CANAF GROUP INC.

July 31, 2010 and 2009

Consolidated Financial Statements

(Expressed in U.S. dollars)

(Unaudited – Prepared by Management)

Notice to Reader

The accompanying unaudited interim consolidated financial statements of Canaf Group Inc. for the nine month periods ended July 31, 2010 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company's independent auditors.

CANAF GROUP INC.
Consolidated Balance Sheets
(Expressed in U.S. dollars)
Unaudited

	July 31, 2010 US$	October 31, 2009 US$
ASSETS		
CURRENT		
Cash	741,994	581,487
Accounts receivable	1,283,410	555,000
Inventories	1,117,169	308,802
Current Portion of Long-Term Investments	-	669,493
	3,142,573	2,114,782
Plant and equipment (Note 3)	604,138	895,849
Mineral properties (Note 4)	401,621	260,267
Intangible assets	1	1
	4,148,333	3,270,899
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	1,373,592	1,056,405
Income tax payable	524,904	53,173
Current portion of long-term debts	-	666,470
Due to Joint Venture Partner	-	5,250
Due to related parties (Note 7)	880,223	1,066,390
	2,778,719	2,847,688
Future income tax liabilities	226,971	227,899
Debenture (Note 5)	179,155	163,992
	3,184,845	3,239,579
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 8)	8,079,463	8,079,463
Contributed surplus	738,885	738,885
Accumulated other comprehensive loss	38,376	(14,743)
Deficit	(7,893,236)	(8,772,285)
	963,488	31,320
	4,148,333	3,270,899

Nature of Operations and Ability to Continue as a Going Concern (Note 1)
Economic Dependence (Note 8)

Approved by the Directors:

"David Rolston Way"
Director

'Brian Copsey"
Director

See Accompanying Notes to Consolidated Financial Statements

CANAF GROUP INC.

Consolidated Statement of Operations and Deficit

(Expressed in U.S. dollars)

Unaudited

	Three Months Period Ended July 31,		Nine Months Period Ended July 31,	
	2010	2009	2010	2009
	US$	US$	US$	US$
SALES	3,008,368	1,051,084	8,824,222	3,115,862
COST OF SALES (SCHEDULE I)	(2,440,354)	(983,854)	(7,106,926)	(3,116,705)
GROSS PROFIT (LOSS)	568,014	67,230	1,717,296	(843)
EXPENSES				
Amortization	2,342	3,439	7,027	10,315
Bank charges	1,138	747	4,053	2,639
Consulting fees	11,974	9,584	31,569	27,491
Interest on Debentures	5,260	-	15,164	-
Interest on Long-Term Debts	74,441	21,271	105,195	55,360
Interest on Related Party Loans	13,509	18,042	41,410	37,201
Management fees	32,241	32,904	120,531	84,254
Office, Insurance and Sundry	11,050	22,014	26,903	40,245
Professional fees	46,078	25,941	105,080	73,294
Promotion	116	418	729	971
Realized Foreign Exchanges Loss	4,835	5,699	3,112	5,107
Telephone	3,314	2,225	9,058	11,680
Transfer agent and filing fees	5,862	1,970	14,487	9,430
Travel	3,800	1,752	5,540	4,355
	(215,960)	(146,006)	(489,858)	(362,342)
PROFIT (LOSS) BEFORE OTHER ITEMS AND INCOME TAXES	352,054	(78,776)	1,227,438	(363,185)
OTHER ITEMS				
Interest income	129,506	1,146	217,474	8,654
PROFIT (LOSS) BEFORE INCOME TAXES	481,560	(77,630)	1,444,912	(354,531)
INCOME TAXES (EXPENSE) RECOVERY	(196,353)	(23,819)	(565,863)	(18,926)
NET PROFIT (LOSS) FOR THE PERIOD	285,207	(101,449)	879,049	(373,457)
BASIC AND DILUTED LOSS PER SHARE	0.01	(0.00)	0.02	(0.00)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	47,426,195	47,575,035	47, 426,195	47,537,927

See Accompanying Notes to Consolidated Financial Statements

CANAF GROUP INC.

Consolidated Statements of Deficits

(Expressed in U.S. dollars)
Unaudited

	Three Months Period Ended July 31,		Nine Months Period Ended July 31,	
	2010 US$	2009 US$	2010 US$	2009 US$
DEFICIT, BEGINNING OF THE PERIOD	(8,178,443)	(8,390,960)	(8,772,285)	(8,118,952)
Net Profit (Loss) for the Period	285,207	(101,449)	879,049	(373,457)
DEFICIT, END OF THE PERIOD	(7,893,236)	(8,492,409)	(7,893,236)	(8,492,409)

See Accompanying Notes to Consolidated Financial Statements

CANAF GROUP INC.

Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Income

(Expressed in U.S. dollars)
Unaudited

	Three Months Period Ended July 31,		Nine Months Period Ended July 31,	
	2010	2009	2010	2009
	US$	US$	US$	US$
COMPREHENSIVE LOSS				
Net Profit (Loss) for the Period	285,207	(101,449)	879,049	(373,457)
Other Comprehensive Loss:				
Foreign currency translation adjustment	28,225	44,295	53,119	(233,661)
COMPREHENSIVE PROFIT (LOSS) FOR THE PERIOD	313,432	(57,154)	932,168	(607,118)
ACCUMULATED OTHER COMPREHENSIVE INCOME:				
Balance, Beginning of Period	10,151	(277,956)	(14,743)	(313,695)
Reclassification of cumulative translation adjustment				
Foreign currency translation adjustment	28,225	44,295	53,119	80,034
Balance, End of Period	38,376	(233,661)	38,376	(233,661)

CANAF GROUP INC.

Consolidated Statements of Cash Flows

(Expressed in U.S. dollars)

Unaudited

	Three Months Period Ended July 31,		Nine Months Period Ended July 31,	
	2010	2009	2010	2009
	US$	US$	US$	US$
CASH PROVIDED BY (USED FOR):				
OPERATING ACTIVITIES				
Net profit (loss) for the period	285,207	(101,449)	879,049	(373,457)
Items not affecting cash:				
Amortization	2,342	3,439	7,027	10,315
Amortization – Manufacturing Expense	95,228	79,606	275,324	350,618
	382,777	(18,404)	1,161,400	(12,524)
Changes in non-cash working capital accounts:				
Accounts receivable	680,199	(25,706)	(728,410)	479,897
Inventories	(379,530)	(170,076)	(808,367)	(188,296)
Accounts payable and accrued liabilities	(758,444)	147,378	317,187	33,299
Income tax payable	193,766	23,021	470,803	(95,574)
Due to related parties	9,592	36,568	(186,167)	(642,690)
Due to joint venture partner	(30,000)	-	(5,250)	-
	98,360	(7,219)	221,196	(425,888)
FINANCING ACTIVITIES				
Issuance of share capital	-	-	-	587,513
Long term debt	-	(598,036)	(666,470)	(521,858)
Debenture	5,259	4,674	15,163	159,178
	5,259	(593,362)	(651,307)	224,833
INVESTING ACTIVITIES				
Long term investments	-	572,956	669,493	445,752
Mineral property exploration costs	(8,174)	(52,671)	(141,354)	(216,033)
Plant and equipment	3,580	(3,517)	9,360	(60,776)
	(4,594)	516,768	537,499	168,943
INCREASE (DECREASE) IN CASH DURING THE PERIOD	99,025	(83,813)	107,388	(32,112)
Effect of exchange rate changes on cash and cash equivalents	28,225	44,295	53,119	80,034
Cash, Beginning of Period	614,744	464,979	581,487	377,539
CASH, END OF PERIOD	741,994	425,461	741,994	425,461

Supplementary cash flow information (Note 11)

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 coking coal substitute with high carbon content). The Company, throughout the period under review, has been 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.

As at July 31, 2010 has accumulated consolidated losses since inception of $7,893,236, a working capital of $363,854 and cash balances of $741,994.

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 which had been severely impacted by the global financial turmoil saw a much improved order book and sales during the quarter ended 31 July. The Company remains dependent on two major customers for its revenues, however with demand for commodities improving other smaller customers have recently expressed a pick-up in demand which is expected to generate sales in the next quarter.

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 meet its obligations to third party debt holders.

These consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for consolidated interim financial information. Accordingly, they do not include all of the information and notes to the consolidated financial statements required by generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. The results for the nine month period ended July 31, 2010 are not necessarily indicative of the results that may be expected for the year ended October 31, 2010 The balance sheet at October 31, 2009 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

These interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company’s annual consolidated financial statements for the year ended October 31, 2009. For further information, refer to the consolidated financial statements and notes thereto included in the Company’s Annual Report to Shareholders for the year ended October 31, 2009.

(Expressed in U.S. Dollars)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the consolidated financial statements.

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 March 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

NOTE 3 - PLANT AND EQUIPMENT

	Cost US$	Accumulated Amortization US$	Net Book Value US$
July 31, 2010			
Plant and equipment	3,444,000	2,883,831	560,169
Office equipment	14,429	11,845	2,584
Computer equipment	16,723	15,510	1,213
Vehicles	98,089	57,917	40,172
Leasehold improvements	-	-	-
	3,573,241	2,969,103	604,138

	Cost US$	Accumulated Amortization US$	Net Book Value US$
October 31, 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

(Expressed in U.S. Dollars)

NOTE 4 - MINERAL PROPERTIES

	October 31, 2009 US$	Additions 2009 US$	July 31, 2010 US$
Sierra Leone			
Gendema Property			
Exploration Costs	274,862	131,382	406,244
Amortization of Equipments	7,488	9,972	17,460
Net Proceeds from Diamond Sales	(22,083)	-	(22,083)
TOTAL MINERAL PROPERTY COST	260,267	141,354	401,621

Gendema Property, Sierra Leone

In December 2008 the Company acquired a 25-acre mining lease for a term of three years expiring on October 31, 2011.

In June 2009 Canaf signed an agreement with Milestone Trading Limited, a subsidiary of Target Resources Plc., whereby Milestone agreed to assist Canaf (SL) in providing necessary equipment to extract gravel from the Sewa River. All direct mining costs and profits were shared on a 50% each basis.

Since starting operations in Sierra Leone, Canaf (SL) Ltd. has recovered a total of 689.24 carats. The board of Canaf have recently decided that the concessions at Gendema no longer warrant further exploitation, and a net loss of some US$344,000 (including set-up costs) will be written off to retained earnings in the October quarterly financial statements.

NOTE 5 - DEBENTURE

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 to January 31, 2011.

During the period ended July 31, 2010, the Company accrued interest totalling $29,155 (2009 – $9,178). As at July 31, 2010, the amount of debenture and interest payable to the related company was $19,539 (2009 – $6,209).

(Expressed in U.S. Dollars)

NOTE 6 - SHARE CAPITAL

a) AUTHORIZED

An unlimited number of common and preferred shares without par value

b) ISSUED AND OUTSTANDING

	Number of Shares	Amount US$
Balance, July 31, 2010 and October 31, 2009	47,426,195	8,079,463

c) STOCK OPTIONS

The Company has the following options outstanding:

	Number of Options	Weighted Average Exercise Price US$
Balance, October 31, 2009	1,357,000	0.13
Expired	(57,000)	0.10
Balance, July 31, 2010	1,300,000	0.10

As at July 31, 2010, the outstanding options expire between November 26, 2011 and June 14, 2012.

NOTE 7 - RELATED PARTY TRANSACTIONS

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

	July 31, 2010 US$	October 31, 2009 US$
Former Director	-	159,881
Companies Controlled by Former Directors	37,653	46,596
Current Directors (b)	43,000	30,011
Company Controlled by Current Directors (b)	-	28,700
Company Controlled by a Current Director – Interest Bearing (c)	799,570	801,202
Amounts due to related parties	880,223	1,066,390

NOTE 7 - RELATED PARTY TRANSACTIONS, continued

Due to Related Parties

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 July 31, 2010, 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 $120,531 (2009 – $84,254) 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 $68,663 (2009 – $30,994) 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 $42,340 (2009 – $36,950) to a Director for monthly administration and bookkeeping services.

c) The amount is unsecured, bears interest at 7% per annum and has no specific terms of repayment. The amount includes accrued interest payable of $229,299 (October 31, 2009 - $187,889). The Company accrued interest expense of $41,410 (2009 - $19,159) on the amounts owing during the period ended July 31, 2010.

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

NOTE 8 - 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 July 31, 2010, accounts receivable included $1,283,410 due from these two customers were subsequently collected. (Note 1).

(Expressed in U.S. Dollars)

NOTE 9 - 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 US$	Sierra Leone US$	South Africa US$	Total US$
July 31, 2010				
Net Profit (loss) for the period	(209,180)	20,365	1,067,864	879,049
Revenue	-	22,083	8,802,139	8,824,222
Gross Profit	-	-	1,717,296	1,717,296
Amortization	355	-	6,672	7,027
Amortization – Cost of Sale	-	-	275,324	275,324
Interest Expenses	56,574	-	105,195	161,769
Income Tax Expenses		-	565,863	565,863
Current assets	16,129	6,090	3,120,354	3,142,573
Plant and equipment	463	38,148	565,527	604,138
Mineral properties	-	401,621	-	401,621
Intangible assets	-	-	1	1
Total Assets	16,592	445,859	3,685,882	4,148,333
October 31, 2009				
Net Profit (loss) income for the year	(39,375)	(5,514)	(494,720)	(539,600)
Revenue			4,561,417	4,561,417
Gross Loss			(69,465)	(69,465)
Amortization	409		8,896	9,305
Amortization – Cost of Sale			511,269	511,269
Interest Expenses	73,360		65.579	140,939
Income Tax Expenses-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

NOTE 10 – 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, meet its central expenses and debt obligations

The Company manages its working capital at present in a manner that provides sufficient funding for operational and capital expenditure activities of the South African business. Funds are secured through the sale of calcine in South Africa..

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.

NOTE 11 – MANAGEMENT OF FINANCIAL RISK

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 funds 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. 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 11 – MANAGEMENT OF FINANCIAL RISK, continued

e) Foreign Currency Risk

Foreign exchange risk arises because of fluctuations in exchange rates. The Company's subsidiaries, principally located in South Africa, routinely transact in the local currency rather than the United States dollar, which do not expose 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 earnings in South African Rand to fluctuations in Canadian or United States Dollars.

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 of coking coal (a substitute to the company's product or cost increases of anthracite coal used as the company's feed stock.

CANAF GROUP INC.

Schedule I – Cost of Sales

Unaudited

	Three Months Period Ended July 31,		Nine Months Period Ended July 31,	
	2010	2009	2010	2009
	US$	US$	US$	US$
COST OF SALES				
Opening inventories	739,866	226,814	1,425,573	757,907
Analysis fees	6,829	4,012	25,915	16,955
Amortization	95,228	79,606	275,324	350,618
Consulting	-	-	-	19,768
Electricity	152,603	67,143	320,980	151,426
Fuel, oil and lubricants	1,311	738	4,401	3,317
Professional and project management fee	-	248	249	5,147
Medical expenses	292	-	2,656	1,530
Product purchases	2,260,831	795,465	6,448,864	2,231,996
Site establishment	-	-	535	214
Protective clothing	2,461	1,916	5,969	3,697
Rent – machinery	61,780	13,325	142,121	49,846
Rent – buildings	2,225	1,922	6,027	4,976
Repairs and maintenance	83,498	52,164	287,383	119,002
Salaries, wages and labour	69,325	56,078	196,433	139,635
Transportation	64,737	54,888	159,236	146,306
Packaging	-	-	-	86
Foreign exchange gain	48,322	7,260	70,985	(9,611)
Closing inventories	(1,148,950)	(377,725)	(2,265,721)	(876,110)
	2,440,358	983,854	7,106,930	3,116,705