

# **CANAF GROUP INC.**

April 30, 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 six month periods ended April 30, 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

	April 30, 2010 US\$	October 31, 2009 US\$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	614,744	581,487
Accounts receivable	1,963,609	555,000
Inventories	737,639	308,802
Current Portion of Long-Term Investments	-	669,493
	<u>3,315,992</u>	<u>2,114,782</u>
Plant and equipment (Note 3)	705,288	895,849
Mineral properties (Note 4)	393,447	260,267
Intangible assets	1	1
	<u>4,414,728</u>	<u>3,270,899</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	2,132,036	1,056,405
Income tax payable	331,149	53,173
Current portion of long-term debts (Note 5)	-	666,470
Due to Joint Venture Partner	30,000	5,250
Due to related parties (Note 8)	870,631	1,066,390
	<u>3,363,816</u>	<u>2,847,688</u>
Future income tax liabilities	226,960	227,899
Debenture (Note 6)	173,896	163,992
	<u>3,764,672</u>	<u>3,239,579</u>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Share capital (Note 7)	8,079,463	8,079,463
Contributed surplus	738,885	738,885
Accumulated other comprehensive loss	10,151	(14,743)
Deficit	(8,178,443)	(8,772,285)
	<u>650,056</u>	<u>31,320</u>
	<u>4,414,728</u>	<u>3,270,899</u>

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

Economic Dependence (Note 9)

Subsequent Event (Note 13)

Approved by the Directors:

Director

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		Six Months Period Ended	
	2010	April 30,	2010	April 30,
	US\$	US\$	US\$	US\$
<b>SALES</b>	3,191,952	919,836	5,815,854	2,064,778
<b>COST OF SALES (SCHEDULE I)</b>	(2,425,741)	(980,032)	(4,666,572)	(2,132,851)
<b>GROSS PROFIT (LOSS)</b>	766,211	(60,196)	1,149,282	(68,073)
<b>EXPENSES</b>				
Amortization	2,343	6,774	4,685	6,876
Bank charges	1,203	907	2,915	1,892
Consulting fees	9,821	8,635	19,595	17,907
Interest on Debentures	4,944	-	9,904	-
Interest on Long-Term Debts	16,423	17,699	30,754	34,089
Interest on Related Party Loans	14,074	17,228	27,901	19,159
Management fees	46,771	27,649	88,290	51,350
Office, Insurance and Sundry	6,768	7,584	15,853	18,231
Professional fees	33,878	19,446	59,002	47,353
Promotion	347	304	613	553
Realized Foreign Exchanges (Gain) Loss	(2,008)	153	(1,723)	(592)
Telephone	3,190	2,482	5,744	9,455
Transfer agent and filing fees	7,864	6,380	8,625	7,460
Travel	467	374	1,740	2,603
	(146,085)	(115,615)	(273,898)	(216,336)
<b>PROFIT (LOSS) BEFORE OTHER ITEMS AND INCOME TAXES</b>	620,126	(175,811)	875,384	(284,409)
<b>OTHER ITEMS</b>				
Interest income	87,255	2,341	87,968	7,508
<b>PROFIT (LOSS) BEFORE INCOME TAXES</b>	707,381	(173,470)	963,352	(276,901)
<b>INCOME TAXES (EXPENSE) RECOVERY</b>	(253,386)	4,893	(369,510)	4,893
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	453,995	(168,577)	593,842	(272,008)
<b>BASIC AND DILUTED LOSS PER SHARE</b>	0.01	(0.01)	0.01	(0.01)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	47,422,295	47,694,691	47,420,995	47,500,411

See Accompanying Notes to Consolidated Financial Statements

**CANAF GROUP INC.**  
**Consolidated Statements of Deficits**  
 (Expressed in U.S. dollars)  
 Unaudited

	Three Months Period Ended		Six Months Period Ended	
	2010	April 30, 2009	2010	April 30, 2009
	US\$	US\$	US\$	US\$
<b>DEFICIT, BEGINNING OF THE PERIOD</b>	(8,632,438)	(8,222,383)	(8,772,285)	(8,118,952)
Net Profit (Loss) for the Period	453,995	(168,577)	593,842	(272,008)
<b>DEFICIT, END OF THE PERIOD</b>	(8,178,443)	(8,390,960)	(8,178,443)	(8,390,960)

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		Six Months Period Ended	
	April 30,		April 30,	
	2010	2009	2010	2009
	US\$	US\$	US\$	US\$
<b>COMPREHENSIVE LOSS</b>				
<b>Net Profit (Loss) for the Period</b>	453,995	(168,577)	593,842	(272,008)
<b>Other Comprehensive Loss:</b>				
Foreign currency translation adjustment	15,925	50,712	24,894	(277,956)
<b>COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>469,920</b>	<b>(117,865)</b>	<b>618,736</b>	<b>(549,964)</b>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME:</b>				
<b>Balance, Beginning of Period</b>	(5,774)	(328,668)	(14,743)	(313,695)
Reclassification of cumulative translation adjustment				
Foreign currency translation adjustment	15,925	50,712	24,894	35,739
<b>Balance, End of Period</b>	<b>10,151</b>	<b>(277,956)</b>	<b>10,151</b>	<b>(277,956)</b>

See Accompanying Notes to Consolidated Financial Statements

**CANAF GROUP INC.**  
**Consolidated Statements of Cash Flows**  
(Expressed in U.S. dollars)  
Unaudited

	Three Months Period Ended		Six Months Period Ended	
	April 30,		April 30,	
	2010	2009	2010	2009
	US\$	US\$	US\$	US\$
<b>CASH PROVIDED BY (USED FOR):</b>				
<b>OPERATING ACTIVITIES</b>				
Net profit (loss) for the period	453,995	(168,577)	593,842	(272,008)
Items not affecting cash:				
Amortization	2,343	6,774	4,685	6,876
Amortization – Manufacturing Expense	89,948	200,719	180,096	271,012
	546,286	38,916	778,623	5,880
Changes in non-cash working capital accounts:				
Accounts receivable	(1,039,828)	(52,697)	(1,408,609)	505,603
Inventories	(355,759)	84,851	(428,837)	(18,220)
Advance on exploration work program	-	100,000	-	-
Accounts payable and accrued liabilities	750,319	(7,504)	1,075,631	(114,079)
Income tax payable	166,324	5,240	277,037	(118,595)
Due to related parties	(7,828)	90,956	(195,759)	(679,258)
Due to joint venture partner	30,000	-	24,750	-
	89,514	259,762	122,836	(418,669)
<b>FINANCING ACTIVITIES</b>				
Issuance of share capital	-	-	-	587,513
Long term debt	(686,012)	88,540	(666,470)	76,178
Debenture	4,944	54,504	9,904	154,504
	(681,068)	143,044	(656,566)	818,195
<b>INVESTING ACTIVITIES</b>				
Long term investments	721,567	(107,019)	669,493	(127,204)
Mineral property exploration costs	(84,910)	(161,342)	(133,180)	(163,362)
Plant and equipment	2,932	(59,034)	5,780	(57,259)
	639,589	(327,395)	542,093	(347,825)
<b>INCREASE (DECREASE) IN CASH</b>				
<b>DURING THE PERIOD</b>				
	48,035	75,411	8,363	51,701
Effect of exchange rate changes on cash and cash equivalents	15,925	50,712	24,894	35,739
Cash, Beginning of Period	550,784	338,856	581,487	377,539
<b>CASH, END OF PERIOD</b>	<b>614,744</b>	<b>464,979</b>	<b>614,744</b>	<b>464,979</b>

Supplementary cash flow information (Note 11)

# CANAF GROUP INC.

## Notes to Consolidated Financial Statements

April 30, 2010

*(Expressed in U.S. Dollars)*

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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 (coal and coal products are processed into calcine, a coke substitute with high carbon content). The Company is also engaged in the acquisition and exploration of mineral properties in Sierra Leone.

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

As at April 30, 2010 has accumulated consolidated losses since inception of \$8,178,443 and has a working capital deficiency of \$47,824.

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

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

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 six month period ended April 30, 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.



# CANAF GROUP INC.

## Notes to Consolidated Financial Statements

April 30, 2010

(Expressed in U.S. Dollars)

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### 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\$
<b>April 30, 2010</b>			
Plant and equipment	3,431,763	2,779,593	652,170
Office equipment	14,326	11,402	2,924
Computer equipment	16,620	15,182	1,438
Vehicles	97,972	53,195	44,777
Leasehold improvements	177,877	173,898	3,979
	<b>3,738,558</b>	<b>3,033,270</b>	<b>705,288</b>
	Cost US\$	Accumulated Amortization US\$	Net Book Value US\$
<b>October 31, 2009</b>			
Plant and equipment (i)	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 (i)	97,195	43,208	53,987
Leasehold improvements	169,320	162,630	6,690
	<b>3,646,344</b>	<b>2,750,495</b>	<b>895,849</b>

# CANAF GROUP INC.

## Notes to Consolidated Financial Statements

April 30, 2010

(Expressed in U.S. Dollars)

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### NOTE 4 - MINERAL PROPERTIES

	October 31, 2009 US\$	Additions 2009 US\$	April 30, 2010 US\$
<b>Sierra Leone</b>			
<b>Gendema Property</b>			
Exploration Costs	274,862	126,532	401,394
Amortization of Equipments	7,488	6,648	14,136
Net Proceeds from Diamond Sales	(22,083)	-	(22,083)
			<hr/>
<b>TOTAL MINERAL PROPERTY COST</b>	<b>260,267</b>	<b>133,180</b>	<b>393,447</b>

#### Gendema Property, Sierra Leone

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

On June 10, 2009, the Company signed a joint venture agreement with a private Sierra Leonean mining company (the "Joint Venture Partner") for the exploration of the property during the term of the mining lease with the net profit shared equally between the Company and the Joint Venture Partner. The Company is the operator of the project and the Joint Venture Partner provides the required exploration equipment.

### NOTE 5 - LONG-TERM DEBTS

The Standard Bank loan bears interest at rates from 8.5% to 13.0% per annum and is due in April 2010. The loan is secured with a fixed income investment which the Company is committed to make in the amount of \$10,683 per month to provide for the repayment of the loan upon maturity. During the period ended April 30, 2010, the loan was repaid in full by the Company.

### NOTE 6 - DEBENTURE

In January 2009, the Company issued debentures totaling \$150,000 which included \$50,000 subscribed by a related company controlled by the President of the Company. The debentures bear interest at 12% per annum compounded annually and are secured by a first floating charge on all property and assets of the Company. The maturity of the debentures has been extended for a year to January 31, 2011.

During the period ended April 30, 2010, the Company accrued interest totaling \$23,896 (2009 – \$4,504). As at April 30, 2010, the amount of debenture and interest payable to the related company was \$7,867 (2009 – \$1,414).

# CANAF GROUP INC.

## Notes to Consolidated Financial Statements

April 30, 2010

(Expressed in U.S. Dollars)

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### NOTE 7 - SHARE CAPITAL

#### a) AUTHORIZED

An unlimited number of common and preferred shares without par value

#### b) ISSUED AND OUTSTANDING

	Number of Shares	Amount US\$
<b>Balance, April 30, 2010 and October 31, 2009</b>	47,426,195	8,079,463

#### c) STOCK OPTIONS

The Company has the following options outstanding:

	Number of Options	Weighted Average Exercise Price US\$
<b>Balance, October 31, 2009</b>	1,357,000	0.13
Expired	(57,000)	0.10
<b>Balance, April 30, 2010</b>	1,300,000	0.10

As at April 30, 2010, the outstanding options expire between November 26, 2011 and June 14, 2012.

### NOTE 8 - RELATED PARTY TRANSACTIONS

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

	April 30, 2010 US\$	October 31, 2009 US\$
Former Director	-	159,881
Companies Controlled by Former Directors	30,668	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)	796,963	801,202
Amounts due to related parties	870,631	1,066,390

# CANAF GROUP INC.

## Notes to Consolidated Financial Statements

April 30, 2010

*(Expressed in U.S. Dollars)*

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### NOTE 8 - 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 April 30, 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 \$88,290 (2009 – \$51,350) 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 19,595 (2009 – \$17,907) 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 \$23,394 (2009 – \$24,062) 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 \$215,785 (October 31, 2009 - \$187,889). The Company accrued interest expense of \$27,901 (2009 - \$19,159) on the amounts owing during the period ended April 30, 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 9 - 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 April 30, 2010, accounts receivable included \$1,956,693 due from these two customers were subsequently collected. Reduced sales may have a significant adverse impact on the Company (Note 1).

# CANAF GROUP INC.

## Notes to Consolidated Financial Statements

April 30, 2010

(Expressed in U.S. Dollars)

### NOTE 10 - 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\$
<b>April 30, 2010</b>				
Net Profit (loss) for the period	(120,050)	20,793	693,099	593,842
Revenue	-	22,083	5,793,771	5,815,854
Gross Profit	-	-	1,149,282	1,149,282
Amortization	237	-	4,448	4,685
Amortization – Cost of Sale	-	-	180,096	180,096
Interest Expenses	37,805	-	30,754	68,559
Income Tax Expenses	-	-	369,510	369,510
Current assets	8,615	5,405	3,301,972	3,315,992
Plant and equipment	581	41,472	663,235	705,288
Mineral properties	-	393,447	-	393,447
Intangible assets	-	-	1	1
Total Assets	9,196	440,324	3,965,208	4,414,728
<b>October 31, 2009</b>				
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

# CANAF GROUP INC.

## Notes to Consolidated Financial Statements

April 30, 2010

*(Expressed in U.S. Dollars)*

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### **NOTE 11 – CAPITAL MANAGEMENT**

The Company's objectives in managing its capital are to ensure adequate resources are available to fund its coal processing business in South Africa and its exploration activities in Sierra Leone, to seek out and acquire new projects of merit, and to safeguard its ability to continue as a going concern. The Company considers its share capital, long-term debts and debentures as capital, which at April 30, 2010 totalled \$8,253,359 (October 31, 2009 – \$8,909,925).

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured through the sale of calcine in South Africa and the sale of diamonds recovered from exploration activities in Sierra Leone. The Company also raises funds, when necessary, through debt funding or equity financing by means of private placements. There can be no assurance that the Company will be able to obtain debt or equity capital in the case of operating cash deficits.

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

### **NOTE 12 – 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 fund from equity financing or from third parties to meet current and future obligations. There can be no assurance that such financing will be available on terms acceptable to the Company (Note 1).

#### **c) Credit Risk**

Credit risk on financial instruments arises from the potential for counterparties to default on their obligations to the Company. Current credit exposure is on the loss that would be incurred if the Company's counterparties were to default at the same time.

The Company has a credit risk exposure related to its economic dependence on two customers (Note 15). The Company has assessed its exposure to credit risk and has determined that no significant risks exist from these concentrations of credit.

#### **d) Interest Rate Risk**

Interest on the Company's long-term debts is based on both fixed and variable rates and exposes the Company to interest rate risk. The Company has not entered into any derivative agreements to mitigate this risk.

# CANAF GROUP INC.

## Notes to Consolidated Financial Statements

April 30, 2010

*(Expressed in U.S. Dollars)*

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### NOTE 12 – MANAGEMENT OF FINANCIAL RISK, continued

#### e) Foreign Currency Risk

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

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

#### f) Commodity Price Risk

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

### NOTE 13 – SUBSEQUENT EVENT

Subsequent to the period, the Company announced that AMQ proposes to acquire Quantum Screening and Crushing (Pty) Limited (and its subsidiary Southern Coal (Pty) Limited) and CANAF's 70 % interest in Canaf (SL) Limited for 3 million AMQ shares. The Market value of the consideration is \$9 million. The asset purchase agreement is subject to final due diligence, and shareholder approval.

# CANAF GROUP INC.

## Schedule I – Cost of Sales

Unaudited

	Three Months Period Ended		Six Months Period Ended	
	April 30,		April 30,	
	2010	2009	2010	2009
	US\$	US\$	US\$	US\$
<b>COST OF SALES</b>				
Opening inventories	376,905	342,767	685,707	531,093
Analysis fees	8,001	3,600	19,086	12,943
Amortization	89,948	200,719	180,096	271,012
Consulting	-	3,740	-	19,768
Electricity	93,741	41,480	168,377	84,283
Fuel, oil and lubricants	1,715	1,511	3,090	2,579
Professional and project management fee	-	4,753	249	4,899
Medical expenses	2,216	1,253	2,364	1,530
Product purchases	2,304,018	490,380	4,188,033	1,436,531
Site establishment	-	214	535	214
Protective clothing	2,035	698	3,508	1,781
Rent – machinery	44,643	17,597	80,341	36,521
Rent – buildings	1,601	1,615	3,802	3,054
Repairs and maintenance	120,126	10,233	203,885	66,838
Salaries, wages and labour	60,122	39,917	127,108	83,557
Transportation	38,816	37,664	94,499	91,418
Packaging	-	-	-	86
Foreign exchange gain	21,720	(11,121)	22,663	(16,871)
Closing inventories	(739,866)	(206,988)	(1,116,771)	(498,385)
	2,425,741	980,032	4,666,572	2,132,851

See Accompanying Notes to Consolidated Financial Statements