



For the Three Months Ended January 31, 2017

Consolidated Interim Financial Statements

(Expressed in U.S. dollars)

(Unaudited ó Prepared by Management)

- Notice of No Auditor Review of Consolidated Financial Statements
- Consolidated Interim Statements of Financial Position
- Consolidated Interim Statements of Comprehensive Loss
- Consolidated Interim Statements of Changes in Equity
- Consolidated Interim 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 January 31, 2017 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	January 31, 2017 \$	October 31, 2016 \$
ASSETS			
CURRENT			
Cash		595,806	380,562
Trade Receivables	14	1,298,566	643,645
Sales Tax Receivable	4	5,904	17,870
Inventories	5	393,373	403,329
Prepaid Expense and Deposits		28,526	27,220
		<u>2,322,175</u>	<u>1,472,626</u>
NON-CURRENT			
Property, Plant and Equipment	6	1,197,093	1,256,691
Intangible		<u>1</u>	<u>1</u>
		<u>3,519,269</u>	<u>2,729,318</u>
LIABILITIES			
CURRENT			
Trade and Other Payables	7	1,130,333	540,065
Income Taxes Payable		939	941
Current Portion of Bank Loan	8	225,758	298,244
		<u>1,357,030</u>	<u>839,250</u>
NON-CURRENT			
Bank Loan	8	403,126	403,986
Deferred Tax Liability		<u>91,918</u>	<u>17,108</u>
		<u>1,852,074</u>	<u>1,260,344</u>
SHAREHOLDERS' EQUITY			
Share Capital	9	8,079,463	8,079,463
Accumulated Other Comprehensive Loss ó			
Foreign Currency Translation Reserve		(1,360,954)	(1,361,484)
Deficit		<u>(5,051,314)</u>	<u>(5,249,005)</u>
		<u>1,667,195</u>	<u>1,468,974</u>
		<u>3,519,269</u>	<u>2,729,318</u>

Nature of Operations (Note 1)

Economic Dependence (Note 14)

Commitment (Note 15)

Segment Information (Note 16)

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

Approved on Behalf of the Board:

õChristopher Wayö
Christopher Way, Director

õKevin Corriganö
Kevin Corrigan, Director

CANAF GROUP INC.

Consolidated Interim Statements of Comprehensive Income

(Expressed in U.S. Dollars)

(Unaudited)

	Note	Three Months Ended January 31,	
		2017	2016
		\$	\$
SALES		2,991,706	1,022,773
COST OF SALES	12	<u>2,605,825</u>	<u>1,151,983</u>
GROSS PROFIT (LOSS)		<u>385,881</u>	<u>(129,210)</u>
EXPENSES			
General and Administrative	13	104,578	93,250
Interest on Bank Loan	8	<u>15,322</u>	<u>19,640</u>
		<u>(119,900)</u>	<u>(112,890)</u>
INCOME (LOSS) BEFORE OTHER ITEMS		265,981	(242,100)
Interest Income		<u>4,974</u>	<u>1,435</u>
INCOME (LOSS) BEFORE INCOME TAXES		270,955	(240,665)
Income Taxes		<u>(73,264)</u>	<u>(53,817)</u>
NET INCOME (LOSS) FOR THE PERIOD		197,691	(294,482)
OTHER COMPREHENSIVE LOSS			
Foreign Currency Translation Gain (Loss)		<u>530</u>	<u>(196,836)</u>
NET COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD		<u>198,221</u>	<u>(491,318)</u>
BASIC AND DILUTED EARNINGS PER SHARE		<u>0.00</u>	<u>(0.01)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED		<u>47,426,195</u>	<u>47,426,195</u>

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)

	Number of Common Shares	Share Capital \$	Reserve for Stock Options \$	Foreign Currency Translation Reserve \$	Deficit \$	Total Shareholders' Equity \$
Balance, October 31, 2015	47,426,195	8,079,463	-	(1,378,574)	(5,069,850)	1,631,039
Net Income for the Period	-	-	-	-	(294,482)	(294,482)
Foreign Currency Translation Loss	-	-	-	(196,836)	-	(196,836)
Balance, January 31, 2016	47,426,195	8,079,463	-	(1,575,410)	(5,364,332)	1,139,721
Balance, October 31, 2016	47,426,195	8,079,463	-	(1,361,484)	(5,249,005)	1,468,974
Net Loss for the Period	-	-	-	-	197,691	197,691
Foreign Currency Translation Gain	-	-	-	530	-	530
Balance, January 31, 2017	47,426,195	8,079,463	-	(1,360,954)	(5,051,314)	1,667,195

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)

(Unaudited)

	Note	Three Months Ended January 31,	
		2017	2016
		\$	\$
CASH PROVIDED BY (USED FOR):			
OPERATING ACTIVITIES			
Net Income (Loss) for the Period		197,691	(294,482)
Non-Cash Items			
Depreciation ó Cost of Sales		94,833	83,771
		292,524	(210,711)
Change in Non-Cash Working Capital Accounts	11(a)	30,771	222,150
		323,295	11,439
FINANCING ACTIVITIES			
Loan Payable		-	-
Principal Repayments of Bank Loan		(73,346)	(179,033)
		(73,346)	(179,033)
INVESTING ACTIVITY			
Purchase of Property, Plant and Equipment		(35,235)	154,467
INCREASE (DECREASE) IN CASH			
Effect of Exchange Rate Changes on Cash		530	(196,836)
Cash, Beginning of the Period		380,562	881,322
CASH, END OF THE PERIOD		595,806	671,359

Supplemental Cash Flow Information (Note 11)

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

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 1 – NATURE OF OPERATIONS

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 ó 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. Sales of the Company are substantially derived from two customers, and as a result, the Company is economically dependent on these customers (Note 14). 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. Loss of a customer or reduced sales from a customer may have a material adverse effect on the Company's financial condition.

The Company has working capital of \$965,145 as at January 31, 2017. Management believes that the Company has sufficient cash resources to meet its obligations for at least 12 months from the end of the reporting period.

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 ("IFRS") 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 March 18, 2017.

b) Basis of Preparation

These consolidated interim financial statements have been prepared on a historical cost basis. Cost is the fair value of the consideration given in exchange for net assets. These consolidated interim financial statements do not include all the information required for full annual financial statements. The consolidated interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended October 31, 2016. The accounting policies, methods of computation and presentation applied in these financial statements are consistent with those of the previous financial year.

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 3 – ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new accounting standards, amendments to standards, and interpretations have been issued but not yet effective up the date of issuance of the Company's consolidated financial statements. The Company intends to adopt the following standards when it becomes effective.

a) IFRS 9 – Financial Instruments

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The mandatory effective date has been set for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company does not intend to early adopt IFRS 9. The Company has not yet determined the impact of this standard on its consolidated financial statements.

b) IFRS 15 – Revenue from Contracts with Customers

IFRS 15 clarifies the principles for recognizing revenue from contracts with customers. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company does not intend to early adopt IFRS 15. The Company has not yet determined the impact of this standard on its consolidated financial statements.

NOTE 4 – SALES TAX RECEIVABLE (PAYABLE)

	January 31, 2017	October 31, 2016
	\$	\$
South African Value-Added Tax Receivable (Payable)	5,065	17,298
Canadian Goods and Services Tax Receivable	839	572
	<hr/>	<hr/>
	5,904	17,870
	<hr/>	<hr/>

NOTE 5 – INVENTORIES

Raw Materials	347,695	286,009
Finished Goods ó Calcine	45,678	117,320
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	393,373	403,329
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CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

	Land \$	Building	Computer Equipment \$	Leasehold Improvements \$	Office Equipment \$	Plant and Equipment \$	Vehicles \$	Total \$
COST								
Balance, October 31, 2016	7,423	76,115	15,971	170,873	12,192	4,711,642	101,159	5,095,375
Additions	-	-	-	-	699	39,258	-	39,957
Foreign Currency Translation	-	(178)	(34)	(364)	(26)	(6,243)	(121)	(6,966)
Balance, January 31, 2017	7,423	75,937	15,937	170,509	12,865	4,744,657	101,038	5,128,366
ACCUMULATED DEPRECIATION								
Balance, October 31, 2016	-	6,597	15,172	163,132	10,914	3,566,537	76,332	3,838,684
Depreciation	-	372	118	2,799	224	88,983	2,337	94,833
Foreign Currency Translation	-	(7)	(30)	(287)	(18)	(1,885)	(17)	(2,244)
Balance, January 31, 2017	-	6,962	15,260	165,644	11,120	3,653,635	78,652	3,931,273
NET BOOK VALUE								
October 31, 2016	7,423	69,518	799	7,741	1,278	1,145,105	24,827	1,256,691
January 31, 2017	7,423	68,975	677	4,865	1,745	1,091,022	22,386	1,197,093

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 7 – TRADE AND OTHER PAYABLES

	January 31, 2017 \$	October 31, 2016 \$
Trade Payables	1,107,828	516,065
Accrued Liability	22,505	24,000
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	1,130,333	540,065

NOTE 8 – BANK LOAN

Bank Loan	628,884	702,230
Less: Current Portion	(225,758)	(298,244)
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	403,126	403,986

The bank loan bears interest at 9.25% per annum, matures on January 7, 2019, and is secured by the Company's furnace acquired with the proceeds from the loan. The bank loan is repayable over 42 months in blended monthly payments of Rand 393,779 (\$29,230 translated at October 31, 2016 exchange rate). During the period ended January 31, 2017, the Company incurred interest expense totaling \$15,322 (October 31, 2016 \$71,721).

NOTE 9 – SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without par value. As at January 31, 2017, the Company had 47,426,195 common shares issued and outstanding as presented in the consolidated statements of changes in shareholders' equity. There are no stock options and share purchase warrants outstanding as at October 31, 2016 and January 31, 2017.

NOTE 10 – 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:

- a) During the period ended January 31, 2017, the Company incurred accounting fees of \$10,084 (2016 \$10,228) to an Officer (also a Director) of the Company for administration and bookkeeping services.
- b) During the period ended January 31, 2017, the Company incurred consulting fees of \$16,573 (2016 \$17,743) to an Officer (also a Director) of the Company for administration and management services.
- d) The Company paid management fees of \$35,202 (2016 \$28,300) to three Directors of the Company 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.

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 11 – SUPPLEMENTAL CASH FLOW INFORMATION

a) Change in Non-Cash Working Capital Accounts

	Three Months Ended January 31,	
	2017	2016
	\$	\$
Trade Receivables	(654,921)	361,580
Sales Tax Receivable	11,966	18,314
Inventories	9,956	161,559
Prepaid Expenses and Deposits	(1,306)	1,364
Trade and Other Payables	590,268	(345,940)
Income Taxes Payable	74,808	25,273
	<u>30,771</u>	<u>222,150</u>

b) Other Items

Interest Paid	15,322	19,640
Interest Received	4,974	1,435

NOTE 12 – COST OF SALES

	Three Months Ended January 31,	
	2017	2016
	\$	\$
Inventories, Beginning of the Period	403,329	512,000
Analysis Fees	6,546	2,843
Depreciation	94,833	83,771
Electricity	33,264	44,910
Fuel, Oil and Lubricants	17,739	1,279
Machinery Rental	96,416	22,890
Medical Expenses	211	168
Product Purchases	1,984,296	602,612
Professional and Project Management Fee	3,456	810
Protective Clothing	1,657	848
Provident Fund	2,937	2,704
Repairs and Maintenance	82,020	48,351
Salaries and Benefits	102,762	78,645
Transportation	169,732	100,593
Inventories, End of the Period	<u>(393,373)</u>	<u>(350,441)</u>
	<u>2,605,825</u>	<u>1,151,983</u>

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 13 – GENERAL AND ADMINISTRATIVE EXPENSES

	Three Months Ended January 31,	
	2017	2016
	\$	\$
Bank Charges and Interest	735	797
Consulting Fees	16,573	17,743
Management Fees	35,202	28,300
Office, Insurance and Sundry	17,366	13,763
Professional Fees	23,687	20,200
Promotion	164	146
Telephone	4,111	3,181
Transfer Agent and Filing Fees	291	511
Travel	6,449	8,609
	<hr/>	<hr/>
	104,578	93,250

NOTE 14 – ECONOMIC DEPENDENCE

Sales from the Company's South African coal processing business are substantially derived from two customers and as a result, the Company is economically dependent on these customers. The Company's exposure to credit risk is limited to the carrying value of its accounts receivable. As at January 31, 2017, trade receivables of \$1,298,566 were due from these customers and were collected subsequent to period-end.

NOTE 15 – COMMITMENT

The Company has an agreement to lease premises for its coal processing plant in South Africa for a term of ten years, expiring on December 31, 2020. 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 coal from an alternative supplier which the lessor is otherwise able to provide, then a monthly rent of Rand 200,000 (\$14,846) 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.

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 16 – SEGMENT 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 \$
January 31, 2016			
Net (Loss) Income for the Period	(41,825)	239,516	197,691
Revenues (Note 15)	-	2,991,706	2,991,706
Gross Profit (Loss)	-	385,881	385,881
Depreciation ó Cost of Sales	-	94,833	94,833
Interest Expense	-	15,322	15,322
Current Income Taxes Expense	-	-	-
Deferred Income Taxes Expense	-	73,264	73,264
Current Assets	72,450	2,249,725	2,322,175
Property, Plant and Equipment	-	1,197,093	1,197,093
Intangible Assets	-	1	1
Total Assets	72,450	3,446,819	3,519,269
	Canada \$	South Africa \$	Total \$
October 31, 2016			
Net Loss for the Year	(176,785)	(2,370)	(179,155)
Revenues (Note 16)	-	4,703,528	4,703,528
Gross Profit	-	103,065	103,065
Depreciation ó Cost of Sales	-	345,188	345,188
Interest Expense (Note 13)	-	71,721	71,721
Current Income Tax Recovery (Note 12(a))	-	(36,318)	(36,318)
Deferred Income Tax Recovery (Note 12(a))	-	(96,745)	(96,745)
Current Assets	63,737	1,408,889	1,472,626
Property, Plant and Equipment (Note 7)	-	1,256,691	1,256,691
Intangible Assets	-	1	1
Total Assets	63,737	2,665,581	2,729,318

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 17 – 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 January 31, 2017 totalled \$8,079,463 (2016 ó \$8,079,463).

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

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

The Company has no externally imposed capital requirements and has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future. There were no changes in the Company's approach to capital management during the period ended January 31, 2017.

NOTE 18 – 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) of the audited financial statements. 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 South African Rand. The Company does not currently use financial instruments to mitigate this risk.

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 18 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 receivables 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.

The Company has credit risk exposure related to its economic dependence on two customers for its calcine sales (Note 14). The Company has assessed its exposure to credit risk and has determined that no significant risk exists 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 working capital of \$965,145 as at January 31, 2017. There can be no assurance that the Company will continue to 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.

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 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 exposure 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.

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 18 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

f) Fair Value

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 January 31, 2017 and October 31, 2016. The carrying values of the Company's financial assets and liabilities approximate their fair values as at January 31, 2017.