



October 31, 2014 and 2013

Consolidated Financial Statements

(Expressed in U.S. dollars)

- Independent Auditors' Report
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- Consolidated Statements of Comprehensive Income
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- Notes to the Consolidated Financial Statements

Independent Auditors' Report

To the Shareholders of:
CANAF GROUP INC.

We have audited the accompanying consolidated financial statements of Canaf Group Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at October 31, 2014 and 2013, and the consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canaf Group Inc. and its subsidiaries as at October 31, 2014 and 2013, and their financial performance and their cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of the consolidated financial statements which indicates that Canaf Group Inc. and its subsidiaries are dependent on the operating cash flows from its coal processing business and are economically dependent on two customers.

WDM

Chartered Accountants

Vancouver, British Columbia, Canada
February 13, 2015

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CANAF GROUP INC.

Consolidated Statements of Financial Position

As at October 31, 2014 and 2013

(Expressed in U.S. Dollars)



	Note	2014 \$	2013 \$
ASSETS			
CURRENT			
Cash		453,965	1,313,730
Trade Receivables	17	2,253,824	1,839,196
Inventories	6	355,888	376,770
Prepaid Expense and Deposits		32,505	33,459
		<hr/>	<hr/>
		3,096,182	3,563,155
NON-CURRENT			
Property, Plant and Equipment	7	501,378	578,068
Intangible	2(g)	1	1
		<hr/>	<hr/>
		3,597,561	4,141,224
		<hr/>	<hr/>
LIABILITIES			
CURRENT			
Trade and Other Payables	8	1,503,809	2,077,987
Sales Tax Payable	5	32,374	15,468
Income Taxes Payable		94,729	16,250
Current Portion of Bank Loan	9	-	27,412
Current Portion of Debentures	10	-	150,000
Due to Related Parties	12(a)	-	88,000
		<hr/>	<hr/>
		1,630,912	2,375,117
NON-CURRENT			
Deferred Tax Liability	13(b)	50,392	51,180
		<hr/>	<hr/>
		1,681,304	2,426,297
		<hr/>	<hr/>
SHAREHOLDERS' EQUITY			
Share Capital	11	8,079,463	8,079,463
Accumulated Other Comprehensive Loss – Foreign Currency Translation Reserve		(964,914)	(753,894)
Deficit		(5,198,292)	(5,610,642)
		<hr/>	<hr/>
		1,916,257	1,714,927
		<hr/>	<hr/>
		3,597,561	4,141,224
		<hr/>	<hr/>

Nature of Operations (Note 1)
Economic Dependence (Note 17)
Commitment (Note 18)
Segment Information (Note 19)
Subsequent Event (Note 22)

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

WDM

CANAF GROUP INC.

Consolidated Statements of Comprehensive Income

For the Years Ended October 31, 2014 and 2013

(Expressed in U.S. Dollars)

	Note	2014 \$	2013 \$
SALES		13,257,224	14,969,633
COST OF SALES	15	<u>11,985,381</u>	<u>13,327,919</u>
GROSS PROFIT		<u>1,271,843</u>	<u>1,641,714</u>
EXPENSES			
General and Administrative	16	514,910	561,833
Interest on Bank Loan	9	856	3,812
Interest on Debentures	10	8,395	12,209
Interest on Related Party Loan		-	7,443
		<u>524,161</u>	<u>585,297</u>
INCOME BEFORE OTHER ITEMS		747,682	1,056,417
Interest Income		7,887	11,944
Loss on Sale of Equipment		-	(4,406)
Write-off Trade and Other Payables	8	<u>-</u>	<u>99,944</u>
INCOME BEFORE INCOME TAXES		755,569	1,163,899
Income Taxes	13(a)	<u>(343,219)</u>	<u>(325,362)</u>
NET INCOME FOR THE YEAR		412,350	838,537
OTHER COMPREHENSIVE LOSS			
Foreign Currency Translation Loss		<u>(211,020)</u>	<u>(280,740)</u>
NET COMPREHENSIVE INCOME FOR THE YEAR		<u>201,330</u>	<u>557,797</u>
BASIC AND DILUTED EARNINGS PER SHARE		<u>0.01</u>	<u>0.02</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.

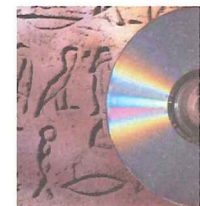
Consolidated Statements of Changes in Equity

For the Years Ended October 31, 2014 and 2013

(Expressed in U.S. Dollars)

	Number of Common Shares	Share Capital \$	Foreign Currency Translation Reserve \$	Deficit \$	Total Shareholders' Equity \$
Balance, October 31, 2012	47,426,195	8,079,463	(473,154)	(6,449,179)	1,157,130
Net Income for the Year	-	-	-	838,537	838,537
Foreign Currency Translation Loss	-	-	(280,740)	-	(280,740)
Balance, October 31, 2013	47,426,195	8,079,463	(753,894)	(5,610,642)	1,714,927
Net Income for the Year	-	-	-	412,350	412,350
Foreign Currency Translation Loss	-	-	(211,020)	-	(211,020)
Balance, October 31, 2014	47,426,195	8,079,463	(964,914)	(5,198,292)	1,916,257

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, 2014 and 2013

(Expressed in U.S. Dollars)



	Note	2014 \$	2013 \$
CASH PROVIDED BY (USED FOR):			
OPERATING ACTIVITIES			
Net Income for the Year		412,350	838,537
Non-Cash Items			
Depreciation – Cost of Sales		142,470	125,695
Deferred Tax Expense		4,160	15,768
Loss on Sale of Equipment		-	4,406
Recovery on Income Tax Payable		-	(128,870)
Write-off Trade and Other Payables		-	(99,944)
		<u>558,980</u>	<u>755,592</u>
Change in Non-Cash Working Capital Accounts	14(a)	<u>(997,170)</u>	<u>(465,976)</u>
		<u>(438,190)</u>	<u>289,616</u>
FINANCING ACTIVITIES			
Repayment of Bank Loan		(25,801)	(36,622)
Repayment of Debentures		<u>(150,000)</u>	<u>-</u>
		<u>(175,801)</u>	<u>(36,622)</u>
INVESTING ACTIVITY			
Purchase of Property, Plant and Equipment		(119,239)	(235,336)
Proceeds on Sale of Equipment		<u>-</u>	<u>74,397</u>
		<u>(119,239)</u>	<u>(160,939)</u>
(DECREASE) INCREASE IN CASH		(733,230)	92,055
Effect of Exchange Rate Changes on Cash		(126,535)	(207,428)
Cash, Beginning of the Year		<u>1,313,730</u>	<u>1,429,103</u>
CASH, END OF THE YEAR		<u>453,965</u>	<u>1,313,730</u>

Supplemental Cash Flow Information (Note 14)

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

CANAF GROUP INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2014 and 2013

(Expressed in U.S. Dollars)

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 – 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 four fiscal years. The Company has working capital of \$1,465,270 as at October 31, 2014. 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, and as a result, the Company is economically dependent on these customers (Note 17). 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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with IFRS as 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 February 13, 2015.

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 Years Ended October 31, 2014 and 2013

(Expressed in U.S. Dollars)

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
Southern Coal (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.

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.



CANAF GROUP INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2014 and 2013

(Expressed in U.S. Dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Inventories (Continued)

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.

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.



CANAF GROUP INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2014 and 2013

(Expressed in U.S. Dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 October 31, 2014 and October 31, 2013, 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.

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.



CANAF GROUP INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2014 and 2013

(Expressed in U.S. Dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Income Taxes (Continued)

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.

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.



CANAF GROUP INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2014 and 2013

(Expressed in U.S. Dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Financial Instruments (Continued)

i) Financial Assets (Continued)

- **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 receivables 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.

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.



CANAF GROUP INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2014 and 2013

(Expressed in U.S. Dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) 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 year ended October 31, 2013.

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.

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.



CANAF GROUP INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2014 and 2013

(Expressed in U.S. Dollars)

NOTE 4 – 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 standard was initially effective for annual periods beginning on or after January 1, 2013, but amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to January 1, 2015. 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, 2017 and is to be applied retrospectively. The Company has not yet determined the impact of this standard on its consolidated financial statements.

NOTE 5 – SALES TAX PAYABLE

	2014	2013
	\$	\$
South African Value-Added Tax Payable	35,453	18,269
Canadian Goods and Services Tax Receivable	(3,079)	(2,801)
	<u>32,374</u>	<u>15,468</u>

NOTE 6 – INVENTORIES

Raw Materials	217,028	194,799
Finished Goods – Calcine	138,860	181,971
	<u>355,888</u>	<u>376,770</u>



CANAF GROUP INC.

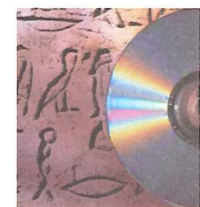
Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2014 and 2013

(Expressed in U.S. Dollars)

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

	Land \$	Building \$	Computer Equipment \$	Leasehold Improvements \$	Office Equipment \$	Plant and Equipment \$	Vehicles \$	Total \$
COST								
Balance, October 31, 2012	10,666	118,580	14,118	260,405	12,126	3,697,851	58,143	4,171,889
Additions	-		8,620	3,680	5,180	234,466	-	251,946
Disposal			-	-		(73,702)	-	(73,702)
Foreign Currency Translation	(677)	(16,151)	(2,385)	(34,140)	(1,907)	(261,123)	(1,779)	(318,162)
Balance, October 31, 2013	9,989	102,429	20,353	229,945	15,399	3,597,492	56,364	4,031,971
Additions	-		-	-	-	58,804	60,435	119,239
Foreign Currency Translation	(937)	(9,615)	(1,910)	(21,584)	(1,445)	(172,897)	(3,206)	(211,594)
Balance, October 31, 2014	9,052	92,814	18,443	208,361	13,954	3,483,399	113,593	3,939,616
ACCUMULATED DEPRECIATION								
Balance, October 31, 2012	-	-	12,379	162,141	11,690	3,319,865	58,143	3,564,218
Depreciation	-	2,916	5,673	20,402	1,441	95,262	-	125,694
Disposal	-	-	-	-	-	(3,710)	-	(3,710)
Foreign Currency Translation	-	(185)	(2,397)	(22,406)	(1,489)	(204,043)	(1,779)	(232,299)
Balance, October 31, 2013	-	2,731	15,655	160,137	11,642	3,207,374	56,364	3,453,903
Depreciation	-	1,923	1,868	18,581	911	114,284	4,903	142,470
Foreign Currency Translation	-	(323)	(1,535)	(15,674)	(1,124)	(138,195)	(1,284)	(158,135)
Balance, October 31, 2014	-	4,331	15,988	163,044	11,429	3,183,463	59,983	3,438,238
NET BOOK VALUE								
October 31, 2013	9,989	99,698	4,698	69,808	3,757	390,118	-	578,068
October 31, 2014	9,052	88,483	2,455	45,317	2,525	299,936	53,610	501,378



CANAF GROUP INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2014 and 2013

(Expressed in U.S. Dollars)

NOTE 8 – TRADE AND OTHER PAYABLES

	2014	2013
	\$	\$
Trade Payables	1,473,809	2,047,987
Accrued Liability	30,000	30,000
	<u>1,503,809</u>	<u>2,077,987</u>

For the year ended October 31, 2014, the Company wrote off long outstanding trade and other payables totalling \$Nil (2013 – \$99,944) that were in dispute.

NOTE 9 – BANK LOAN

Bank Loan	-	27,412
Less: Current Portion	-	(27,412)
	<u>-</u>	<u>-</u>

The bank loan was subject to interest at 8% per annum and was secured by the Company's pilot modular impact crusher acquired in June 2011. The bank loan was fully repaid as at October 31, 2014. During the year ended October 31, 2014, the Company incurred interest expense totalling \$856 (2013 – \$3,812).

NOTE 10 – DEBENTURES

Principle Payable	-	100,000
Principle Payable – Related Company	-	50,000
	-	150,000
Less: Current Portion	-	(150,000)
	<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 were subject to interest at 8% per annum compounded annually effective May 1, 2011, and were secured by a first floating charge on all property and assets of the Company. Prior to May 1, 2011, the debentures were subject to an interest rate of 12% per annum compounded annually. The debentures were fully paid as at October 31, 2014.

During the year ended October 31, 2014, the Company incurred interest expense totalling \$8,395 (2013 – \$12,209), of which \$1,448 (2013 – \$3,989) was paid to the related company.

NOTE 11 – SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without par value. As at October 31, 2014, 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, 2014 and 2013.



CANAF GROUP INC.

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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:

	2014	2013
	\$	\$
Due to a Related Company (a)	-	88,000

- The amount due to a company controlled by a Director of the Company for advances made was unsecured, non-interest bearing, and had no specific terms of repayment.
- During the year ended October 31, 2014, the Company incurred accounting fees of \$50,007 (2013 – \$53,349) to an Officer (also a Director) of the Company for administration and bookkeeping services.
- During the year ended October 31, 2014, the Company incurred consulting fees of \$74,442 (2013 – \$68,577) to an Officer (also a Director) of the Company for administration and management services.
- The Company paid management fees of \$142,047 (2013 – \$182,299) to three (2013 – four) 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.

NOTE 13 – INCOME TAXES

a) Provision for Income Taxes

The income tax expense of the Company is reconciled to the net income for the year as reported in the consolidated statements of comprehensive income as follows:

Expected Income Tax Expense at Statutory Tax Rates	196,448	297,764
Amounts Not Deductible for Tax	762	683
Effect of Differences in Tax Rates in Foreign Jurisdictions	19,702	35,906
Effect of Reduction in Statutory Tax Rates	(56)	(37,869)
South African Income Tax on Dividends	67,390	86,583
Effect of Exchange Rate Changes and Losses Expired	165,102	(42,913)
Change in Valuation Allowance	(106,129)	(14,792)
Income Taxes Expense	343,219	325,362
Current Income Taxes Expense	339,059	309,594
Deferred Income Taxes Expense	4,160	15,768
Income Taxes Expense	343,219	325,362



CANAF GROUP INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2014 and 2013

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NOTE 13 – INCOME TAXES (Continued)

b) Deferred Tax Assets and Liabilities

As at October 31, 2014 and 2013, the Company has temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2014	2013
	\$	\$
Non-Capital Losses	3,111,217	3,438,673
Net Capital Losses	605,769	654,793
Tax Value over Book Value of Computer Equipment	1,395	1,639
Tax Value over Book Value of Mineral Property	179,434	210,894
	<u>3,897,815</u>	<u>4,305,999</u>

Deferred tax liabilities have been recognized for the following:

Book Value over Tax Value of Plant and Equipment	<u>50,392</u>	<u>51,180</u>
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As at October 31, 2014, the Company has accumulated Canadian non-capital losses of \$3,111,217 which are available to reduce future taxable income in Canada and expire as follows:

	\$
2015	354,544
2026	296,925
2027	421,010
2028	443,039
2029	134,176
2030	455,014
2031	319,197
2032	238,482
2033	213,921
2034	234,909
	<u>3,111,217</u>

As at October 31, 2014, the Company has Canadian tax deductible exploration expenditures of \$179,434 which can be carried forward indefinitely to offset future taxable income in Canada. No provision for Ugandan and Sierra Leonean income taxes has been recorded as the Company is unable to accurately determine the amount of its loss carry forwards and other tax attributes at this time.



CANAF GROUP INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2014 and 2013

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NOTE 14 – SUPPLEMENTAL CASH FLOW INFORMATION

a) Change in Non-Cash Working Capital Accounts

	2014	2013
	\$	\$
Trade Receivables	(608,311)	(1,110,380)
Sales Tax Receivable	19,297	95,035
Inventories	(15,004)	461,182
Prepaid Expenses and Deposits	(1,274)	(868)
Trade and Other Payables	(395,684)	248,663
Income Taxes Payable	82,430	62,696
Due to Related Parties	(78,624)	(222,304)
	<u>(997,170)</u>	<u>(465,976)</u>

b) Other Items

South Africa Income Tax Paid	256,629	375,768
Interest Paid	9,251	23,464
Interest Received	7,887	11,944
	<u>273,767</u>	<u>411,176</u>

NOTE 15 – COST OF SALES

Inventories, Beginning of the Year	376,770	953,202
Analysis Fees	26,973	28,849
Depreciation	142,470	125,695
Electricity	637,236	689,503
Fuel, Oil and Lubricants	26,319	18,511
Machinery Rental	433,880	465,668
Medical Expenses	2,847	4,319
Product Purchases	9,288,761	9,560,117
Professional and Project Management Fee	30,465	7,136
Protective Clothing	11,520	11,938
Repairs and Maintenance	382,214	585,145
Salaries and Benefits	366,740	402,367
Site Establishment	2,268	-
Transportation	648,692	945,712
Foreign Exchange Loss	(35,886)	(93,473)
Inventories, End of the Year	<u>(355,888)</u>	<u>(376,770)</u>
	<u>11,985,381</u>	<u>13,327,919</u>



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Notes to the Consolidated Financial Statements

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NOTE 16 – GENERAL AND ADMINISTRATIVE EXPENSES

	2014	2013
	\$	\$
Bank Charges and Interest	6,209	8,091
Consulting Fees (Note 12(c))	74,442	68,577
Management Fees (Note 12(d))	142,047	182,299
Office, Insurance and Sundry	86,679	78,769
Professional Fees (Note 12(b))	101,953	101,741
Promotion	921	944
Telephone	21,257	17,071
Transfer Agent and Filing Fees	12,760	16,077
Travel	68,642	88,264
	<u>514,910</u>	<u>561,833</u>

NOTE 17 – 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, 2014, trade receivables of \$2,253,824 due from these customers were collected subsequent to year-end.

NOTE 18 – 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 (\$18,103) 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 Consolidated Financial Statements

For the Years Ended October 31, 2014 and 2013

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NOTE 19 – 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 \$
October 31, 2014			
Net (Loss) Income for the Year	(293,996)	706,346	412,350
Revenues (Note 17)	-	13,257,224	13,257,224
Gross Profit	-	1,271,843	1,271,843
Depreciation – Cost of Sales	-	142,470	142,470
Interest Expense	8,395	856	9,251
Current Income Taxes Expense	67,390	271,669	339,059
Deferred Income Taxes Expense	-	4,160	4,160
Current Assets	35,820	3,060,362	3,096,182
Property, Plant and Equipment	-	501,378	501,378
Intangible Assets	-	1	1
Total Assets	35,820	3,561,741	3,597,561
October 31, 2013			
Net (Loss) Income for the Year	(223,123)	1,061,660	838,537
Revenues (Note 17)	-	14,969,633	14,969,633
Gross Profit	-	1,641,714	1,641,714
Depreciation – Cost of Sales	-	125,695	125,695
Interest Expense	19,652	3,812	23,464
Current Income Taxes Expense	86,583	223,011	309,594
Deferred Income Taxes Expense	-	15,768	15,768
Current Assets	50,747	3,512,408	3,563,155
Property, Plant and Equipment	-	578,068	578,068
Intangible Assets	-	1	1
Total Assets	50,747	4,090,477	4,141,224



CANAF GROUP INC.

Notes to the Consolidated Financial Statements

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NOTE 20 – 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 October 31, 2014, totalled \$8,079,463 (2013 – \$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, 2014.

NOTE 21 – 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 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 17). The Company has assessed its exposure to credit risk and has determined that no significant risk exists from these concentrations of credit.



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NOTE 21 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 \$1,465,270 as at October 31, 2014. 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, 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 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.

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 years ended October 31, 2014 and 2013. The carrying values of the Company's financial assets and liabilities approximate their fair values as at October 31, 2014.



CANAF GROUP INC.

Notes to the Consolidated Financial Statements

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NOTE 22 – SUBSEQUENT EVENT

On November 7, 2014, the Company entered into an agreement to acquire a calcining processing plant for a total consideration of R14,000,000 (South African Rand) (US\$1,267,000) plus 14% value added tax (“VAT”). As of the date of the auditors’ report, the Company has paid a total of R5,600,000 plus VAT. The balance of the consideration is payable upon the plant achieving certain milestones: R3,500,000 plus VAT is payable upon the plant achieving an output of calcined anthracite to a specific quality and the remaining R4,900,000 plus VAT is payable upon the plant achieving its designed production rate of calcined anthracite per month at the specific quality. The R3,500,000 plus VAT payment will be payable at latest August 30, 2015, should the Company be the cause of delays to prevent the commissioning of the plant by this date.

In connection with the plant purchase, the Company also entered into an agreement for the mobilization, modification, and commissioning of the plant for a total consideration of R6,000,000 (US\$543,000) plus VAT. As of the date of the auditors’ report, the Company has paid a total of R1,800,000 plus VAT. The balance of the consideration is payable in progress payments with the final payment due one month after the commissioning of the plant. The plant is scheduled to be commissioned in May 2015.

The acquisition is financed by a loan facility of R14,000,000. The loan bears interest at the prime rate (9.25% per annum compounded monthly), is secured by the new plant and other assets of the Company, and is repayable over 42 months with a monthly blended payment of R391,624. Personal guarantees have been provided by two Directors of the Company and certain financial covenants apply. The Company paid a loan facility fee of R140,000 in connection with this transaction.

