CANAF GROUP INC.

October 31, 2009 and 2008 (Restated)

Consolidated Financial Statements

(Expressed in U.S. dollars)

Auditors' Report

To the Shareholders of:
CANAF GROUP INC.

We have audited the Consolidated Balance Sheets of **Canaf Group Inc.** as at October 31, 2009 and 2008 (Restated) and the Consolidated Statements of Operations, Deficit, Comprehensive Loss and Accumulated Other Comprehensive Loss, and Cash Flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2009 and 2008 (Restated) and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Watson Dauphinee & Masuch"
Chartered Accountants

Vancouver, B.C., Canada
March 01, 2010

CANAF GROUP INC.

Consolidated Balance Sheets

As at October 31, 2009 and 2008

(Expressed in US Dollars)

	2009	RESTATED (Note 2) 2008
	$	$
ASSETS		
CURRENT		
Cash	581,487	377,539
Accounts Receivable	555,000	878,132
Inventories (Note 5)	308,802	188,326
Current Portion of Long-Term Investment (Note 9)	669,493	-
	2,114,782	1,443,997
Long-Term Investment (Note 9)	-	410,770
Plant and Equipment (Note 6)	895,849	1,222,559
Mineral Properties (Note 7)	260,267	57,515
Intangible Assets (Note 8)	1	1
	3,270,899	3,134,842
LIABILITIES		
CURRENT		
Accounts Payable and Accrued Liabilities	1,056,405	874,333
Income Tax Payable	53,173	146,806
Current Portion of Long-Term Debts (Note 9)	666,470	2,418
Due to Joint Venture Partner (Note 7(b))	5,250	-
Due to Related Parties (Note 13)	1,066,390	1,466,979
	2,847,688	2,490,536
Long-Term Debts (Note 9)	-	521,858
Future Income Tax Liability (Note 14(b))	227,899	324,260
Debentures (Note 10)	163,992	-
	3,239,579	3,336,654
SHAREHOLDERS' DEFICIENCY		
Share Capital (Note 11(b))	8,079,463	7,491,950
Contributed Surplus (Note 11(b))	738,885	738,885
Accumulated Other Comprehensive Loss	(14,743)	(199,971)
Deficit	(8,772,285)	(8,232,676)
	31,320	(201,812)
	3,270,899	3,134,842

Nature of Operations and Ability to Continue as a Going Concern (Note 1)
Economic Dependence (Note 15)

Approved by the Directors:

"David Way"	"Mike Hopley"
David Way, Director	Mike Hopley, Director

CANAF GROUP INC.

Consolidated Statements of Operations

For the Years Ended October 31, 2009 and 2008

(Expressed in US Dollars)

		RESTATED (Note 2)
	2009	2008
	$	$
SALES	4,561,417	9,038,397
COST OF SALES (SCHEDULES)	(4,630,882)	(8,207,714)
GROSS (LOSS) PROFIT	(69,465)	830,683
EXPENSES		
Amortization	9,305	656,352
Automobile	-	5,793
Bank Charges	8,915	3,203
Consulting Fees	36,988	92,545
Interest on Debentures (Note 10)	13,992	-
Interest on Long-Term Debts (Note 9)	64,587	81,878
Interest on Related Party Loans (Note 13(c))	62,360	72,373
Management Fees	117,704	166,427
Office, Insurance and Sundry	46,726	67,538
Professional Fees	126,219	204,612
Promotion	1,262	5,915
Realized Foreign Exchanges Loss	824	251
Stock-Based Compensation (Note 11(e))	-	53,662
Telephone	14,681	17,288
Transfer Agent and Filing Fees	10,645	22,591
Travel	4,622	54,480
	518,830	1,504,908
LOSS BEFORE OTHER ITEMS AND INCOME TAXES	(588,295)	(674,225)
OTHER ITEMS		
Interest Income	9,405	13,042
Recovery of Reclamation Bond (Note 7(a))	4,563	-
Gain on Disposal of Equipment	-	2,988
Gain on Settlement of Debt (Note 13(a))	-	69,260
Write-Off of Mineral Properties (Note 7(a))	-	(146,208)
Write-Off of Deposits on Acquisition of Subsidiary (Note 4(b))	-	(661,567)
Write-Down of Intangible Assets (Note 8)	-	(1,876,458)
LOSS BEFORE INCOME TAXES	(574,327)	(3,273,168)
INCOME TAXES (EXPENSE) RECOVERY		
Current	(64,838)	(342,900)
Future	99,556	1,010,336
NET LOSS FOR THE YEAR	(539,609)	(2,605,732)
BASIC AND DILUTED LOSS PER SHARE	(0.01)	(0.06)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	47,426,195	44,223,313

CANAF GROUP INC.

Consolidated Statements of Deficit

For the Years Ended October 31, 2009 and 2008

(Expressed in US Dollars)

		RESTATED (Note 2)
	2009	2008
	$	$
DEFICIT, BEGINNING OF THE YEAR	(8,232,676)	(5,626,944)
Net Loss for the Year	(539,609)	(2,605,732)
DEFICIT, END OF THE YEAR	(8,772,285)	(8,232,676)

CANAF GROUP INC.

Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Loss

For the Years Ended October 31, 2009 and 2008
(Expressed in US Dollars)

		RESTATED (Note 2)
	2009 $	2008 $
COMPREHENSIVE LOSS		
Net Loss for the Year	(539,609)	(2,605,732)
Other Comprehensive Income (Loss) – Foreign Currency Translation	185,228	(835,571)
Comprehensive Loss for the Year	(354,381)	(3,441,303)
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance, Beginning of the Year	(199,971)	635,600
Other Comprehensive Income (Loss) – Foreign Currency Translation	185,228	(835,571)
Balance, End of the Year	(14,743)	(199,971)

CANAF GROUP INC.

Consolidated Statements of Cash Flows

For the Years Ended October 31, 2009 and 2008

(Expressed in US Dollars)

		RESTATED (Note 2)
	2009	2008
	$	$
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net Loss for the Year	(539,609)	(2,605,732)
Non-Cash Items		
Amortization	9,305	656,352
Amortization – Cost of Sales	511,269	695,120
Stock-Based Compensation	-	53,662
Gain on Disposal of Equipment	-	(2,988)
Gain on Settlement of Debt	-	(69,260)
Write-Off of Mineral Properties	-	146,208
Write-Off of Deposits on Acquisition of Subsidiary	-	661,567
Write-Down of Intangible Assets	-	1,876,458
Future Income Tax Recovery	(99,556)	(1,010,336)
	(118,591)	401,051
Change in Non-Cash Working Capital Accounts (Note 12(a))	504,668	531,271
	386,077	932,322
FINANCING ACTIVITIES		
Repayment of Long-Term Debts	(1,392)	(12,529)
Debentures	163,992	-
	162,600	(12,529)
INVESTING ACTIVITIES		
Long-Term Investments	(128,190)	(151,667)
Proceeds on Disposal of Equipment	-	8,500
Mineral Property Exploration Costs	(202,752)	(102,602)
Purchase of Plant and Equipment	(55,608)	(4,881)
Deposits on Acquisition of Subsidiary (Note 4(b))	-	(661,567)
Purchase of Subsidiary, Net of Cash Acquired (Note 4(a))	-	(205,609)
	(386,550)	(1,117,826)
INCREASE (DECREASE) IN CASH	162,127	(198,033)
Effect of Exchange Rate Changes on Cash	41,821	(176,105)
Cash, Beginning of Year	377,539	751,677
CASH, END OF YEAR	581,487	377,539

Supplementary Cash Flow Information (Note 12)

(Expressed in U.S. Dollars)

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

Canaf Group Inc. (the "Company") is incorporated in the Province of Alberta and owns and operates a coal processing plant in South Africa (coal and coal products are processed into calcine, a coke substitute with high carbon content). The Company is also engaged in the acquisition and exploration of mineral properties in Sierra Leone.

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

As at October 31, 2009, the Company continues to incur losses, has accumulated consolidated losses since inception of $8,772,285 and has a working capital deficiency of $732,906.

The Company's ability to continue as a going concern is dependent upon its ability to generate profitable operations from its coal processing business and from future production of its mineral properties. The Company is dependent on the operating cash flows from its coal processing business, and the continuing financial support of its shareholders and related parties to finance its exploration projects and to discharge liabilities in the normal course of business. The Company's coal processing business has been severely impacted by the global financial turmoil. The Company is economically dependent on two customers for its revenues, and the global recession and declining demand for commodities have significantly reduced the sales orders from these customers. The current tight credit market also makes it more difficult for the Company to raise funds by private placement of shares. There is no assurance that the Company will be successful with future financing ventures in light of the current global economic situation.

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

NOTE 2 - RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended October 31, 2008 have been restated to correct accounting errors with respect to the translation of the Company's self-sustaining foreign operations for the year ended October 31, 2007, and the translation of the Company's head office and integrated foreign operations to the reporting currency for the years ended October 31, 2008 and 2007.

The corrections of these non-cash errors have been applied retroactively and the Company has amended its consolidated financial statements for the year ended October 31, 2008 as follows:

	Previously Reported $	Adjustment $	Restated $
Year Ended October 31, 2008			
Amortization Expense	(615,847)	(40,505)	(656,352)
Realized Foreign Exchange Gain (Loss)	45,903	(46,154)	(251)
Write-Down of Intangible Assets	(1,996,709)	120,251	(1,876,458)
Net Loss for the Year	(2,639,324)	33,592	(2,605,732)
Basic and Diluted Loss Per Share	(0.06)	-	(0.06)

NOTE 2 - RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Previously Reported $	Adjustment $	Restated $
Year Ended October 31, 2008			
Other Comprehensive Loss –			
Foreign Currency Translation Loss for the Year	(313,695)	(521,876)	(835,571)
Comprehensive Loss for the Year	(2,953,019)	(488,284)	(3,441,303)
Accumulated Other Comprehensive Income (Loss)			
Balance, Beginning of the Year	-	635,600	635,600
Balance, End of the Year	(313,695)	113,724	(199,971)
Deficit			
Balance, Beginning of the Year	5,479,628	147,316	5,626,944
Balance, End of the Year	8,118,952	113,724	8,232,676

The restatement has no impact on the closing balance of the consolidated shareholders' deficiency as at October 31, 2008.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared using Canadian generally accepted accounting principles ("GAAP"), as summarized below.

a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the following foreign subsidiaries:

Subsidiary	Ownership
Canaf (SL) Limited - Active	51%
Quantum Screening and Crushing (Proprietary) Limited - Active	100%
Nabisoga Mining Ltd. – Inactive	100%
Rwenzori Cobalt Company Ltd. – Inactive	100%

All significant intercompany transactions and balances have been eliminated on consolidation.

b) Foreign Currency Translation

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

The financial statements of the Company's integrated inactive subsidiaries and its Sierra Leonean subsidiary, Canaf (SL) Limited, 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 the average rates prevailing 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.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Foreign Currency Translation (Continued)

The financial statements of the Company's South African self-sustaining subsidiary, Quantum Screening and Crushing (Proprietary) Limited ("Quantum"), 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.

These consolidated financial statements have been translated to U.S. dollars using the current rate method in accordance with the recommendations of the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants ("CICA") Abstract EIC-130. The resulting translation adjustment to the reporting currency is recorded as other comprehensive income or loss.

c) Inventories

Inventories consist of raw materials, packing 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.

d) Plant and Equipment

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	-	5 Years
Office Equipment	20%	5 Years
Plant and Equipment	-	5 Years
Vehicles	30%	5 Years

e) Mineral Properties

The Company's mineral properties are in the exploration stage and as such, the Company capitalizes all expenditures related to the acquisition, exploration and development of mineral properties until such time as the properties are placed into commercial production, abandoned, sold or considered to be impaired in value. Costs of producing properties are amortized on an unit-of-production basis based on proven and probable reserves. The sale of diamonds recovered from exploration activities are offset against capitalized exploration costs.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Mineral Properties (Continued)

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

Costs of abandoned properties are written off to operations. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Adjustments to carrying value due to impairment are charged to operations.

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

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

f) Asset Retirement Obligation

The Company records the fair value of a liability for an asset retirement obligation, including site closure and reclamation costs associated with the abandonment and restoration of mineral properties, in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company records the estimated present value of future cash flows associated with site closure and reclamation as a liability when the liability is incurred and increases the carrying value of the related assets by that amount. The liability is accreted over time for changes in the fair value through charges to accretion expense. The costs capitalized to the related assets are depleted to earnings in a manner consistent with the underlying assets.

As at October 31, 2009 and 2008, the Company has no material asset retirement obligations relating to the restoration of its mineral properties.

g) Impairment of Long-Lived Assets

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

h) Intangible Assets

Intangible assets represent the identifiable value of customer contracts acquired on the purchase of a subsidiary (Note 4(a)). Intangible assets have a definite life and are amortized on a straight–line basis over the length of the contract terms of five years with an annual review for impairment. On October 31, 2008, the Company wrote down the carrying value of its intangible assets to a nominal amount.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Revenue Recognition

Revenue from the sale of calcine and diamonds is recognized upon transfer of title which is completed when the physical product is delivered to customers and collection is reasonably assured. The sale of diamonds recovered from exploration activities are offset against capitalized exploration costs. Interest and other income are recognized when earned and collection is reasonably assured.

j) Income Taxes

The Company accounts for income taxes using the asset and liability method, whereby future tax assets and liabilities are determined based on differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. These differences are measured using substantially enacted tax rates that will be in effect when the temporary differences are expected to be settled. Income tax assets, including the benefit of income tax losses available for carry-forward, are only recognized to the extent that it is more likely than not that the Company will ultimately realize those assets.

k) Flow-Through Shares

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

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

l) Share Capital

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

m) Stock-Based Compensation

The Company grants stock options to management, directors, employees and consultants. The Company recognizes compensation cost for options and other stock-based awards granted under the fair value based method using the Black-Scholes option pricing model. The fair value of each option is estimated on the date of the grant and is recognized over the vesting period, with the offsetting amounts credited to contributed surplus.

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

n) Loss per Common Share

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Comprehensive Income

Comprehensive income is the change in net assets from transactions related to non-shareholder sources. The Company presents gains and losses which would otherwise be recorded as part of net earnings in "other comprehensive income" until it is considered appropriate to recognize them into net earnings. The Company presents comprehensive income and its components in a separate financial statement that is displayed with the same prominence as other financial statements.

p) Financial Instruments

The Company's financial instruments are classified into one of the following categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale assets or other financial liabilities.

Financial assets and liabilities held-for-trading are recorded at fair value with gains and losses recognized in net income.

Financial assets and liabilities held-to-maturity, loans and receivables, and other financial liabilities are recorded at amortized cost using the effective interest method.

Available-for-sale financial instruments are recorded at fair value with unrealized gains and losses recognized in other comprehensive income and reported in shareholders' equity.

The Company designated its accounts receivable as loans and receivable which are recorded at amortized costs. Long-term investment is designated as held-to-maturity investments, and is recorded at amortized cost. Accounts payable and accrued liabilities, amounts owing to the joint venture partner and related parties, long-term debts, and debentures are classified as other financial liabilities which are recorded at amortized cost.

q) Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses incurred during the periods.

Significant areas requiring the use of management estimates include the assessment of recoverability of mineral properties, plant and equipment, and intangible assets, the determination of the amortization period of plant and equipment and intangible assets, the estimated amount of accrued liabilities and asset retirement obligations, the realization of future income tax assets, and the determination of the fair value of stock-based compensation. Actual results could differ from those estimates.

r) Adoption of New Accounting Policy - Going Concern

The CICA Handbook Section 1400 "General Standards of Financial Statement Presentation" requires management to assess an entity's ability to continue as a going concern. Management has disclosed the material uncertainties related to events or conditions that may cast doubt on the Company's ability to continue as a going concern in Note 1 of these consolidated financial statements.

(Expressed in U.S. Dollars)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

s) Future Accounting Change - International Financial Reporting Standards ("IFRS")

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 01, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter ending January 31, 2012. While the Company has begun assessing the adoption of IFRS for 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

t) Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year. These reclassifications have no effect on the consolidated net loss for the years ended October 31, 2009 and 2008.

NOTE 4 - BUSINESS ACQUISITIONS

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

On November 01, 2007, the Company acquired the remaining 15% of the outstanding shares of Quantum, thereby increasing its ownership of Quantum from 85% to 100%. The Company acquired the remaining 15% of Quantum by issuing 1,527,072 common shares of the Company valued at $361,878 (based on the quoted market price of the Company's share on the date of the agreement), and cash payment of $205,609.

The step-by-step acquisition has been accounted for using the purchase method with the fair value of the consideration paid being allocated to the identifiable assets acquired and liabilities assumed on the acquisition dates. The consolidated financial statements include the results of operations of Quantum from the dates of acquisition. The following table summarizes the allocation of the purchase price for the 15% acquisition on November 01, 2007:

	$
Assets	
Current Assets (includes cash and cash equivalents of $54,876)	367,362
Investments	66,879
Plant and Equipment	92,734
Intangible Assets	571,776
	1,098,751
Liabilities	
Current Liabilities	236,410
Long-Term Debts	119,582
Future Income Tax Liability	175,272
	531,264
	567,487
Consideration	
Common shares	361,878
Cash	205,609
	567,487

(Expressed in U.S. Dollars)

NOTE 4 - BUSINESS ACQUISITIONS (Continued)

b) New Stone Mining SPRL ("NSM")

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

On October 31, 2008, the Company wrote off the non-recoverable cash deposits made totalling $661,567 due to non-performance by the vendors.

NOTE 5 - INVENTORIES

	2009 $	2008 $
Raw Materials	207,450	146,729
Finished Goods - Calcine	101,352	41,597
	308,802	188,326

NOTE 6 - PLANT AND EQUIPMENT

	Cost $	Accumulated Amortization $	Net Book Value $
2009			
Plant and Equipment	3,350,252	2,520,973	829,279
Office Equipment	13,637	9,661	3,976
Computer Equipment	15,940	14,023	1,917
Vehicles	97,195	43,208	53,987
Leasehold Improvements	169,320	162,630	6,690
	3,646,344	2,750,495	895,849
2008			
Plant and Equipment	2,857,934	1,691,107	1,166,827
Office Equipment	10,702	5,596	5,106
Computer Equipment	11,845	10,384	1,461
Vehicles	56,538	24,599	31,939
Leasehold Improvements	132,880	115,654	17,226
	3,069,899	1,847,340	1,222,559

(Expressed in U.S. Dollars)

NOTE 7 - MINERAL PROPERTIES

	October 31, 2008 $	Additions 2008 $	October 31, 2008 $	Additions 2009 $	October 31, 2009 $
British Columbia, Canada					
Bonaparte Property (a)					
Exploration Costs	96,128	77,586	-	-	-
Abandonment of Property	-	(173,714)	-	-	-
	96,128	(96,128)	-	-	-
Sierra Leone					
Gendema Property (b)					
Exploration Costs	-	57,515	57,515	217,347	274,862
Amortization of Equipment	-	-	-	7,488	7,488
Net Proceeds from Diamond Sales	-	-	-	(22,083)	(22,083)
	-	57,515	57,515	202,752	260,267
	96,128	(38,613)	57,515	202,752	260,267

a) **Bonaparte Property, British Columbia, Canada**

The Company owned six mining claims located approximately 45 kilometres west of the Thompson River in the Kamloops Mining Division. In June 2008, the Company transferred the property to a former director for settlement of outstanding compensation for past services in the amount of $32,500. Accordingly, the Company recorded a loss of $146,208 on disposition of mineral property in the year ended October 31, 2008. The Company recovered the reclamation bond deposit of $4,563 in August 2009.

b) **Gendema Property, Sierra Leone**

The Company has acquired a 25-acre mining lease for a term of three years expiring on October 31, 2011. The Company is committed to pay annual lease and surface rent totalling approximately $10,000 and pay a royalty to the land owners of 10% of gross diamond sales during the term of the lease.

On June 10, 2009, the Company signed a joint venture agreement with a private Sierra Leonean mining company (the "Joint Venture Partner") for the exploration of the property during the term of the mining lease with the net profit shared equally between the Company and the Joint Venture Partner. The Company is the operator of the project and the Joint Venture Partner provides the required exploration equipment. As at October 31, 2009, the Company owed $5,250 to the Joint Venture Partner for advances received net of the Joint Venture Partner's share of diamond sales and exploration expenditures.

NOTE 8 - INTANGIBLE ASSETS

	Cost $	Accumulated Amortization $	Impairment Charge $	Net Book Value $
2009				
Customer Contracts	1	-	-	1
2008				
Customer Contracts	2,855,785	979,326	1,876,458	1

(Expressed in U.S. Dollars)

NOTE 8 - INTANGIBLE ASSETS (Continued)

Intangible assets represent the identifiable value of customer contracts acquired on the purchase of Quantum (Note 4(a)). On October 31, 2008, the Company wrote down its intangible assets to a nominal amount and recorded an impairment charge of $1,876,458.

The determination of the customer contracts recoverability was based on an estimate of undiscounted cash flow, and the measurement of the impairment loss was based on the amount that the carrying value exceeds the fair value. Management relied on a number of assumptions including anticipated sales, margins and market conditions. There were material uncertainties in management sales assumptions which might materially affect future cash flows in light of the global economic conditions. Based on the test performed, the Company concluded that intangible assets were not fully recoverable.

NOTE 9 - LONG-TERM DEBTS

	2009 $	2008 $
Ford Credit Loan	-	563
Standard Bank Loan	666,470	523,713
	666,470	524,276
Less: Current Portion	666,470	2,418
	-	521,858

The Standard Bank loan bears interest at rates from 8.5% to 13.0% per annum and is due in April 2010. The loan is secured with a fixed income investment which the Company is committed to make in the amount of $10,683 per month to provide for the repayment of the loan upon maturity. During the year ended October 31, 2009, the Company paid interest totalling $64,587 (2008 – $81,878).

NOTE 10 - DEBENTURES

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 12% per annum compounded annually and are secured by a first floating charge on all property and assets of the Company. The maturity of the debentures has been extended for a year to January 31, 2011.

During the year ended October 31, 2009, the Company accrued interest totalling $13,992 (2008 – $Nil). As at October 31, 2009, the amount of debenture and interest payable to the related company was $54,571 (2008 – $Nil).

NOTE 11 - SHARE CAPITAL

a) Authorized

An unlimited number of common and preferred shares without par value.

(Expressed in U.S. Dollars)

NOTE 11 - SHARE CAPITAL (Continued)

b) Issued and Outstanding Share Capital and Contributed Surplus

	Number of Shares	Share Capital $	Contributed Surplus $
Balance, October 31, 2007	43,006,681	7,174,545	685,223
Shares Issued for Acquisition of Subsidiary (Note 4(a))	1,527,072	361,878	-
Future Income Taxes on Renunciation of Flow-Through Shares (Note 14(c))	-	(44,473)	-
Stock-Based Compensation (Note 11(e))	-	-	53,662
Balance, October 31, 2008	44,533,753	7,491,950	738,885
Shares Issued for Debt Settlement (i)	2,892,442	587,513	-
Balance, October 31, 2009	47,426,195	8,079,463	738,885

(i) During the year ended October 31, 2009, the Company issued 2,893,442 common shares to a related company for settlement of debt totalling Cdn$723,111 (Note 13(c)).

c) Stock Options

	Number of Options	Weighted Average Exercise Price $
Balance, October 31, 2007	2,952,000	0.18
Cancelled	(1,575,000)	0.11
Balance, October 31, 2008	1,377,000	0.13
Expired	(20,000)	0.10
Balance, October 31, 2009	1,357,000	0.13

Options Granted and Outstanding				Options Vested and Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$0.10–0.32	1,357,000	2.1 years	$0.13	1,357,000	$0.13

The options expire between November 26, 2009 and June 14, 2012.

(Expressed in U.S. Dollars)

NOTE 11 - SHARE CAPITAL (Continued)

d) Share Purchase Warrants

	Number of Warrants	Weighted Average Exercise Price $
Balance, October 31, 2007	6,758,260	0.27
Expired	(1,000,000)	0.15
Balance, October 31, 2008	5,758,260	0.30
Expired	(5,758,260)	0.30
Balance, October 31, 2009	-	-

e) Stock-Based Compensation

The Company recognized stock-based compensation of $53,662 in the year ended October 31, 2008 for the stock options granted in 2007 and vested in 2008. The weighted average fair value per share of these stock options granted in 2007 was determined on the date of grant using the Black-Scholes option pricing model with the following assumptions used:

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

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

NOTE 12 - SUPPLEMENTAL CASH FLOW INFORMATION

a) Change in Non-Cash Working Capital Accounts

	2009 $	2008 $
Accounts Receivable	506,470	(10,049)
Inventories	(60,404)	183,198
Accounts Payable and Accrued Liabilities	(42,601)	(256,526)
Income Tax Payable	(69,506)	171,725
Due to Joint Venture Partner	5,250	-
Due to Related Parties	165,459	442,923
	504,668	531,271

b) Non-Cash Financing and Investing Activities

	2009 $	2008 $
Shares Issued for Acquisition of Subsidiary	-	361,878
Shares Issued for Debt Settlement	587,513	-

(Expressed in U.S. Dollars)

NOTE 12 - SUPPLEMENTAL CASH FLOW INFORMATION (Continued)

c) **Other Items**

	2009 $	2008 $
South Africa Income and Secondary Tax Paid	134,344	196,902
Interest Paid	64,587	81,878
Interest Received	9,405	13,042

NOTE 13 - 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:

Former Directors (a)	159,881	142,301
Companies Controlled by Former Directors (a)	46,596	42,330
Current Directors (b)	30,011	-
Company Controlled by Current Directors (b)	28,700	-
Company Controlled by a Current Director - Interest-Bearing (c)	801,202	1,282,348
Due to Related Parties	1,066,390	1,466,979

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

   During the year ended October 31, 2008, the Company paid consulting fees and expense reimbursements of $45,000 to a former Director. Pursuant to a settlement agreement dated June 11, 2008 with the former Director, the Company agreed to transfer the Bonaparte Gold Property in settlement of outstanding compensation of $32,500 (Note 7(a)) and pay a total of Cdn$210,000 in settlement of exploration expenditures of $273,918 owing to a company controlled by the former director. The Company recorded a gain on settlement of debt $69,260. As at October 31, 2009 and 2008, Cdn$100,000 of the settlement payments remained outstanding.

b) The balances due to these related parties are unsecured, non-interest bearing and have no specific terms of repayment. The Company incurred the following expenses with related parties:

   (i) The Company paid management fees of $117,704 (2008 – $166,427) to the Directors for administration and management services in relation to the Company's coal processing business in South Africa.

   (ii) The Company accrued consulting fees of $36,988 (2008 – $47,546) to a Director for administration and management services in relation to the Company's exploration activities in Sierra Leone.

   (iii) The Company paid accounting fees of $50,505 (2008 – $59,891) to a Director for monthly administration and bookkeeping services.

c) The balance is unsecured, bears interest at 7% per annum and has no specific terms of repayment. In January 2009, the Company issued 2,892,442 common shares for settlement of the amount owing of Cdn$723,111. As at October 31, 2009, the outstanding amount included accrued interest of $187,889 (2008 – $126,521). The Company recorded interest expense of $61,368 (2008 – $65,228).

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.

(Expressed in U.S. Dollars)

NOTE 14 - INCOME TAXES

a) Provision for Income Taxes

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

	2009 $	2008 $
Statutory Income Tax Rate	30.08%	31.60%
Loss for the Year Before Taxes	(574,327)	(3,273,168)
Expected Income Tax Recovery	(172,776)	(1,034,321)
Ugandan Taxes Not Provided For	-	(25,130)
Amounts Not Deductible for Tax	58,242	(625)
Lower Tax Rate in Foreign Jurisdictions	(3,565)	(38,249)
Effect of Reduction in Statutory Tax Rate	14,154	112,196
Expiry of Loss Carry-Forward	24,016	20,226
South African Secondary Tax	16,921	56,131
Other	(114,319)	(18,657)
Change in Valuation Allowance	142,609	260,993
Income Tax Expense (Recovery)	(34,718)	(667,436)
Current Income Tax Expense	64,838	342,900
Future Income Tax Recovery	(99,556)	(1,010,336)
Income Tax Expense (Recovery)	(34,718)	(667,436)

b) Future Income Taxes

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

Future Income Tax Assets:		
Mineral Properties	46,893	7,631
Non-Capital Losses Carried Forward	475,392	621,994
Share Issue Costs	17,391	24,368
	539,676	653,993
Valuation Allowance	(539,676)	(653,993)
Net Future Income tax Assets	-	-
Future Income Tax Liability – Plant and Equipment	227,899	324,260

(Expressed in U.S. Dollars)

NOTE 14 - INCOME TAXES (Continued)

b) Future Income Taxes (Continued)

As at October 31, 2009, the Company has accumulated non-capital losses of approximately $1,901,000 which are available to reduce future taxable income in Canada and which expire as follows:

	$
2010	48,000
2011	180,000
2015	369,000
2026	309,000
2027	438,000
2028	462,000
2029	95,000
	1,901,000

As at October 31, 2009, the Company has tax deductible exploration expenditures of $186,937 which can be carried forward indefinitely to offset future taxable income in Canada. The Company has also unamortized share issue costs available to reduce taxable income for years 2010 and 2011 in the total amount of $69,564. The Company has provided a valuation allowance against the future benefit for these tax losses and deductions as they are more likely than not, not to be realized.

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

c) Flow-Through Expenditures

In connection with the Company's flow-through share financing that closed on December 19, 2006, the Company renounced $171,050 of qualifying exploration expenditures to the participating shareholders during fiscal 2008. Accordingly upon renunciation, the Company recorded a future income tax liability of $44,473 with an offsetting reduction in share capital for the future income taxes related to the deductions foregone by the Company. Since the Company had unused tax losses and deductions in excess of the renunciation, the future tax liability was offset by the reversal of a portion of the Company's valuation allowance on future income tax assets with a corresponding recovery of future income taxes.

NOTE 15 - ECONOMIC DEPENDENCE

Sales of the Company realized from its South African coal processing business are substantially derived from two customers, and as a result is economically dependent on these two customers. The Company's exposure to credit risk is limited to the carrying value of its accounts receivable. As at October 31, 2009, accounts receivable included $540,355 due from these two customers were subsequently collected. In light of the global economy downturn, these customers have significantly reduced their purchases from the Company in 2009. Reduced sales may have a significant adverse impact on the Company (Note 1).

(Expressed in U.S. Dollars)

NOTE 16 - SEGMENTED INFORMATION

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

	Canada	Sierra Leone	South Africa	Total
	$	$	$	$
2009				
Net Loss for the Year	39,375	5,514	494,720	539,609
Revenues	-	-	4,561,417	4,561,417
Gross Loss	-	-	(69,465)	(69,465)
Amortization	409	-	8,896	9,305
Amortization - Cost of Sales	-	-	511,269	511,269
Interest Expense	75,360	-	65,579	140,939
Income Tax Expense - Current	-	-	64,838	64,838
Income Tax Recovery - Future	-	-	(99,556)	(99,556)
Current Assets	4,038	16,111	2,094,633	2,114,782
Plant and Equipment	818	48,120	846,911	895,849
Mineral Properties	-	260,267	-	260,267
Intangible Assets	-	-	1	1
Total Assets	4,856	324,498	2,941,545	3,270,899
2008				
Net Loss for the Year	(1,220,713)	-	(1,385,019)	(2,605,732)
Revenues	-	-	9,038,397	9,038,397
Gross Profit	-	-	830,683	830,683
Amortization	4,271	-	652,081	656,352
Amortization - Cost of Sales	-	-	695,120	695,120
Interest Expense	72,373	-	81,878	154,251
Income Tax Expense - Current	-	-	342,900	342,900
Income Tax Expense - Future	-	-	(1,010,336)	(1,010,336)
Current Assets	15,592	2,585	1,425,820	1,443,997
Long-Term Investments	-	-	410,770	410,770
Plant and Equipment	1,227	-	1,221,332	1,222,559
Mineral Properties	-	57,515	-	57,515
Intangible Assets	-	-	1	1
Total Assets	16,819	60,100	3,057,923	3,134,842

NOTE 17 - CAPITAL 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 and its exploration activities in Sierra Leone, to seek out and acquire new projects of merit, and to safeguard its ability to continue as a going concern. The Company considers its share capital, long-term debts and debentures as capital, which at October 31, 2009 totalled $8,909,925 (2008 – $8,016,226).

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 the sale of diamonds recovered from exploration activities in Sierra Leone. The Company also raises funds, when necessary, through debt funding or equity financing by means of private placements. There can be no assurance that the Company will be able to obtain debt or equity capital in the case of operating cash deficits.

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

NOTE 18 - FINANCIAL INSTRUMENTS

The Company is exposed to certain financial risks:

a) Fair Values

The carrying values of cash, accounts receivable, long-term investments, accounts payable and accrued liabilities, long-term debts, 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 assurance that such financing will be available on terms acceptable to the Company (Note 1).

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 (Note 15). 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 debts is based on both fixed and variable rates and exposes the Company to interest rate risk. The Company has not entered into any derivative agreements to mitigate this risk.

NOTE 18 - FINANCIAL INSTRUMENTS (Continued)

e) Foreign Currency Risk

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

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

The Company does not hedge its exposure to fluctuations in foreign exchange rates.

f) 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.

CANAF GROUP INC.

Schedules – Cost of Sales

For the Years Ended October 31, 2009 and 2008
(Expressed in US Dollars)

	2009 $	2008 $
Inventories, Beginning of the Year	188,326	492,017
Amortization	511,269	695,120
Analysis Fees	22,872	36,617
Commission	-	3,597
Consulting	21,535	30,773
Electricity	226,533	317,703
Fuel, Oil and Lubricants	4,699	8,456
Medical Expenses	2,650	3,669
Product Purchases	3,242,102	5,722,883
Professional and Project Management Fee	5,648	1,458
Protective Clothing	4,845	7,031
Rent – Buildings	6,793	7,668
Rent – Machinery	76,999	153,870
Repairs and Maintenance	184,393	279,869
Salaries, Wages and Labour	180,688	162,922
Site Establishment	227	1,073
Transportation	200,033	591,807
Foreign Exchange Loss (Gain)	60,072	(120,493)
Inventories, End of the Year	(308,802)	(188,326)
	4,630,882	8,207,714