



For the Nine Months Ended July 31, 2013

## Consolidated Interim Financial Statements

(Expressed in U.S. dollars)

(Unaudited – Prepared by Management)

- Consolidated Statements of Financial Position
- Consolidated Statements of Comprehensive Income
- Consolidated Statements of Changes in Equity
- Consolidated Statements of Cash Flows
- Notes to the Consolidated Financial Statements

## **NOTICE OF NO AUDITOR REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

The accompanying unaudited consolidated interim financial statements of Canaf Group Inc. for the period ended July 31, 2013 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company and are the responsibility of the Company's management.

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

# CANAF GROUP INC.

## Consolidated Interim Statements of Financial Position

(Expressed in U.S. Dollars)

(Unaudited)

	Note	July 31, 2013 \$	October 31, 2012 \$
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash		327,890	1,429,103
Trade Receivables	16	1,528,909	918,903
Sales Tax Receivable	5	3,030	84,190
Income Tax Receivable		17,353	-
Inventories	6	570,901	953,202
Prepaid Expense and Deposits		33,320	35,993
		<u>2,481,403</u>	<u>3,421,391</u>
<b>NON-CURRENT</b>			
Property, Plant and Equipment	7	496,636	607,671
Intangible Assets	2(g)	1	1
		<u>2,978,040</u>	<u>4,029,063</u>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Trade and Other Payables	8	983,779	2,215,912
Income Tax Payable		4,528	83,046
Current Portion of Bank Loan	9	8,814	39,293
Current Portion of Debentures	10	150,000	150,000
Due to Related Parties	12	167,775	310,304
		<u>1,314,896</u>	<u>2,798,555</u>
<b>NON-CURRENT</b>			
Bank Loan	9	27,739	31,515
Deferred Tax Liability		44,314	41,863
		<u>1,386,949</u>	<u>2,871,933</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share Capital	11	8,079,463	8,079,463
Accumulated Other Comprehensive Loss – Foreign Currency Translation Reserve		(737,226)	(473,154)
Deficit		(5,751,146)	(6,449,179)
		<u>1,591,091</u>	<u>1,157,130</u>
		<u>2,978,040</u>	<u>4,029,063</u>

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

Economic Dependence (Note 16)

Commitment (Note 17)

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

Approved on Behalf of the Board:

**“Christopher Way”**  
Christopher Way, Director

**“Kevin Corrigan”**  
Kevin Corrigan, Director

# CANAF GROUP INC.

## Consolidated Interim Statements of Comprehensive Income

(Expressed in U.S. Dollars)

(Unaudited)

		Three Months Period		Nine Months Period	
		Ended		Ended	
		July 31,		July 31,	
		2013	2012	2013	2012
	Notes	\$	\$	\$	\$
<b>SALES</b>		4,119,783	3,242,393	10,605,659	8,271,095
<b>COST OF SALES</b>	14	(3,619,204)	(2,951,664)	(9,454,693)	(7,461,065)
<b>GROSS PROFIT</b>		500,579	290,729	1,150,966	810,030
<b>EXPENSES</b>					
Depreciation		-	-	-	4,448
General and Administrative	15	150,235	150,036	398,290	456,934
Interest on Bank Loan	9	826	1,856	3,175	6,321
Interest on Debentures	10	3,072	3,085	9,095	9,128
Interest on Related Party Loan	12(d)	1,368	4,336	6,471	20,186
Interest Income		(2,465)	(3,664)	(8,364)	(10,300)
Foreign Exchange (Gain) Loss		-	1,575	-	(3,783)
Loss on Sale of Equipment		6,080	-	6,080	-
Recovery on Income Tax Payable		(128,870)	-	(128,870)	-
Write-Down of Accounts Payable		-	-	(98,553)	(223,639)
		(30,246)	(157,224)	(187,324)	(259,295)
<b>INCOME BEFORE INCOME TAXES</b>		470,333	133,505	963,642	550,735
Income Taxes		(107,847)	(79,039)	(265,609)	(284,777)
<b>NET INCOME FOR THE PERIOD</b>		362,486	54,466	698,033	265,958
<b>OTHER COMPREHENSIVE INCOME</b>					
Foreign Currency Translation (Loss) Gain		(182,542)	(173,845)	(264,072)	112,887
<b>COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>		179,944	(119,379)	433,961	378,845
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>		0.00	0.00	0.01	0.01
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC</b>		47,426,195	47,426,195	47,426,195	47,426,195
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – DILUTED</b>		47,426,195	47,426,195	47,426,195	47,426,195

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

# CANAF GROUP INC.

## Consolidated Interim Statements of Changes in Equity

(Expressed in U.S. Dollars)

(Unaudited)

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	Number of Common Shares	Share Capital \$	Reserve for Stock Options \$	Foreign Currency Translation Reserve \$	Deficit \$	Total Shareholders' Equity \$
<b>Balance, November 1, 2011</b>	47,426,195	8,079,463	120,285	(271,515)	(6,897,272)	1,030,961
Net Income for the Period	-	-	-	-	265,958	265,958
Foreign Currency Translation Loss	-	-	-	112,887	-	112,887
<b>Balance, July 31, 2012</b>	47,426,195	8,079,463	120,285	(158,628)	(6,631,314)	1,409,806
<b>Balance, November 1, 2012</b>	47,426,195	8,079,463	-	(473,154)	(6,449,179)	1,157,130
Net Income for the Period	-	-	-	-	698,033	698,033
Foreign Currency Translation Loss	-	-	-	(264,072)	-	(264,072)
<b>Balance, July 31, 2013</b>	47,426,195	8,079,463	-	(737,226)	(5,751,146)	1,591,091

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

# CANAF GROUP INC.

## Consolidated Interim Statements of Cash Flows

(Expressed in U.S. Dollars)

		Three Months Period	Nine Months Period		
		Ended	Ended		
		July 31,	July 31,		
		2012	2012		
Notes	2013	2012	2013	2012	
	\$	\$	\$	\$	
<b>CASH PROVIDED BY (USED FOR):</b>					
<b>OPERATING ACTIVITIES</b>					
Net Income for the Period		362,486	54,466	698,033	265,958
Non-Cash Items					
Depreciation		-	-	-	4,448
Depreciation – Cost of Sales		28,956	119,769	88,632	351,606
Deferred Tax Recovery		-	(10,329)	-	3,964
Loss on Sale of Equipment		6,080	-	6,080	-
Recovery on Income Tax Payable		(128,870)	-	(128,870)	-
Write-Down of Accounts Payable		-	-	(98,553)	(223,639)
		268,652	163,906	565,322	402,337
Changes in Non-Cash					
Working Capital Accounts	13(a)	(165,288)	454,762	(1,384,531)	1,424,668
		103,364	618,668	(819,209)	1,827,005
<b>FINANCING ACTIVITIES</b>					
Bank Loan – Net (Repayment) Proceeds		(13,461)	(15,452)	(34,255)	(33,831)
		(13,461)	(15,452)	(34,255)	(33,831)
<b>INVESTING ACTIVITY</b>					
Purchase of Property, Plant and Equipment		39,042	(121,742)	16,323	(625,092)
		39,042	(121,742)	16,323	(625,092)
<b>INCREASE (DECREASE) IN CASH</b>					
Effect of Exchange Rate Changes on Cash		(182,542)	(173,845)	(264,072)	112,887
Cash, Beginning of the Period		381,487	1,182,255	1,429,103	208,915
<b>CASH, END OF THE PERIOD</b>		<b>327,890</b>	<b>1,489,884</b>	<b>327,890</b>	<b>1,489,884</b>

Supplemental Cash Flow Information (Note 13)

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

# CANAF GROUP INC.

## Notes to the Consolidated Financial Statements

For the Nine Months Ended July 31, 2013

(Expressed in U.S. Dollars)

(Unaudited)

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### 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 which processes coal and coal products into calcine, a coke substitute with a high carbon content.

The head office, principal address, and records office of the Company are located at Suite 500 – 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2P6.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on the basis that the Company is a going concern and will be able to meet its obligations and continue its operations for its next fiscal year.

The Company’s ability to continue as a going concern is dependent upon its ability to generate profitable operations from its coal processing business, which the Company has been able to achieve in the last two fiscal years. The Company has a working capital of \$1,166,507 as at July 31, 2013, and generated a negative cash flow of \$819,209 from operations during the period then ended. Management believes that the Company has sufficient cash resources to meet its obligations for at least twelve months from the end of the reporting period.

Sales of the Company are substantially derived from two customers however, and as a result, the Company is economically dependent on these customers (Note 16). The Company is dependent on the operating cash flows from its coal processing business and the financial support of its shareholders and related parties to finance its operations and to discharge liabilities in the normal course of business. There is no assurance that the Company can attain profitability and positive operating cash flows, and the loss of a customer or reduced sales from a customer may have a material adverse effect on the Company’s financial condition. These conditions cast uncertainties on the Company’s ability to continue as a going concern.

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 – SIGNIFICANT ACCOUNTING POLICIES

#### a) Statement of Compliance

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

These consolidated financial statements were approved and authorized for issue by the Board of Directors on September 4, 2013.

#### b) Basis of Preparation

These consolidated financial statements have been prepared on a historical cost basis. Cost is the fair value of the consideration given in exchange for net assets.

# CANAF GROUP INC.

## Notes to the Consolidated Financial Statements

For the Nine Months Ended July 31, 2013

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### c) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and all its subsidiaries (collectively, the “Company”):

Entity	Country of Incorporation	Holding	Functional Currency
Canaf Group Inc.	Canada	Parent Company	Canadian Dollar
Quantum Screening and Crushing (Proprietary) Limited	South Africa	100%	South African Rand
Canaf (SL) Limited	Sierra Leone	51%	Canadian Dollar
Nabisoga Mining Ltd.	United States	100%	Canadian Dollar
Rwenzori Cobalt Company Ltd.	United States	100%	Canadian Dollar

Intercompany balances and transactions are eliminated in preparing these consolidated financial statements. Canaf (SL) Limited, Nabisoga Mining Ltd., and Rwenzori Cobalt Company Ltd. are inactive subsidiaries.

#### d) Foreign Currency

These consolidated financial statements are presented in U.S. dollars. Each entity determines its own functional currency (Note 2(c)) and items included in the financial statements of each entity are measured using that functional currency.

##### i) Transactions and Balances in Foreign Currencies

Foreign currency transactions are translated into the functional currency of the respective entity, using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized immediately in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction and are not retranslated. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

##### ii) Foreign Operations

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars from their functional currency at the exchange rate prevailing at the reporting date and their income statements are translated at the exchange rate prevailing at the dates of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income and accumulated in the foreign currency translation reserve in equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in earnings as part of the gain or loss on disposal.



# CANAF GROUP INC.

## Notes to the Consolidated Financial Statements

For the Nine Months Ended July 31, 2013

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### e) Inventories

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

Cost is determined on the following basis: Raw materials and packing material are valued at average cost. Finished goods are valued at raw material cost plus labour cost and an appropriate portion of the related fixed and variable manufacturing overhead expenses based on normal capacity.

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

#### f) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized to write off the cost of the property, plant and equipment less their residual values over their useful lives using the straight line method at the following rates, except in the year of acquisition, when one half of the rates are used:

Computer Equipment	3 Years
Leasehold Improvements	5 Years
Office Equipment	5 Years
Plant and Equipment	5 Years
Vehicles	5 Years

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

#### g) Intangible Assets

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

#### h) Impairment of Non-Current Assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. Individual assets are grouped together as a cash generating unit for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are independent from other group assets.

If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Where the carrying amount of a cash generating unit exceeds its recoverable amount, the cash generating unit is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are adjusted for the risks specific to the cash generating unit and are discounted to their present value with a discount rate that reflects the current market indicators.

# CANAF GROUP INC.

## Notes to the Consolidated Financial Statements

For the Nine Months Ended July 31, 2013

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **h) Impairment of Non-Current Assets (Continued)**

Where an impairment loss subsequently reverses, the carrying amount of the cash generating unit is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the cash generating unit in prior years. A reversal of an impairment loss is recognized as income immediately.

#### **i) Revenue Recognition**

Revenue from the sale of calcine is recognized upon transfer of title which is completed when the physical product is delivered to customers and collection is reasonably assured. Interest and other income are recognized when earned and collection is reasonably assured.

#### **j) Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. As at July 31, 2013 and October 31, 2012, the Company has no material provisions.

#### **k) Share Capital**

Share capital includes cash consideration received for share issuances, net of commissions and 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.

#### **l) Share-Based Payments**

The fair value method of accounting is used for share-based payment transactions. Under this method, the cost of stock options and other share-based payments is recorded based on the estimated fair value using the Black-Scholes option pricing model at the grant date and is charged to profit over the vesting period. The amount recognized as an expense is adjusted to reflect the number of equity instruments expected to vest.

Upon the exercise of stock options and other share-based payments, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

#### **m) Earnings per Common Share**

Basic earnings per share is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed in accordance with the treasury stock method and based on the weighted average number of common shares and dilutive equity instruments.

# CANAF GROUP INC.

## Notes to the Consolidated Financial Statements

For the Nine Months Ended July 31, 2013

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### n) **Income Taxes**

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

##### i) **Current Income Tax**

Current income tax assets and/or liabilities comprise those claims from, or, obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

##### ii) **Deferred Income Tax**

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

#### o) **Financial Instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified at fair value through profit or loss) are added to, or deducted from, the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets and financial liabilities are measured subsequently as described below. The Company does not have any derivative financial instruments.

# CANAF GROUP INC.

## Notes to the Consolidated Financial Statements

For the Nine Months Ended July 31, 2013

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### o) Financial Instruments (Continued)

##### i) Financial Assets

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories upon initial recognition:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments; and
- Available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

- ***Financial assets at fair value through profit or loss*** – Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The Company's cash falls into this category of financial instruments.
- ***Loans and receivables*** – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less any provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's trade receivable and amount due from related party fall into this category of financial instruments.
- ***Held-to-maturity investments*** – Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables. Investments are classified as held-to-maturity if the Company has the intention and ability to hold them until maturity. The Company currently does not hold financial assets in this category.
- ***Available-for-sale financial assets*** – Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company currently does not hold financial assets in this category.

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

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred.

# CANAF GROUP INC.

## Notes to the Consolidated Financial Statements

For the Nine Months Ended July 31, 2013

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### o) Financial Instruments (Continued)

##### ii) Financial Liabilities

For the purpose of subsequent measurement, financial liabilities are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities upon initial recognition.

- **Financial liabilities at fair value through profit or loss** – Financial liabilities at fair value through profit or loss include financial liabilities that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. Liabilities in this category are measured at fair value with gains or losses recognized in profit or loss. The Company currently does not hold financial liabilities in this category.
- **Other financial liabilities** – Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method amortization process. The Company's trade and other payables, amounts due to related parties, bank loan, and debentures fall into this category of financial instruments.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

#### p) Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

### NOTE 3 – SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the application of the Company's accounting policies which are described in Note 2, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

#### a) Useful Lives of Property and Equipment and Intangible Assets

Management reviews the useful lives of property, plant and equipment and intangible assets at each reporting date, based on the expected utility of these assets to the Company. Actual useful lives of these assets may differ from the estimate.

# CANAF GROUP INC.

## Notes to the Consolidated Financial Statements

For the Nine Months Ended July 31, 2013

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 3 – SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

(Continued)

#### b) Impairment of Non-Current Assets

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future operating results. These assumptions relate to future events and circumstances. In addition, when determining the applicable discount rate, estimation is involved in determining the appropriate adjustments to market risk and asset-specific risk factors.

Actual results may vary and may cause significant adjustments to the Company's assets within the next financial year.

#### c) Deferred Tax Assets

Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

The Company has recorded a full valuation allowance against its deferred tax assets due to the uncertainty in the realization of these assets.

### NOTE 4 – ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new accounting standards, amendments to standards, and interpretations are issued but not yet effective up to the date of issuance of the Company's consolidated financial statements. The Company intends to adopt the following standards when they become effective. These standards are required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet determined the impact of these standards on its consolidated financial statements.

#### a) IFRS 9 – Financial Instruments

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in International Accounting Standards ("IAS") 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income.

#### b) IFRS 10 – Consolidated Financial Statements

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in an entity's consolidated financial statements. IFRS 10 sets out three elements of control: a) power over the investee; b) exposure, or rights, to variable returns from involvement with the investee; and c) the ability to use power over the investee to affect the amount of the investors' return.

# CANAF GROUP INC.

## Notes to the Consolidated Financial Statements

For the Nine Months Ended July 31, 2013

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(Unaudited)

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### NOTE 4 – ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

#### b) IFRS 10 – Consolidated Financial Statements (Continued)

IFRS 10 sets out the requirements on how to apply the control principle. IFRS 10 supersedes IAS 27 “Consolidated and Separate Financial Statements” and Standing Interpretations Committee (“SIC”) 12 “Consolidation – Special Purpose Entities”.

#### c) IFRS 11 – Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 “Interests in Joint Ventures”, and SIC-13 “Jointly Controlled Entities – Non-Monetary Contributions by Venturers”.

#### d) IFRS 12 – Disclosure of Interest in Other Entities

IFRS 12 combines the disclosure requirements for an entity’s interests in subsidiaries, joint arrangements, associates, and structured entities into one comprehensive disclosure standard. The objective of IFRS 12 is for an entity to disclose information that helps users of its financial statements evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance, and cash flows. IFRS 12 also requires that an entity disclose the significant judgments and assumptions it has made.

#### e) IFRS 13 – Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for fair value measurements. IFRS 13 does not change when an entity is required to use fair value but rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS.

### NOTE 5 – SALES TAX RECEIVABLE (PAYABLE)

	July 31, 2013	October 31, 2012
	\$	\$
South African Value-Added Tax Receivable (Payable)	-	82,222
Canadian Harmonized Sales Tax Receivable	3,030	1,968
	<u>3,030</u>	<u>84,190</u>

### NOTE 6 – INVENTORIES

Raw Materials	338,907	853,589
Finished Goods – Calcine	231,994	99,613
	<u>570,901</u>	<u>953,202</u>

# CANAF GROUP INC.

## Notes to the Consolidated Financial Statements

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### NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

	Land \$	Computer Equipment \$	Leasehold Improvements \$	Office Equipment \$	Plant and Equipment \$	Vehicles \$	Total \$
<b>COST</b>							
<b>Balance, November 1, 2012</b>	129,246	14,118	260,405	12,126	3,697,851	58,143	4,171,889
Additions		-	21,342	-	(14,217)	-	7,125
Foreign Currency Translation	(15,772)	(1,723)	(8,506)	(1,480)	(220,046)	(408)	(247,935)
<b>Balance, July 31, 2013</b>	<b>113,474</b>	<b>12,395</b>	<b>273,241</b>	<b>10,646</b>	<b>3,463,588</b>	<b>57,735</b>	<b>3,931,079</b>
<b>ACCUMULATED DEPRECIATION</b>							
<b>Balance, November 1, 2012</b>	-	12,379	162,141	11,690	3,319,865	58,143	3,564,218
Depreciation	-	505	17,741	410	68,300	-	86,956
Foreign Currency Translation	-	(1,542)	(20,837)	(1,454)	(192,490)	(408)	(216,731)
<b>Balance, July 31, 2013</b>	<b>-</b>	<b>11,342</b>	<b>159,045</b>	<b>10,646</b>	<b>3,195,675</b>	<b>57,735</b>	<b>3,434,443</b>
<b>NET BOOK VALUE</b>							
<b>November 1, 2012</b>	129,246	1,739	98,264	436	377,986	-	607,671
<b>July 31, 2013</b>	113,474	1,053	114,196	-	267,913	-	496,636



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### NOTE 8 – TRADE AND OTHER PAYABLES

	July 31, 2013 \$	October 31, 2012 \$
Trade Payable	953,779	2,175,912
Accrued Liability	30,000	40,000
	<u>983,779</u>	<u>2,215,912</u>

For the period ended July 31, 2013, the Company wrote off trade payables totalling \$98,553 (October 31, 2012 \$123,695) representing amounts that have been outstanding for greater than six years.

### NOTE 9 – BANK LOAN

Bank Loan	36,553	70,808
Less: Current Portion	<u>(8,814)</u>	<u>(39,293)</u>
	<u>27,739</u>	<u>31,515</u>

The bank loan bears interest at 8% per annum, matures on July 1, 2014, and is secured by the Company's pilot modular impact crusher acquired in June 2011. The bank loan is repayable in South African Rand with a monthly blended payment of Rand 31,591 (US\$3,628). As at July 31, 2013, the outstanding bank loan balance was Rand 362,518 (US\$36,553). During the period ended July 31, 2013, the Company incurred interest expense totalling \$3,175 (2012-\$6,321).

Future principal payments are \$39,293 and \$31,515, respectively, for the years ended October 31, 2013 and 2014.

### NOTE 10 – DEBENTURES

Principle Payable	100,000	100,000
Principle Payable – Related Company	<u>50,000</u>	<u>50,000</u>
	150,000	150,000
Less: Current Portion	<u>(150,000)</u>	<u>(150,000)</u>
	<u>-</u>	<u>-</u>

In January 2009, the Company issued debentures totalling \$150,000 which included \$50,000 subscribed by a related company controlled by a Director of the Company. The debentures bear interest at 8% per annum compounded annually effective May 1, 2011, and are secured by a first floating charge on all property and assets of the Company. The debentures mature on May 1, 2013, at which date the debentures may be converted into common shares of the Company at \$0.25 per common share. Prior to May 1, 2011, the debentures were subject to an interest rate of 12% per annum compounded annually.

During the period ended July 31, 2013, the Company incurred interest expense totalling \$9,095 (2012 – \$9,128), of which \$2,992 (2012 – \$3,065) was paid to the related company. There was no interest outstanding as at July 31, 2013 (2012-Nil).

# CANAF GROUP INC.

## Notes to the Consolidated Financial Statements

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### NOTE 11 – SHARE CAPITAL

#### a) Authorized Share Capital

The Company is authorized to issue an unlimited number of common shares without par value.

#### b) Stock Options

	Number of Options	Exercise Price \$
Balance, July 31, 2013 and October 31, 2012	-	-

### NOTE 12 – 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:

	July 31, 2013 \$	October 31, 2012 \$
Due from a Director (a)	-	-
Due to a Director (b)	-	-
Due to a Related Company (c)	88,000	88,000
Due to a Related Company (d)	79,775	222,304
	167,775	310,304

- a) The amount due from a Director of the Company for an advance made was unsecured, non-interest bearing, and had no specified terms of repayment. During the period ended June 30, 2013, the Company incurred accounting fees of \$40,207 (2012 – \$39,871) to this director for administration and bookkeeping services.
- b) The amount due to a Director of the Company was unsecured, non-interest bearing, and had no specific terms of repayment. During the period ended June 30, 2013, the Company incurred consulting fees of \$51,546 (2012 – \$41,392) to this director for administration and management services.
- c) The amount due to a company controlled by a Director of the Company for advances made is unsecured, non-interest bearing, and has no specific terms of repayment.
- d) The amount due to a company controlled by a Director of the Company for advances made is unsecured, bears interest at 6% per annum, and has no specific terms of repayment. During the period ended June 30, 2013 the Company recorded interest expense of \$6,471 (2012 – \$20,186).
- e) The Company paid management fees of \$111,353 (2012 – \$127,402) to the Directors for administration and management services in relation to the Company's coal processing business in South Africa.

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

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## Notes to the Consolidated Financial Statements

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### NOTE 13 – SUPPLEMENTAL CASH FLOW INFORMATION

#### a) Change in Non-Cash Working Capital Accounts

	Three Months	Period Ended	Nine Months	Period Ended
	2013	July 31,	2013	July 31,
	\$	2012	\$	2012
		\$		\$
Trade Receivables	(13,764)	(241,435)	(610,006)	482,003
Sales Tax Receivable	4,576	3,687	81,160	30,046
Income Tax Receivable	125,984	-	(17,353)	-
Inventories	57,041	415,926	382,301	758,542
Prepaid Expenses and Deposits	1,525	11,050	2,673	(49,171)
Due from Related Party	-	1,042	-	3,001
Trade and Other Payables	(164,694)	292,342	(1,004,710)	343,900
Income Tax Payable	(139,824)	180,814	(76,067)	183,161
Due to Related Parties	(36,132)	(208,664)	(142,529)	(326,814)
	<u>(165,288)</u>	<u>454,762</u>	<u>(1,384,531)</u>	<u>1,424,668</u>

#### b) Other Items

South Africa Income and Secondary Tax Paid	93,896	105,531	265,609	348,522
Interest Paid	5,266	9,277	18,741	35,635
Interest Received	2,465	3,664	8,364	10,300

### NOTE 14 – COST OF SALES

	Three Months	Period Ended	Nine Months	Period Ended
	2013	July 31,	2013	July 31,
	\$	2012	\$	2012
		\$		\$
Inventories, Beginning of the Period	627,942	959,261	953,202	1,300,373
Analysis Fees	6,601	9,188	21,666	24,422
Depreciation	28,956	119,769	88,632	351,606
Electricity	194,136	242,526	518,113	523,404
Fuel, Oil and Lubricants	3,065	6,291	11,262	20,872
Medical Expenses	2,903	1,288	4,090	2,806
Product Purchases	2,687,175	1,840,408	6,818,664	4,896,043
Professional and Project Management Fee	954	2,385	3,195	2,711
Protective Clothing	2,330	2,998	8,795	9,116
Rent	129,187	103,341	330,830	201,171
Repairs and Maintenance	227,542	93,810	454,197	222,416
Salaries, Wages and Labour	82,141	82,933	293,177	247,123
Packaging	-	278	-	4,309
Transportation	256,863	83,474	612,431	230,337
Foreign Exchange Loss	(53,354)	(51,154)	(86,324)	(30,512)
Inventories, End of the Period	<u>(577,237)</u>	<u>(545,132)</u>	<u>(577,237)</u>	<u>(545,132)</u>
	<u>3,619,204</u>	<u>2,951,664</u>	<u>9,454,693</u>	<u>7,461,065</u>

# CANAF GROUP INC.

## Notes to the Consolidated Financial Statements

For the Nine Months Ended July 31, 2013

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 15 – GENERAL AND ADMINISTRATIVE EXPENSES

	Three Months	Period Ended	Nine Months	Period Ended
	2013	July 31,	2013	July 31,
	\$	2012	\$	2012
		\$		\$
Bank Charges and Interest	2,720	1,049	6,915	3,094
Consulting Fees	17,002	15,804	51,546	41,392
Management Fees	32,941	25,976	111,353	127,402
Office, Insurance and Sundry	26,534	48,443	50,095	95,893
Professional Fees	32,139	33,631	83,352	109,882
Promotion	405	318	901	1,176
Telephone	3,916	4,656	12,655	12,355
Transfer Agent and Filing Fees	5,146	4,321	14,187	13,801
Travel	29,432	15,838	67,286	51,939
	<u>150,235</u>	<u>150,036</u>	<u>398,290</u>	<u>456,934</u>

### NOTE 16 – ECONOMIC DEPENDENCE

Sales from the Company's South African coal processing business are substantially derived from two customers and as a result, the Company is economically dependent on these customers. The Company's exposure to credit risk is limited to the carrying value of its accounts receivable. As at July 31, 2013, trade receivables of \$1,528,909 due from these customers was collected subsequent to period.

### NOTE 17 – COMMITMENT

The Company has an agreement to lease premises for its coal processing plant in South Africa for a term of five years, expiring on January 1, 2016. The agreement offers the Company, in lieu of rent, feedstock coal to be delivered to its adjacent premises, which it purchases at market price. Should the Company decide to purchase feedstock materials from an alternative supplier which the lessor is otherwise able to provide, then a monthly rent of Rand 200,000 (\$23,000) is payable. To date, the Company has not been required to pay any rent for the premises as it has continued to purchase feedstock coal from the landlord.

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### NOTE 18 – SEGMENTED INFORMATION

The Company operates in two reportable operating segments: the head office operations in Canada and the coal processing business in South Africa.

	Canada \$	South Africa \$	Total \$
<b>July 31, 2013</b>			
Net (Loss) Income for the Period	(85,068)	783,101	698,033
Revenues (Note 16)	-	10,605,659	10,605,659
Gross Profit	-	1,150,966	1,150,966
Depreciation – Cost of Sales	-	88,632	88,632
Interest Expense	15,566	3,175	18,741
Current Income Tax Expense	-	256,867	256,867
Future Income Tax Recovery	-	8,742	8,742
Current Assets	34,769	2,446,634	2,481,403
Property, Plant and Equipment	-	496,636	496,636
Intangible Assets	-	1	1
Total Assets	34,769	2,943,271	2,978,040
<b>October 31, 2012</b>			
Net (Loss) Income for the Year	(149,280)	477,088	327,808
Revenues (Note 16)	-	10,882,074	10,882,074
Gross Profit	-	1,101,994	1,101,904
Depreciation	-	4,448	4,448
Depreciation – Cost of Sales	-	225,420	225,420
Interest Expense	37,559	7,801	45,360
Current Income Tax Expense	-	313,582	313,582
Future Income Tax Recovery	-	(19,966)	(19,966)
Current Assets	51,107	3,370,284	3,421,391
Property, Plant and Equipment	-	607,671	607,671
Intangible Assets	-	1	1
Total Assets	51,107	3,977,956	4,029,063

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### NOTE 19 – CAPITAL RISK MANAGEMENT

The Company's objectives in managing its capital are to ensure adequate resources are available to fund its coal processing business in South Africa, to seek out and acquire new projects of merit, and to safeguard its ability to continue as a going concern. The Company manages its share capital as capital, which as at July 31, 2013, totalled \$8,079,463 (October 31, 2012 – \$8,079,463).

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured through the sale of calcine in South Africa and, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of operating cash deficits.

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

The Company has no externally imposed capital requirements and has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future. There were no changes in the Company's approach to capital management during the period ended April 30, 2013.

### NOTE 20 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to various risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarized in Note 2(o). The Company's risk management is coordinated at its head office in Canada in close co-operation with the board of directors and focuses on actively securing the Company's short to medium-term cash flows and raising finances for the Company's capital expenditure program. The Company does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Company is exposed are described below.

#### a) Foreign Currency Risk

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

The assets, liabilities, revenue and expenses that are denominated in foreign currencies will be affected by changes in the exchange rate between the United States dollar and these foreign currencies. The Company has outstanding debt obligations that are payable in Canadian dollars and has issued securities convertible or exercisable into common shares at values expressed in Canadian dollars. The Company does not currently use financial instruments to mitigate this risk.

#### b) Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company limits its exposure to credit loss for cash by placing its cash with high quality financial institutions and for trade receivable by performing standard credit checks. The credit risk for cash and trade receivables is considered negligible since the counterparties are reputable banks with high quality external credit ratings and customers with no history of default.

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### NOTE 20 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### b) Credit Risk (Continued)

The Company has a credit risk exposure related to its economic dependence on two customers for its calcine sales (Note 16). The Company has assessed its exposure to credit risk and has determined that no significant risks exist from these concentrations of credit.

#### c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company ensures, as far as reasonably possible, that it will have sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company has a working capital of \$789,872 as at April 30, 2013. There can be no assurance that the Company will be successful with generating and maintaining profitable operations or will be able to secure future debt or equity financing for its working capital and expansion activities (Note 1).

#### d) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest on the Company's bank loan, debentures, and amount due to a related party is based on fixed rates, and as such, the Company is not exposed to significant interest rate risk.

#### e) Commodity Price Risk

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

#### f) Fair Value

The Company uses the following hierarchy for determining fair value measurements:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The Company's financial assets measured at fair value through profit or loss use Level 1 valuation techniques during the period ended July 31, 2013 and October 31, 2012. The carrying values of the Company's financial assets and liabilities approximate their fair values as at July 31, 2013.