CANAF GROUP INC.

October 31, 2010 and 2009

Consolidated Financial Statements

(Expressed in U.S. dollars)

Auditors' Report

To the Shareholders of:
CANAF GROUP INC.

We have audited the Consolidated Balance Sheets of **Canaf Group Inc.** as at October 31, 2010 and 2009 and the Consolidated Statements of Operations and Deficit, Comprehensive Loss and Accumulated Other Comprehensive Loss, and Cash Flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Watson Dauphinee & Masuch"

Chartered Accountants

Vancouver, B.C., Canada
February 28, 2011

CANAF GROUP INC.

Consolidated Balance Sheets

As at October 31, 2010 and 2009

(Expressed in U.S. Dollars)

	2010 $	2009 $
ASSETS		
CURRENT		
Cash	956,894	581,487
Accounts Receivable	1,749,114	555,000
Inventories (Note 3)	518,035	308,802
Current Portion of Long-Term Investment (Note 6)	-	669,493
	3,224,043	2,114,782
Plant and Equipment (Note 4)	510,589	895,849
Mineral Property (Note 5)	-	260,267
Intangible Assets (Note 2(h))	1	1
	3,734,633	3,270,899
LIABILITIES		
CURRENT		
Accounts Payable and Accrued Liabilities	1,596,828	1,262,882
Income Tax Payable	291,857	53,173
Current Portion of Long-Term Debt (Note 6)	-	666,470
Due to Joint Venture Partner	-	5,250
Due to Related Parties (Note 9)	796,841	859,913
	2,685,526	2,847,688
Future Income Tax Liability (Note 11(b))	136,786	227,899
Debentures (Note 7)	184,611	163,992
	3,006,923	3,239,579
SHAREHOLDERS' EQUITY		
Share Capital (Note 8)	8,079,463	8,079,463
Contributed Surplus (Note 8(a))	738,885	738,885
Accumulated Other Comprehensive Loss	130,095	(14,743)
Deficit	(8,220,733)	(8,772,285)
	727,710	31,320
	3,734,633	3,270,899

Nature of Operations and Ability to Continue as a Going Concern (Note 1)
Economic Dependence (Note 12)

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

Approved by the Directors:

"David Way"
David Way, Director

"Brian Copsey"
Brian Copsey, Director

CANAF GROUP INC.

Consolidated Statements of Operations and Deficit

For the Years Ended October 31, 2010 and 2009

(Expressed in U.S. Dollars)

	2010 $	2009 $
SALES	11,807,383	4,561,417
COST OF SALES – SCHEDULE	9,813,660	4,630,882
GROSS PROFIT (LOSS)	1,993,723	(69,465)
EXPENSES		
Amortization	9,370	9,305
Bank Charges and Interest	17,099	8,915
Consulting Fees	43,992	36,988
Foreign Exchange (Gain) Loss	(8,509)	824
Interest on Debentures	20,619	13,992
Interest on Long-Term Debt	76,325	64,587
Interest on Related Party Loan	54,537	62,360
Management Fees	173,956	117,704
Office, Insurance and Sundry	56,549	46,726
Professional Fees	129,939	126,219
Promotion	1,223	1,262
Telephone	12,740	14,681
Transfer Agent and Filing Fees	15,260	10,645
Travel	11,235	4,622
	614,335	518,830
INCOME (LOSS) BEFORE OTHER ITEMS AND INCOME TAXES	1,379,388	(588,295)
OTHER ITEMS		
Interest Income	145,134	9,405
Recovery of Reclamation Bond	-	4,563
Write-Down Equipment	(30,824)	-
Write-Off Mineral Property (Note 5)	(377,636)	-
INCOME (LOSS) BEFORE INCOME TAXES	1,116,062	(574,327)
Income Tax (Expense) Recovery (Note 11(a))	(564,510)	34,718
NET INCOME (LOSS) FOR THE YEAR	551,552	(539,609)
Deficit, Beginning of the Year	(8,772,285)	(8,232,676)
DEFICIT, END OF THE YEAR	(8,220,733)	(8,772,285)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE	0.01	(0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	47,426,195	47,426,195
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – DILUTED	48,526,195	47,426,195

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

CANAF GROUP INC.

Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Income

For the Years Ended October 31, 2010 and 2009

(Expressed in US Dollars)

	2010 $	2009 $
COMPREHENSIVE INCOME (LOSS)		
Net Income (Loss) for the Year	551,552	(539,609)
Other Comprehensive Income – Foreign Currency Translation	144,838	185,228
Comprehensive Income (Loss) for the Year	696,390	(354,381)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, Beginning of the Year	(14,743)	(199,971)
Other Comprehensive Income – Foreign Currency Translation	144,838	185,228
Balance, End of the Year	130,095	(14,743)

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

CANAF GROUP INC.

Consolidated Statements of Cash Flows

For the Years Ended October 31, 2010 and 2009

(Expressed in U.S. Dollars)

	2010 $	2009 $
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net Income (Loss) for the Year	551,552	(539,609)
Non-Cash Items		
Amortization	9,370	9,305
Amortization – Cost of Sales	375,418	511,269
Write-Off Equipment	30,824	-
Write-Down Mineral Property	377,636	-
Future Income Tax Recovery	(91,230)	(99,556)
	1,253,570	(118,591)
Changes in Non-Cash Working Capital Accounts (Note 10(a))	(917,335)	504,668
	336,235	386,077
FINANCING ACTIVITIES		
Repayment of Long-Term Debt	(666,470)	(1,392)
Debentures – Principal	-	150,000
Debentures – Accrued Interest	20,619	13,992
	(645,851)	162,600
INVESTING ACTIVITIES		
Long-Term Investments	669,493	(128,190)
Purchase of Plant and Equipment	-	(55,608)
Mineral Property Exploration Costs, Net of Diamond Sales	(74,613)	(202,752)
	594,880	(386,550)
INCREASE IN CASH	285,264	162,127
Effect of Exchange Rate Changes on Cash	90,143	41,821
Cash, Beginning of the Year	581,487	377,539
CASH, END OF THE YEAR	956,894	581,487

Supplemental Cash Flow Information (Note 10)

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

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.

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.

The Company’s ability to continue as a going concern is dependent upon its ability to generate profitable operations from its coal processing business. 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 operations and to discharge liabilities in the normal course of business. Sales of the Company are substantially derived from two customers and as a result the Company is economically dependent on these customers (Note 12). There is no assurance that the Company will be successful with future financing ventures, and the inability to secure such financing may have a material adverse effect on the Company’s financial condition.

As at October 31, 2010, the Company has accumulated consolidated losses since inception of $8,220,733.

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 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned South African subsidiary, Quantum Screening and Crushing (Proprietary) Limited, its 51% owned Sierra Leonean subsidiary, Canaf (SL) Limited, and its two wholly-owned inactive subsidiaries, Nabisoga Mining Ltd. and Rwenzori Cobalt Company Ltd. All intercompany transactions and balances have been eliminated.

b) Foreign Currency Translation

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

The financial statements of the Company’s integrated inactive subsidiaries and its Sierra Leonean subsidiary are translated using the temporal method, whereby monetary assets and liabilities are translated at year-end exchange rates and non-monetary assets and liabilities are translated at their applicable historical rates. Revenues and expenses are translated at average exchange rates for the year, except for amortization which is translated at the historical rates associated with the assets being amortized. Foreign exchange gains and losses from the translation of integrated foreign operations are reflected in the consolidated statement of operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Foreign Currency Translation (Continued)

The financial statements of the Company's South African self-sustaining subsidiary are translated using the current rate method, whereby assets and liabilities are translated at year-end exchange rates and revenues and expenses at average exchange rates for the year. Resulting unrealized foreign exchange gains or losses are accumulated and reported as other comprehensive income or loss.

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

c) Inventories

Inventories consist 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.

d) Plant and Equipment

Plant and equipment are recorded at cost and amortized at the following rates, except in the year of acquisition, when one half of the rates are used:

	Canadian and Sierra Leonean Operations (Declining Balance)	South African Operations (Straight Line)
Computer Equipment	30%	3 Years
Leasehold Improvements	N/A	5 Years
Office Equipment	20%	5 Years
Plant and Equipment	N/A	5 Years
Vehicles	30%	5 Years

e) Mineral Property

The Company capitalizes all expenditures related to the acquisition, exploration and development of its mineral property until such time as the property is placed into commercial production, abandoned, sold or considered to be impaired in value. The sale of diamonds recovered from exploration activities are offset against capitalized exploration costs. Costs of an abandoned property are written off to operations.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Asset Retirement Obligation

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

As at October 31, 2010 and 2009, the Company has no material asset retirement obligations relating to the restoration of its mineral property.

g) Impairment of Long-Lived Assets

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

h) Intangible Assets

Intangible assets represent the identifiable value of customer contracts acquired on the purchase of the South African subsidiary in 2007. Intangible assets are amortized on a straight-line basis over the length of the contract terms of five years with an annual review for impairment. On October 31, 2008, the Company wrote down the carrying value of its intangible assets to a nominal amount.

i) Revenue Recognition

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

j) Income Taxes

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

k) Share Capital

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Stock-Based Compensation

The Company has a stock option plan for its directors, officers, employees and consultants. Stock options are not granted at less than their fair market value.

The Company recognizes compensation cost for options and other stock-based awards granted using the fair value based method. Compensation cost is measured using the Black-Scholes option pricing model at the date of the grant and is expensed over the vesting period of the equity instrument awarded, with the offsetting amounts credited to contributed surplus.

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

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.

Diluted loss per share is the same as basic loss per share as the effect of issuance of shares on the exercise of stock options and share purchase warrants is anti-dilutive.

n) Comprehensive Income

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

o) Financial Instruments

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

Financial assets and liabilities held-for-trading are recorded at fair value with gains and losses recognized in net income. Financial assets and liabilities held-to-maturity, loans and receivables, and other financial liabilities are recorded at amortized cost using the effective interest method. Available-for-sale financial instruments are recorded at fair value with unrealized gains and losses recognized in other comprehensive income and reported in shareholders’ equity.

The Company designates its accounts receivable as loans and receivable, and its long-term investment as held-to-maturity investments. Accounts payable and accrued liabilities, amounts owing to the joint venture partner and related parties, long-term debts, and debentures are classified as other financial liabilities.

(Expressed in U.S. Dollars)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Use of Estimates

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

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

q) Future Accounting Change – International Financial Reporting Standards (“IFRS”)

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

r) Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year. These reclassifications have no effect on the consolidated net loss for the years ended October 31, 2010 and 2009.

NOTE 3 – INVENTORIES

	2010 $	2009 $
Raw Materials	308,044	207,450
Finished Goods – Calcine	209,991	101,352
	518,035	308,802

NOTE 4 – PLANT AND EQUIPMENT

	Cost $	Accumulated Amortization $	Net Book Value $
2010			
Computer Equipment	16,285	15,940	345
Leasehold Improvements	188,760	186,468	2,292
Office Equipment	15,202	13,114	2,088
Plant and Equipment	3,560,826	3,072,306	488,520
Vehicles	65,610	48,266	17,344
	3,846,683	3,336,094	510,589

(Expressed in U.S. Dollars)

NOTE 4 – PLANT AND EQUIPMENT (Continued)

	Cost	Accumulated Amortization	Net Book Value
	$	$	$
2009			
Computer Equipment	15,940	14,023	1,917
Leasehold Improvements	169,320	162,630	6,690
Office Equipment	13,637	9,661	3,976
Plant and Equipment	3,350,252	2,520,973	829,279
Vehicles	97,195	43,208	53,987
	3,646,344	2,750,495	895,849

NOTE 5 – MINERAL PROPERTY

	October 31, 2008	Additions 2009	October 31, 2009	Additions 2010	October 31, 2010
	$	$	$	$	$
Sierra Leone					
Gendema and Tongo Property					
Exploration Costs	57,515	217,347	274,862	123,980	398,842
Amortization of Equipment	-	7,488	7,488	13,296	20,784
Net Proceeds from Diamond Sales	-	(22,083)	(22,083)	(49,368)	(71,451)
Abandonment of Property	-	-	-	(348,175)	(348,175)
	57,515	202,752	260,267	(260,267)	-

In October 2008, the Company acquired a 25-acre three-year mining lease for an annual lease and surface rent of approximately $10,000. The Company was subject to a royalty payable to the land owners for 10% of the gross diamond sales realized during the term of the lease.

In June 2009, the Company entered into a joint venture agreement with a private Sierra Leonean mining company (the “Joint Venture Partner”) for the exploration of the property with the net profit shared equally between the Company and the Joint Venture Partner. The Company was the operator of the project and the Joint Venture Partner provided the required exploration equipment.

During the year ended October 31, 2010, the Company abandoned the property and recorded a writeoff of $377,636 which included all capitalized mineral property costs of $348,175 and a balance of $29,461 due from the Joint Venture Partner.

NOTE 6 – LONG-TERM DEBT

The long-term debt bore interest at rates from 8.5% to 13.0% per annum and was fully repaid in April 2010. The loan was secured with a fixed income investment which the Company made monthly contributions to provide for the repayment of the loan upon maturity. During the year ended October 31, 2010, the Company paid interest totaling $76,325 (2009 – $64,587).

(Expressed in U.S. Dollars)

NOTE 7 – DEBENTURES

In January 2009, the Company issued debentures totalling $150,000 which included $50,000 subscribed by a related company controlled by the President of the Company. The debentures bear interest at 12% per annum compounded annually and are secured by a first floating charge on all property and assets of the Company. The maturity of the debentures has been extended to January 31, 2012.

During the year ended October 31, 2010, the Company accrued interest expense of $20,619 (2009 – $13,992). As at October 31, 2010, the amount of debenture and interest payable to the related company was $61,432 (2009 – $54,471).

NOTE 8 – SHARE CAPITAL

a) Authorized

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

b) Issued and Outstanding Share Capital and Contributed Surplus

	Number of Shares	Share Capital $	Contributed Surplus $
Balance, October 31, 2008	44,533,753	7,491,950	738,885
Shares Issued for Debt Settlement (Note 9(c))	2,892,442	587,513	-
Balance, October 31, 2009	47,426,195	8,079,463	738,885
Shares Issued – Nil	-	-	-
Balance, October 31, 2010	47,426,195	8,079,463	738,885

c) Stock Options

	Number of Options	Weighted Average Exercise Price $
Balance, October 31, 2008	1,377,000	0.13
Expired	(20,000)	0.10
Balance, October 31, 2009	1,357,000	0.13
Expired	(57,000)	0.30
Cancelled	(200,000)	0.28
Balance, October 31, 2010	1,100,000	0.10

As at October 31, 2010, all outstanding stock options were vested with an exercise price of $0.10 and expire on November 27, 2011.

(Expressed in U.S. Dollars)

NOTE 8 – SHARE CAPITAL (Continued)

d) Share Purchase Warrants

	Number of Warrants	Weighted Average Exercise Price $
Balance, October 31, 2008	5,758,260	0.30
Expired	(5,758,260)	0.30
Balance, October 31, 2009	-	-
Issued – Nil	-	-
Balance, October 31, 2010	-	-

NOTE 9 – 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:

	2010 $	2009 $
Director (a)	22,653	30,011
Company Controlled by a Director (b)	88,000	28,700
Company Controlled by a Director – Interest-Bearing (c)	686,188	801,202
	796,841	859,913

a) The balance is unsecured, non-interest bearing and has no specific terms of repayment. The Company accrued consulting fees of $37,833 (2009 – $36,988) to the director for administration and management services in relation to the Company's exploration activities in Sierra Leone.

b) The amount due to this related party for advances made is unsecured, non-interest bearing and has no specific terms of repayment.

c) The balance is unsecured, bears interest at 7% per annum and has no specific terms of repayment. In January 2009, the Company issued 2,892,442 common shares for settlement of Cdn$723,111 at a price of $0.25 per share. As at October 31, 2010, the outstanding amount included accrued interest of $242,418 (2009 – $187,889). The Company recorded interest expense of $54,537 (2009 – $61,368).

d) The Company paid accounting fees of $56,513 (2008 – $50,505) to a director for monthly administration and bookkeeping services.

e) The Company paid management fees of $173,956 (2009 – $117,704) and consulting fees of $6,160 (2009 – $Nil) 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.

(Expressed in U.S. Dollars)

NOTE 10 – SUPPLEMENTAL CASH FLOW INFORMATION

a) Change in Non-Cash Working Capital Accounts

	2010 $	2009 $
Accounts Receivable	(1,075,491)	506,470
Inventories	(163,043)	(60,404)
Accounts Payable and Accrued Liabilities	211,376	(20,755)
Income Tax Payable	211,532	(69,506)
Due to Joint Venture Partner	(34,710)	5,250
Due to Related Parties	(66,999)	143,613
	(917,335)	504,668

b) Non-Cash Financing Activity

Shares Issued for Debt Settlement	-	587,513

c) Other Items

South Africa Income and Secondary Tax Paid	456,708	134,344
Interest Paid	76,325	64,587
Interest Received	145,134	9,405

NOTE 11 - INCOME TAXES

a) Provision for Income Taxes

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

Expected Income Tax (Recovery)	320,869	(172,776)
Amounts Not Deductible for Tax	136,794	65,329
Amounts Not Taxable	(182,092)	(7,087)
Lower Tax Rate in Foreign Jurisdictions	(16,326)	(3,565)
Effect of Reduction in Statutory Tax Rates	23,490	14,154
Expiry of Non-Capital Loss Carry-Forward	14,759	24,016
South African Secondary Tax	46,231	16,921
Other	80,458	(114,319)
Change in Valuation Allowance	140,327	142,609
Income Tax Expense (Recovery)	564,510	(34,718)

Current Income Tax Expense	655,740	64,838
Future Income Tax Recovery	(91,230)	(99,556)
Income Tax Expense (Recovery)	564,510	(34,718)

(Expressed in U.S. Dollars)

NOTE 11 - INCOME TAXES (Continued)

b) Future Income Taxes

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

	2010 $	2009 $
Future Income Tax Assets		
Mineral Property	49,860	46,893
Non-Capital Losses Carried Forward	620,922	475,392
Share Issue Costs	9,221	17,391
	680,003	539,676
Valuation Allowance	(680,003)	(539,676)
Net Future Income Tax Assets	-	-
Future Income Tax Liability – Plant and Equipment	136,786	227,899

As at October 31, 2010, the Company has accumulated non-capital losses of approximately $2,482,000 which are available to reduce future taxable income in Canada and expire as follows:

2011	190,000
2015	391,000
2026	328,000
2027	465,000
2028	489,000
2029	148,000
2030	471,000
	2,482,000

As at October 31, 2010, the Company has tax deductible exploration expenditures of $198,243 which can be carried forward indefinitely to offset future taxable income in Canada. The Company has also unamortized share issue costs of $37,630 available to reduce Canadian taxable income in 2011. Future tax benefits which may arise as a result of these losses and deductions have not been recognized and have been offset by a valuation allowance.

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

NOTE 12 – 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 October 31, 2010, accounts receivable included $1,747,787 due from these customers which were subsequently collected.

(Expressed in U.S. Dollars)

NOTE 13 – SEGMENTED INFORMATION

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

	Canada $	Sierra Leone $	South Africa $	Total $
2010				
Net (Loss) Income for the Year	(264,061)	(412,481)	1,228,094	551,552
Revenues	-	-	11,807,383	11,807,383
Gross Profit	-	-	1,993,723	1,993,723
Amortization	474	-	8,896	9,370
Amortization – Cost of Sales	-	-	375,418	375,418
Interest Expense	75,148	-	76,333	151,481
Income Tax Expense – Current	-	-	655,740	655,740
Income Tax Recovery - Future	-	-	91,230	91,230
Current Assets	25,457	1,004	3,197,582	3,224,043
Plant and Equipment	345	4,000	506,244	510,589
Mineral Properties	-	-	-	-
Intangible Assets	-	-	1	1
Total Assets	25,802	5,004	3,703,827	3,734,633
2009				
Net (Loss) for the Year	(39,375)	(5,514)	(494,720)	(539,609)
Revenues	-	-	4,561,417	4,561,417
Gross Loss	-	-	69,465	69,465
Amortization	409	-	8,896	9,305
Amortization – Cost of Sales	-	-	511,269	511,269
Interest Expense	75,360	-	65,579	140,939
Income Tax Expense – Current	-	-	64,838	64,838
Income Tax Recovery - Future	-	-	99,556	99,556
Current Assets	4,038	16,111	2,094,633	2,114,782
Plant and Equipment	818	48,120	846,911	895,849
Mineral Properties	-	260,267	-	260,267
Intangible Assets	-	-	1	1
Total Assets	4,856	324,498	2,941,545	3,270,899

NOTE 14 – 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, 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 at October 31, 2010 totalled $8,079,463 (2009 – $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 year ended October 31, 2010.

NOTE 15 – MANAGEMENT OF FINANCIAL RISK

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

a) Fair Values

The carrying values of cash, accounts receivable, long-term investments, accounts payable and accrued liabilities, long-term debt, 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 assurances 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 for its calcine sales (Note 12). The Company has assessed its exposure to credit risk and has determined that no significant risks exist from these concentrations of credit.

NOTE 15 – MANAGEMENT OF FINANCIAL RISK (Continued)

d) Interest Rate Risk

Interest on the Company's long-term debt 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.

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, 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.

f) Commodity Price Risk

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

CANAF GROUP INC.

Schedules – Cost of Sales

For the Years Ended October 31, 2010 and 2009

(Expressed in U.S. Dollars)

	2010 $	2009 $
Inventories, Beginning of the Year	308,802	188,326
Amortization	375,418	511,269
Analysis Fees	34,196	22,872
Consulting	-	21,535
Electricity	481,910	226,533
Fuel, Oil and Lubricants	6,934	4,699
Medical Expenses	2,681	2,650
Product Purchases	8,112,797	3,242,102
Professional and Project Management Fee	252	5,648
Protective Clothing	6,379	4,845
Rent – Buildings	8,506	6,793
Rent – Machinery	182,367	76,999
Repairs and Maintenance	289,789	184,393
Salaries, Wages and Labour	250,522	180,688
Site Establishment	540	227
Transportation	224,412	200,033
Foreign Exchange Loss	46,190	60,072
Inventories, End of the Year	(518,035)	(308,802)
	9,813,660	4,630,882