	-	120,285	120,285
Accumulated Other Comprehensive Income (Loss)	27(c)(iii)	75,534	(130,095)	(54,561)
Deficit		(8,268,962)	748,695	(7,520,267)
Total Shareholder's Equity		624,920	-	624,920
Total Liabilities and Shareholder's Equity		3,400,962	-	3,400,962

(Expressed in U.S. Dollars)

The consolidated statement of financial position at October 31, 2011 is reconciled to the amounts reported under Canadian GAAP as follows:

	Note	Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
ASSETS				
Current Assets				
Cash		208,915	-	208,915
Trades and Other Receivable		1,675,054	-	1,675,054
Sales Tax Receivable		34,061	-	34,061
Inventories		1,300,373	-	1,300,373
Prepaid Expenses and Deposits		34,134	-	34,134
Due from Related Party		3,462		3,462
Total Current Assets		3,255,999	-	3,255,999
Non-Current Assets				
Plant and Equipment	27(c)(iv)	448,897	-	448,897
Intangible Assets		1	-	1
Total Non-Current Assets		448,898	-	448,898
Total Assets		3,704,897	-	3,704,897
LIABILITIES				
Current Liabilities				
Trades and Other Payable		1,527,461	-	1,527,461
Income Tax Payable		117,247	-	117,247
Current Portion of Long-Term Debt		40,035	-	40,035
Due to Related Parties		694,898	-	694,898
Total Current Liabilities		2,379,641	-	2,379,641
Non-Current Liabilities				
Deferred Tax Liability	27(c)(ii)	65,758	-	65,758
Debentures		150,000	-	150,000
Long-Term Debt		78,537	-	78,537
Total Non-Current Liabilities		294,295	-	294,295
Total Liabilities		2,673,936	-	2,673,936
SHAREHOLDERS' EQUITY				
Share Capital		8,079,463	-	8,079,463
Contributed Surplus	27(c)(i)	738,885	(738,885)	-
Reserve for Stock Options	27(c)(i)	-	120,285	120,285
Accumulated Other Comprehensive Loss	27(c)(iii)	(141,420)	(130,095)	(271,515)
Deficit		(7,645,967)	748,695	(6,897,272)
Total Shareholder's Equity		1,030,961	-	1,030,961
Total Liabilities and Shareholder's Equity		3,704,897	-	3,704,897

(Expressed in U.S. Dollars)

The net effect of the transition to IFRS on deficit is further reconciled as follows:

	Note	November 1, 2010 $	January 31, 2011 $	October 31, 2011 $
Effects of Transition to IFRS				
Fair value of expired stock options and broker's warrants reclassified	27(c)(i)	618,600	618,600	618,600
Cumulative translation differences deemed to be zero	27(c)(iii)	130,095	130,095	130,095
Net Effect of Transition to IFRS		748,695	748,695	748,695
Deficit, as reported under GAAP		(8,220,733)	(8,268,962)	(7,645,967)
Deficit, as reported under IFRS		(7,472,038)	(7,520,267)	(6,897,272)

(Expressed in U.S. Dollars)

e) Reconciliation of Comprehensive Loss

Total comprehensive loss for the period ended January 31, 2011 is reconciled to the amounts reported under Canadian GAAP as follows:

	Note	Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
SALES		2,753,589	-	2,753,589
COST OF SALES – SCHEDULE		2,572,874	-	2,572,874
GROSS PROFIT		180,715	-	180,715
EXPENSES				
Amortization		7,993	-	7,993
General and Administrative	27(c)(v)	125,919	-	125,919
Finance (Income)		(4,248)	-	(4,248)
Finance Costs – Interest on Debentures		10,889	-	10,889
Finance Costs – Interest on Related Party Loan		10,975	-	10,975
Foreign Exchange (Gain)		(405)	-	(405)
		151,123	-	151,123
INCOME BEFORE INCOME TAXES		29,592	-	29,592
Income Taxes		(77,821)	-	(77,821)
NET LOSS FOR THE PERIOD		(48,229)	-	(48,229)
Other Comprehensive Income		-	-	-
COMPREHENSIVE LOSS FOR THE PERIOD		(48,229)	-	(48,229)
BASIC AND DILUTED LOSS PER SHARE		(0.00)	-	(0.00)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED		48,526,195	-	48,526,195

(Expressed in U.S. Dollars)

Total comprehensive loss for the year ended October 31, 2011 is reconciled to the amounts reported under Canadian GAAP as follows:

	Note	Canadian GAAP $	Effect of Transition to IFRS $	IFRS $
SALES		13,336,725	-	13,336,725
COST OF SALES – SCHEDULE		11,670,369	-	11,670,369
GROSS PROFIT		1,666,356	-	1,666,356
EXPENSES				
Amortization		9,241	-	9,241
General and Administrative	27(c)(v)	603,804	-	603,804
Finance (Income)		(13,572)	-	(13,572)
Finance Costs – Interest on Debentures		16,255	-	16,255
Finance Costs – Interest on Long-Term Debt		3,775	-	3,775
Finance Costs – Interest on Related Party Loan		34,855	-	34,855
		654,358	-	654,358
INCOME BEFORE INCOME TAXES		1,011,998	-	1,011,998
Income Taxes		(437,232)	-	(437,232)
NET INCOME FOR THE YEAR		574,766	-	574,766
Other Comprehensive Income		-	-	-
COMPREHENSIVE LOSS FOR THE YEAR		574,766	-	574,766
BASIC AND DILUTED EARNINGS PER SHARE		0.01	-	0.01
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC		47,426,195	-	47,426,195
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC		48,526,195	-	48,526,195

f) Reconciliation of Cash Flows

The adoption of IFRS has had no impact on the net cash flows of the Company. The changes made to the consolidated statements of financial position and consolidated statements of comprehensive loss have resulted in reclassifications of various amounts on the consolidated statements of cash flows, however as there have been no changes to the net cash flows, no reconciliations have been presented**.**