

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-17232

**FACT CORPORATION**

(Exact name of registrant as specified in its charter)

Colorado	84-0888594
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1530 – 9 <sup>th</sup> Avenue S.E., Calgary, Alberta	T2G 0T7
(Address of principal executive offices)	(Zip Code)

(403) 693-8000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

(1) Yes [X] No [ ]  
(2) Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [ ] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ] Accelerated filer [ ]  
Non-accelerated filer [ ] Smaller reporting company [X]  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes [ ] No [ ]

**APPLICABLE ONLY TO CORPORATE ISSUERS**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

17,154,406 common shares outstanding as of April 23, 2009.

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**PART I**

**ITEM 1. FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 210 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature. Operating results for the three month period ended March 31, 2009, are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2009. For further information refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

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**FACT CORPORATION**  
**Consolidated Balance Sheets**  
(Unaudited)

	March 31, 2009	December 31, 2008
<b>Current Assets</b>		
Cash	\$ 127,997	\$ 230,341
Inventory	61,314	131,170
Accounts receivable	154,493	107,702
Prepaid expense	5,341	3,391
<b>Total Current Assets</b>	<b>349,145</b>	<b>472,604</b>
<b>Investment in Capital Reserve Canada Ltd.</b>	56	88
<b>Property and Equipment</b>		
Intellectual property	936,690	998,950
Real Property (net of accumulated depreciation of \$1,052 and \$988)	579	643
<b>Total Property and Equipment</b>	<b>937,269</b>	<b>999,593</b>
<b>Total Assets</b>	<b>\$ 1,286,470</b>	<b>\$ 1,472,285</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 501,957	\$ 561,911
Accounts payable (related parties)	568,773	559,940
Loans payable (related parties)	1,133,938	913,243
Loan payable	269,268	458,906
Current portion of long-term debt and acquisition cost	139,700	129,953
<b>Total Current Liabilities</b>	<b>2,613,636</b>	<b>2,623,953</b>
<b>Long-Term Liabilities</b>		
Acquisition cost payable	1,490,805	1,523,931
<b>Total Long-Term Liabilities</b>	<b>1,490,805</b>	<b>1,523,931</b>
<b>Total Liabilities</b>	<b>4,104,441</b>	<b>4,147,884</b>
<i>Commitments and contingencies</i>		
<b>Stockholders' Deficit</b>		
Class A Common Stock - authorized 100,000,000 shares of no par value; 17,154,406 issued and outstanding as at March 31, 2009 and December 31, 2008	23,103,924	23,103,924
Class A Common stock warrants	-	-
Additional paid in capital	428,770	428,770
Accumulated deficit	(26,490,861)	(26,344,646)
Accumulated other comprehensive income	140,196	136,353
<b>Total Stockholders' Deficit</b>	<b>(2,817,971)</b>	<b>(2,675,599)</b>
<b>Total Liabilities and Stockholders' Deficit</b>	<b>\$ 1,286,470</b>	<b>\$ 1,472,285</b>

*The accompanying notes are an integral part of these unaudited consolidated financial statements.*

**FACT CORPORATION**  
**Consolidated Statements of Operations and Comprehensive Loss**  
(Unaudited)

	For the three months ended	
	March 31,	
	2009	2008
<b>Revenues</b>		
Functional food premix	\$ 462,234	\$ 661,952
Rental income (net of operating expenses)	17,042	14,237
	<u>479,276</u>	<u>676,189</u>
Costs of Goods Sold – Functional food premix	<u>389,220</u>	<u>550,505</u>
<b>Gross Profit</b>	90,056	125,684
<b>Costs and Expenses</b>		
Legal	18,735	26,721
Consulting fees	77,811	44,374
Depreciation and amortization	62,324	62,339
Other Administrative expenses	46,056	78,036
	<u>204,926</u>	<u>211,470</u>
<b>(Loss) from operations</b>	(114,870)	(85,786)
<b>Other income and expenses</b>		
Unrealized gain (loss) on disposal of marketable securities	(32)	-
Tax (Paid) /refunded	-	(309)
Interest expense	(31,313)	(24,302)
	<u>(31,345)</u>	<u>(24,611)</u>
Provision for income taxes	<u>-</u>	<u>-</u>
<b>Net (Loss)</b>	<u>\$ (146,215)</u>	<u>\$ (110,397)</u>
<b>Net (Loss) per Common Share, basic and diluted</b>	\$ (0.01)	\$ (0.01)
<b>Weighted Average Number of Common Shares Used in calculation</b>	17,154,406	17,154,406
<b>Comprehensive loss</b>		
Net loss	\$ (146,215)	\$ (110,397)
Foreign currency translation adjustment	3,843	10,899
<b>Comprehensive loss</b>	<u>\$ (142,372)</u>	<u>\$ (99,498)</u>

*The accompanying notes are an integral part of these unaudited consolidated financial statements.*

**FACT CORPORATION**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

	For the three months ended March 31,	
	2009	2008
<b>Cash From Operating Activities:</b>		
Net (loss)	\$ (146,215)	\$ (110,397)
<b>Reconciling adjustments</b>		
Depreciation, depletion and amortization	62,323	62,339
Accrued interest	31,313	-
Unrealized loss on securities	32	-
<b>Changes in operating assets and liabilities</b>		
Accounts receivable	(46,981)	90,360
Inventory	69,856	(49,113)
Prepaid Expense	(1,982)	-
Accounts payable and accrued expenses	(47,189)	(718)
<b>Net Cash Flows Used In Operating Activities</b>	<b>(78,843)</b>	<b>(7,529)</b>
<b>Cash From Financing Activities:</b>		
Loan proceeds (repayment)	-	10,000
Loan proceeds (repayment) related party loans	-	24,302
Acquisition cost payable	(23,380)	(45,399)
<b>Net Cash Flows Used In Financing Activities</b>	<b>(23,380)</b>	<b>(11,097)</b>
<b>Foreign currency translation adjustment</b>	<b>(121)</b>	<b>10,346</b>
<b>Net change in cash and cash equivalents</b>	<b>(102,344)</b>	<b>(8,280)</b>
<b>Cash at beginning of period</b>	<b>230,341</b>	<b>105,053</b>
<b>Cash at end of period</b>	<b>\$ 127,997</b>	<b>\$ 96,773</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ -	\$ -
Income taxes paid (refund)	\$ -	\$ 309

*The accompanying notes are an integral part of these unaudited consolidated financial statements.*

**FACT CORPORATION**  
**Notes to the Consolidated Financial Statements for the three months ended March 31, 2009**  
(Unaudited – prepared by Management)

**Note 1- Basis of presentation**

The accompanying unaudited condensed consolidated financial statements of FACT Corporation (the “Company”) have been prepared in accordance with Securities and Exchange Commission requirements for interim financial statements. Therefore, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2008.

The interim financial statements present the balance sheet, statements of operations and cash flows of FACT Corporation. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

The interim financial information is unaudited. In the opinion of management, all adjustments necessary to present fairly the financial position as of March 31, 2009, and the results of operations, and cash flows presented herein have been included in the financial statements. All such adjustments are of a normal and recurring nature. Interim results are not necessarily indicative of results of operations for the full year.

**Note 2 – Recently Issued Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), BUSINESS COMBINATIONS. This revision to SFAS No. 141 requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, at their fair values as of the acquisition date, with limited exceptions. This revision also requires that acquisition-related costs be recognized separately from the assets acquired and that expected restructuring costs be recognized as if they were a liability assumed at the acquisition date and recognized separately from the business combination. In addition, this revision requires that if a business combination is achieved in stages, that the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, be recognized at the full amounts of their fair values.

In December 2007, the FASB issued SFAS No. 160, NONCONTROLLING INTERESTS IN CONSOLIDATED FINANCIAL STATEMENTS, an amendment of ARB No. 51. The objective of this statement is to improve the relevance, comparability, and transparency of the financial statements by establishing accounting and reporting standards for the Noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The Company believes that this statement will not have any impact on its financial statements, unless it deconsolidates a subsidiary.

In March 2008, the FASB issued SFAS No. 161, DISCLOSURES ABOUT DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (an amendment to SFAS No. 133). This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 and requires enhanced disclosures with respect to derivative and hedging activities. The Company will comply with the disclosure requirements of this statement if it utilizes derivative instruments or engages in hedging activities upon its effectiveness.

In April 2008, the FASB issued FASB Staff Position No. 142-3, DETERMINATION OF THE USEFUL LIFE OF INTANGIBLE ASSETS (“FSP No. 142-3”) to improve the consistency between the useful life of a recognized intangible asset (under SFAS No. 142) and the period of expected cash flows used to measure the fair value of the intangible asset (under SFAS No. 141(R)). FSP No. 142-3 amends the factors to be considered when developing renewal or extension assumptions that are used to estimate an intangible asset’s useful life under SFAS No. 142. The guidance in the new staff position is to be applied prospectively to intangible assets acquired after December 31, 2008. In addition, FSP No. 142-3 increases the disclosure requirements related to renewal or extension assumptions. The Company does not believe implementation of FSP No. 142-3 will have a material impact on its financial statements.

**FACT CORPORATION**  
**Notes to the Consolidated Financial Statements for the three months ended March 31, 2009**  
(Unaudited – prepared by Management)

**Note 2 – Recently Issued Accounting Pronouncements (Continued)**

In May 2008, the FASB issued Statement No. 162, THE HIERARCHY OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "*the Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.*"

In May 2008, the FASB issued Statement No. 163, ACCOUNTING FOR FINANCE GUARANTEE INSURANCE CONTRACTS – AN INTERPRETATION OF FASB STATEMENT NO. 60. The premium revenue recognition approach for a financial guarantee insurance contract links premium revenue recognition to the amount of insurance protection and the period in which it is provided. For purposes of this statement, the amount of insurance protection provided is assumed to be a function of the insured principal amount outstanding, since the premium received requires the insurance enterprise to stand ready to protect holders of an insured financial obligation from loss due to default over the period of the insured financial obligation. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008.

In June 2008, the FASB issued FASB Staff Position Emerging Issues Task Force (EITF) No. 03-6-1, DETERMINING WHETHER INSTRUMENTS GRANTED IN SHARE-BASED PAYMENT TRANSACTIONS ARE PARTICIPATING SECURITIES ("FSP EITF No. 03-6-1"). Under FSP EITF No. 03-6-1, unvested share-based payment awards that contain rights to receive nonforfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. FSP EITF No. 03-6-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those years, and is not expected to have a significant impact on the Company's financial statements.

In November 2008, the Emerging Issues Task Force ("EITF") issued Issue No. 08-7, ACCOUNTING FOR DEFENSIVE INTANGIBLE ASSETS ("EITF 08-7"). EITF 08-7 applies to all acquired intangible assets in which the acquirer does not intend to actively use the asset but intends to hold (lock up) the asset to prevent its competitors from obtaining access to the asset (a defensive asset), assets that the acquirer will never actually use, as well as assets that will be used by the acquirer during a transition period when the intention of the acquirer is to discontinue the use of those assets. EITF 08-7 is effective as of January 1, 2009. The Company does not expect the adoption of EITF 08-7 to have a material impact on its financial statements.

On January 12, 2009 the FASB issued a final Staff Position ("FSP") amending the impairment guidance in EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets to achieve more consistent determination of whether another-than-temporary impairment has occurred. This FSP does not have an impact on the Company at the present time.

On April 1, 2009 the FASB issued FSP FAS 141(R)-1 that amends and clarifies FASB No. 141 (revised 2007), Business Combinations, to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosures of assets and liabilities arising from contingencies in a business combination.

**FACT CORPORATION**  
**Notes to the Consolidated Financial Statements for the three months ended March 31, 2009**  
**(Unaudited – prepared by Management)**

**Note 2 – Recently Issued Accounting Pronouncements (Continued)**

On April 9, 2009 the FASB issued three FSPs intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, provides guidelines for making fair value measurements more consistent with the principles presented in FASB Statement No. 157, Fair Value Measurements. FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, enhances consistency in financial reporting by increasing the frequency of fair value disclosures. FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. These FSPs do not have an impact on the Company at the present time.

None of the above new pronouncements has current application to the Company, but may be applicable to the Company's future financial reporting.

**Note 3 – Subsequent Events**

On April 6, 2009, the Company's Board of Directors appointed Denise Gurley Vice President-Sales in conjunction with an employment contract whereunder, among other consideration, Ms. Gurley was granted a total of 110,000 stock options exercisable into shares of Class A common stock at \$0.35 per share. The options were granted under the Company's 2008 Stock Option and Stock Award Plan and vest ratably on a quarterly basis over the term of the first year of employment.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This quarterly report contains forward-looking statements relating to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "intends", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors which may cause our or our industry's actual results, levels of activity or performance to be materially different from any future results, levels of activity or performance expressed or implied by these forward-looking statements.

Such factors include, among others, the following: international, national and local general economic and market conditions; demographic changes; the ability of the Company to sustain, manage or forecast its growth; the ability of the Company to successfully make and integrate acquisitions; raw material costs and availability; new product development and introduction; existing government regulations and changes in, or the failure to comply with, government regulations; adverse publicity; competition; the loss of significant customers or suppliers; fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; the ability to protect technology; and other factors referenced in this and previous filings.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity or performance. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Given these uncertainties, readers of this Form 10-Q and investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

All dollar amounts stated herein are in US dollars unless otherwise indicated.

The management's discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2008, and 2007, together with notes thereto. As used in this quarterly report, the terms "we", "us", "our", and the "Company" mean FACT Corporation, unless the context clearly requires otherwise.

### General Overview

FACT Corporation predominantly operates in the functional food industry through its wholly-owned subsidiary, Food and Culinary Technology Group Inc., ("FACT Group") developing, licensing and supplying turnkey functional bake mixes to customers who manufacture, distribute, and market bakery and pasta products to consumers through a variety of conventional and alternative channels including retail, food service and specialty markets. Presently the Company's primary revenue stream is generated by the sale of these functional bake mixes in a wholesale format.

The Company also has minimal operations through its wholly-owned subsidiary, Wall Street Real Estate Investments Ltd. which generates revenues through the rental and sub-lease of office space in Calgary, Alberta.

The Company further has one dormant subsidiary, FACT Products, Inc., which holds the proprietary rights to an Italian crème product, not currently in production.

## **Executive Summary**

- Net revenues in the three months ended March 31, 2009 decreased by 28% over the comparative three month period with a 30% reduction to gross revenues;
- Operating expenses for the three months ended March 31, 2009 decreased by 3% over the comparative three month period. The overall decrease to operating expenses reported was minor due to the fact that while the Company experienced substantial decreases in certain operating accounts, these were offset by substantial increases to other operating accounts, resulting in an overall shift of cost centers with a fairly insignificant net change in overall costs. The Company reported a decrease of 30% to legal expenses and a decrease of 41% to general administrative expenses, with an increase to consulting fees of 75% period over period, as a result of recruitment fees paid with respect to a new hire during the period, and the retention of a consultant to assist in the Company's three year forward-planning and acquisition strategies;
- The Company's net loss for the three months ended March 31, 2009 increased by 32% over the comparative period predominantly as a result of decreased net revenue, an increase to interest expenses and a minor reduction to overall operating expenses.

## **Discussion and Analysis**

### **Commodity Trends**

FACT Corporation and our contracted blending facilities are purchasers of wheat, corn, soybean, sugar, alternative sweeteners and certain other commodities which are used in the manufacture of our functional bake mixes. We also contract with trucking companies for the transportation of our wholesale goods, as well as warehouses for storage of our products, both of which use gas and/or natural gas. FACT and its contracted suppliers monitor worldwide supply and cost trends of commonly used commodities in an attempt to secure favorable pricing and mitigate the impact of fluctuating prices of high usage commodities.

During the three months ended March 31, 2009, aggregate commodity costs remained relatively constant across the Company's product lines, allowing FACT to offer more favorable pricing to its customers with respect to certain products. Transportation costs decreased substantially as a result of decreasing gas prices, and transportation surcharges previously levied by our contracted logistics companies were withdrawn. Accordingly the cost of the Company's wholesale blended products decreased, and a percentage of the decrease in costs was passed along to our customers where possible, to reflect stabilized ingredient prices and reduced transportation costs.

We expect fluctuations and uncertainty in the commodity and other raw material costs to continue, particularly for dairy, grains and energy. We will endeavor to pass increased costs and/or savings along to our customers where possible to allow the Company to maintain our current business margins. However, if we are to realize increased costs which cannot be passed along, or should we fail to price our products competitively where savings could be secured for our customers, cost increases and/or loss of sales as a result of non-competitive pricing could result in a reduction to our bottom line profits and our top line sales.

### **Dependence On One or a Few Major Customers**

The Company's revenues for fiscal years ended December 31, 2008 and 2007 and to the date of this report rely heavily on sales made to two (2) key customers: Western Bagel Baking Corporation of Van Nuys, California and Prince Donuts Inc. of Linden, NY. Together these two (2) customers account for approximately ninety nine per cent (99%) of premix sales. During the three months ended March 31, 2009, sales to key customer Prince Donuts were reduced by 14% as compared to sales over the same period in the prior fiscal year, meanwhile sales to customer Western Bagel Baking corporation were reduced by 47% over the comparative period. The Company believes decline in sales reflects the uncertain economic condition in the United States and the impact of this uncertainty on sales to the end consumer. While we believe sales to Western Bagel will continue at a constant level during the current fiscal year, we anticipate sales to this customer over the year will reflect a reduction from prior year sales as a result of a more competitive marketplace and less consumer dollars available to spend overall. During March 2008, FACT customer Prince Donuts advised the Company of a hold on future purchases while extraordinarily high inventory levels required reduction for certain of their customer base. The Company was advised this hold on purchases would remain in effect until mid May 2008, at which point high inventory levels should have normalized and regular order volumes should continue. However, customer Prince Donuts did not order any products from FACT Group during the second quarter of fiscal 2008 as a result of this hold on purchases.

Subsequent to June 30, 2008 Prince Donuts resumed orders, though during the three month period ended September 30, 2008, and to the end of the fiscal year ended December 31, 2008 sales volumes were substantially reduced compared to the same period in the prior year. During the three month period to March 31, 2009, FACT has continued to experience a decrease in sales to customer Prince Donuts. At the date of this report, the Company believes that it does not have complete information from customer Prince Donuts as to the status of sales of finished products to its customer, and therefore, we anticipate that this key account may be , or already has been lost. We have not recorded any sales from Customer Prince Donuts since the close of the three month period ended March 31, 2009. While FACT Group has hired a new full time sales professional, and is actively working to successfully close additional client accounts to assist in better diversifying our revenue base and address the negative impact of such heavy reliance on a few major customers, it is unknown if we will be successful in this endeavor in the immediate future. It is anticipated that until such time as FACT establishes a more diverse range of products in the marketplace, it will remain reliant on a small number of key customers to drive sales. A loss of any one of these customers, and specifically Prince Donuts, without identifying and securing new customers could seriously impact on our business.

## **Liquidity and Capital Resources**

### **Summary of Working Capital and Stockholders' Equity**

As of March 31, 2009, the Company had negative working capital of \$2,264,491 and negative Stockholders' Equity of \$2,817,971 compared with negative working capital of \$2,151,349 and negative Stockholders' Equity of \$2,675,599 as of December 31, 2008. The Company's negative working capital has increased as a result of the reduction to accounts receivable and use of cash to settle certain accounts payable.

### **Liquidity**

The Company believes that cash from operations and existing credit facilities currently provide sufficient liquidity to meet our present working capital needs, including debt servicing obligations. In order to implement our 2008 through 2010 plans for growth, our debt retirement plans and other expansion plans, the Company anticipates it may require between \$1,000,000 and \$5,000,000 over the next three years to fully implement its business plan, which includes significant marketing efforts, the continued development and refinement of functional food formulations and products, a consumer awareness and public relations campaign, concepts for development, manufacturing and distribution of master brand food products, expanded management resources and support staff, and other day to day operational activities. Depending on the success of each segment of the staggered implementation of our growth initiatives the Company will require varying amounts of funds over the next three years in order to realize its goals. Should the Company fail to achieve anticipated benchmarks over the 2008, 2009 and 2010 fiscal years; the amount of capital required will be reduced accordingly. The amount and timing of additional funds required can not be definitively stated as at the date of this report and will be dependent on a variety of factors. As of the filing of this report, the Company has been successful in raising funds required to meet any revenue shortfalls with respect to the funding of our operations. Funds have been raised through private loans, equity financing and conventional bank debt, as well as through the sale of certain active and passive investments. The Company anticipates revenues generated from its functional food business will greatly reduce the requirement for additional funding as we implement our growth initiatives; however, we cannot be certain the Company will be successful in achieving revenues from those operations. Furthermore the Company cannot be certain that we will be able to raise any additional capital to fund our ongoing operations, if and when required.

### **Sources of Working Capital**

During the three months ended March 31, 2009 the Company's primary sources of working capital have come from revenues generated from our functional foods business and monthly rental income.

### **Material Commitments for Capital Expenditures**

Pursuant to a settlement agreement entered into between FACT LLC and Steven Schechter, Jennifer Flynn and Steven Capodicasa, FACT Group has an obligation to pay a total of \$2,000,000 in royalty payments over 10 years. As at March 31, 2009 the remaining balance due with respect to this obligation totaled \$1,630,505. The obligation has been paid from the Company's revenues and the Company anticipates it will continue to be able to pay this obligation from revenues. The current minimum portion due and payable over the next twelve months totals \$139,700.

## Results of Operations

### Comparison of three month periods ended March 31, 2009 and 2008

For the three month periods ended March 31, 2009 and 2008, the Company incurred operating losses of \$114,870 and \$85,786, respectively. Legal fees decreased from \$26,721 (2008) to \$18,735 (2009) and administrative expenses decreased over the respective periods from \$78,036 (2008) to \$46,056 (2009), predominantly as a result of a decrease to freight charges and warehousing fees in the current period. Consulting fees increased substantially from \$44,374 (2008) to \$77,811 (2009) as a result of fees paid to a recruitment firm in respect of a new hire, and monthly consulting fees paid as a result of a contract entered into in February 2009. Fiscal 2009 operations reflect a decrease in gross revenues from \$676,189 (2008) to \$479,276 (2009). This decrease in revenues can be attributed directly to a shortfall in orders from both of the Company's key customers. While the Company believes that this shortfall is partially a reflection of the current economic environment in the United States and decreasing inventory levels on hand at the retail level, we also believe that sales will continue to decrease to one of our key customer accounts based on a lack of forecasts or future-dated orders from this customer. As a result of this decrease in sales volumes, the Company has reduced its inventory levels accordingly from \$131,170 (December 31, 2008) to \$61,314 (March 31, 2009). Associated costs of goods sold relating to functional premix sales has also decreased from \$550,505 (2008) to \$389,220 (2009). The Company's gross margin on the sale of functional bake mixes was reduced over the respective periods as we offered more competitive pricing to our customers in an attempt to boost gross sales volumes.

Depreciation and amortization expenses remained constant during the comparative three month periods totaling \$62,324 (2009) and \$62,339 (2008) as the Company recorded recurring expenses related to the amortization of its intellectual property and fixed assets in the normal course of business.

Interest expense increased over the comparative three months ended March 31, 2009 totaling \$24,302 (2008) and \$31,313 (2009) as the Company was unable to allocate proceeds to retire debt.

Net losses for the two completed three month periods were \$110,397 (2008) and \$146,215 (2009) respectively.

### **Off-Balance Sheet Arrangements**

The Company presently does not have any off-balance sheet arrangements.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable

### **ITEM 4T. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act), as of September 30, 2008. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to our Company required to be included in our reports filed or submitted under the Exchange Act.

#### **Changes in Internal Controls**

There were no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls over financial reporting that occurred during the quarter ended March 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II – OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The Company is presently involved in certain litigation more particularly described in our Form 10-K for the fiscal year ended December 31, 2008, as filed with the Securities and Exchange Commission on April 14, 2009.

**ITEM 1A. RISK FACTORS**

Not Applicable

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not Applicable

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not Applicable

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable

**ITEM 5. OTHER INFORMATION**

On February 1, 2009, the Company entered into a 6 month consulting contract with H H and Company LLC to provide executive-level, operational management support to FACT Corporation and wholly-owned subsidiary, FACT Group Inc. Among other directives, H H and Company will assist the Company's CEO in completing a strategic operating plan for 2009 through 2011, synergistic acquisition strategies and other planning mechanisms.

On April 6, 2009, the Company's Board of Directors appointed Denise Gurley Vice President-Sales in conjunction with an employment contract whereunder, among other consideration, Ms. Gurley was granted a total of 110,000 stock options exercisable into shares of Class A common stock at \$0.35 per share. The options were granted under the Company's 2008 Stock Option and Stock Award Plan and vest ratably over a one year period. Ms. Gurley is a sales management professional, having spent most of her career working with Fortune 500 consumer packaged goods companies. Ms. Gurley brings an extensive background in on-premise accounts, the convenience channel, Mass merchandisers, the Supermarket channel and new business acquisitions and will work direct with FACT's senior executive to grow FACT's wholesale premix business, and other sales initiatives. Ms. Gurley's career highlights include key management positions at Twinlab Incorporated, and The Coca Cola Company/Minute Maid Company. Ms. Gurley has a Bachelor of Arts in Business Administration from the University of North Carolina Charlotte.

**ITEM 6. EXHIBITS**

REGULATION NUMBER	S-KEXHIBIT	REFERENCE
3.1(i)	Articles of Incorporation, as amended	Incorporated by reference to the Exhibits previously filed with Capital Reserve Corporation's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1990
3.1(ii)	Articles of Amendment to Articles of Incorporation, filed with the State of Colorado Secretary of State on November 26, 2001	Incorporated by reference to the Exhibits previously filed with FACT Corporation's Annual Report for Form 10-KSB for the fiscal year ended December 31, 2002
3.1(iii)	Articles of Amendment to Articles of Incorporation, filed with the State of Colorado Secretary of State on February 8, 2002	Incorporated by reference to the Exhibits previously filed with FACT Corporation's Annual Report for Form 10-KSB for the fiscal year ended December 31, 2002
3.2	Amended Bylaws	Incorporated by reference to the Exhibits previously filed with Capital Reserve Corporation's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1994
10.1	2008 Stock Option and Stock Award Plan	Incorporated by reference to the Exhibits previously filed with FACT Corporation's Definitive 14C on August 22, 2008.
31(i)(ii)	Section 302 Certification - Principal Executive Officer and Principal Financial Officer	Filed herewith
32(i)(ii)	Certification Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 11<sup>th</sup> day of May, 2009

**FACT CORPORATION**

By: /s/ Jacqueline Danforth  
Name: Jacqueline R. Danforth  
Title: President, Principal Executive, Financial and Accounting Officer

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RULE 13A-14(A)/15D-14(A) CERTIFICATION

I, Jacqueline Danforth, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of FACT Corporation.
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
- (4) I am responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 (the "Exchange Act"), Rules 13a-15(e) and 15d-15(e)) internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
- (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2009

By: /s/ Jacqueline Danforth

Name: Jacqueline Danforth

Title: President (Principal Executive Officer) and Principal Financial Officer.

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EXHIBIT 32

FACT CORPORATION

CERTIFICATION PURSUANT TO  
18 U.S.C. Section 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of FACT Corporation (the "Company") on Form 10-Q for the period ending March 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jacqueline Danforth, as President, Principal Executive Officer and Principal Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 11, 2009

By: /s/Jacqueline Danforth  
Name: Jacqueline Danforth  
Title: President (Principal Executive Officer) and Principal Financial Officer

A signed original of this written statement required by Section 1350 of Title 18 of the United States Code has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished as an exhibit to the Report pursuant to Item 601(b)(32) of Regulation S-K and Section 1350 of Title 18 of the United States Code and, accordingly, is not being filed with the Securities and Exchange Commission as part of the Report and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 (whether made before or after the date of the Report, irrespective of any general incorporation language contained in such filing.)

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