



For the Three Months Ended January 31, 2016

Consolidated Interim Financial Statements

(Expressed in U.S. dollars)

(Unaudited – Prepared by Management)

- Notice of No Auditor Review of Consolidated Financial Statements
- Consolidated Interim Statements of Financial Position
- Consolidated Interim Statements of Comprehensive Loss
- Consolidated Interim Statements of Changes in Equity
- Consolidated Interim Statements of Cash Flows
- Notes to the Consolidated Financial Statements

NOTICE OF NO AUDITOR REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited consolidated interim financial statements of Canaf Group Inc. for the period ended January 31, 2016 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company and are the responsibility of the Company's management.

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

CANAF GROUP INC.

Consolidated Interim Statements of Financial Position

(Expressed in U.S. Dollars)

(Unaudited)

	Note	January 31, 2016 \$	October 31, 2015 \$
ASSETS			
CURRENT			
Cash		671,359	881,322
Trade Receivables	15	333,327	694,907
Sales Tax Receivable	5	3,807	22,121
Inventories	6	350,441	512,000
Prepaid Expense and Deposits		25,397	26,761
		<u>1,384,331</u>	<u>2,137,111</u>
NON-CURRENT			
Property, Plant and Equipment	7	1,136,875	1,375,113
Intangible	2(g)	1	1
		<u>2,521,207</u>	<u>3,512,225</u>
LIABILITIES			
CURRENT			
Trade and Other Payables	8	415,336	761,276
Income Taxes Payable		39,167	49,515
Current Portion of Bank Loan	9	223,580	341,278
		<u>678,083</u>	<u>1,152,069</u>
NON-CURRENT			
Bank Loan	9	547,524	608,859
Deferred Tax Liability		155,879	120,258
		<u>1,381,486</u>	<u>1,881,186</u>
SHAREHOLDERS' EQUITY			
Share Capital	10	8,079,463	8,079,463
Accumulated Other Comprehensive Loss – Foreign Currency Translation Reserve		(1,575,410)	(1,378,574)
Deficit		(5,364,332)	(5,069,850)
		<u>1,139,721</u>	<u>1,631,039</u>
		<u>2,521,207</u>	<u>3,512,225</u>

Nature of Operations (Note 1)

Economic Dependence (Note 15)

Commitment (Note 16)

Segment Information (Note 17)

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

Approved on Behalf of the Board:

“Christopher Way”

Christopher Way, Director

“Kevin Corrigan”

Kevin Corrigan, Director

CANAF GROUP INC.

Consolidated Interim Statements of Comprehensive Income

(Expressed in U.S. Dollars)

(Unaudited)

	Note	Three Months Ended January 31,	
		2016	2015
		\$	\$
SALES		1,022,773	2,678,877
COST OF SALES	13	1,151,983	2,447,006
GROSS PROFIT (LOSS)		(129,210)	231,871
EXPENSES			
General and Administrative	14	93,250	148,779
Interest on Bank Loan	9	19,640	-
Interest on Debentures		-	-
		(112,890)	(148,779)
INCOME (LOSS) BEFORE OTHER ITEMS		(242,100)	83,092
Interest Income		1,435	1,583
INCOME (LOSS) BEFORE INCOME TAXES		(240,665)	84,675
Income Taxes		(53,817)	(38,123)
NET INCOME (LOSS) FOR THE PERIOD		(294,482)	46,552
OTHER COMPREHENSIVE LOSS			
Foreign Currency Translation Loss		(196,836)	(128,089)
NET COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD		(491,318)	(81,537)
BASIC AND DILUTED EARNINGS PER SHARE		(0.01)	(0.00)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED		47,426,195	47,426,195

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

CANAF GROUP INC.

Consolidated Interim Statements of Changes in Equity

(Expressed in U.S. Dollars)

(Unaudited)

	Number of Common Shares	Share Capital \$	Reserve for Stock Options \$	Foreign Currency Translation Reserve \$	Deficit \$	Total Shareholders' Equity \$
Balance, October 31, 2014	47,426,195	8,079,463	-	(964,914)	(5,198,292)	1,916,257
Net Income for the Period	-	-	-	-	46,552	46,552
Foreign Currency Translation Loss	-	-	-	(128,089)	-	(128,089)
Balance, January 31, 2015	47,426,195	8,079,463	-	(1,093,003)	(5,151,740)	1,834,720
Balance, October 31, 2015	47,426,195	8,079,463	-	(1,378,574)	(5,069,850)	1,631,039
Net Loss for the Period	-	-	-	-	(294,482)	(294,482)
Foreign Currency Translation Loss	-	-	-	(196,836)	-	(196,836)
Balance, January 31, 2016	47,426,195	8,079,463	-	(1,575,410)	(5,364,332)	1,139,721

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

CANAF GROUP INC.

Consolidated Interim Statements of Cash Flows

(Expressed in U.S. Dollars)

(Unaudited)

	Note	Three Months Ended January 31,	
		2016	2015
		\$	\$
CASH PROVIDED BY (USED FOR):			
OPERATING ACTIVITIES			
Net Income (Loss) for the Period		(294,482)	46,552
Non-Cash Items			
Depreciation – Cost of Sales		83,771	74,301
		(210,711)	120,853
Change in Non-Cash Working Capital Accounts	12(a)	222,150	974,167
		11,439	1,095,020
FINANCING ACTIVITIES			
Loan Payable		-	197,365
Principal Repayments of Bank Loan		(179,033)	-
		(179,033)	197,365
INVESTING ACTIVITY			
Purchase of Property, Plant and Equipment		154,467	(740,903)
INCREASE (DECREASE) IN CASH			
Effect of Exchange Rate Changes on Cash		(196,836)	(128,089)
Cash, Beginning of the Period		881,322	453,965
CASH, END OF THE PERIOD		671,359	877,358

Supplemental Cash Flow Information (Note 12)

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

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2016

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 1 – NATURE OF OPERATIONS

Canaf Group Inc. (the “Company”) is incorporated in the Province of Alberta and owns and operates a coal processing plant in South Africa which processes coal and coal products into calcine, a coke substitute with a high carbon content.

The head office, principal address, and records office of the Company are located at Suite 500 – 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 \$706,248 as at January 31, 2016. 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 16). The Company is dependent on the operating cash flows from its coal processing business and the financial support of its shareholders and related parties to finance its operations and to discharge liabilities in the normal course of business. 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 interim financial statements have been prepared in accordance to IAS 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 15, 2016.

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 Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2016

(Expressed in U.S. Dollars)

(Unaudited)

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 Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2016

(Expressed in U.S. Dollars)

(Unaudited)

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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Impairment of Non-Current Assets

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

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

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2016

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Impairment of Non-Current Assets (Continued)

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

i) Revenue Recognition

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

j) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. As at October 31, 2015 and January 31, 2016, the Company has no material provisions.

k) Share Capital

Share capital includes cash consideration received for share issuances, net of commissions and issue costs. Common shares issued for non-monetary consideration are recorded at their fair market value based upon the trading price of the Company's shares on the TSX Venture Exchange on the date of the agreement.

l) Share-Based Payments

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

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

m) Earnings per Common Share

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

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2016

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) **Income Taxes**

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

i) **Current Income Tax**

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

ii) **Deferred Income Tax**

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

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

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

o) **Financial Instruments**

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

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

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

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2016

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Financial Instruments (Continued)

i) Financial Assets

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

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

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

- ***Financial assets at fair value through profit or loss*** – Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The Company's cash falls into this category of financial instruments.
- ***Loans and receivables*** – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less any provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's trade 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.

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2016

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Financial Instruments (Continued)

ii) Financial Liabilities

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

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

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

p) Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year. These reclassifications have no effect on the consolidated net loss for the year ended October 31, 2015.

NOTE 3 – SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

a) Useful Lives of Property and Equipment and Intangible Assets

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

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2016

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 3 – SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

b) Impairment of Non-Current Assets

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

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

c) Deferred Tax Assets

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

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

NOTE 4 – ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new accounting standards, amendments to standards, and interpretations 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, 2018. The Company has not yet determined the impact of this standard on its consolidated financial statements.

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2016

(Expressed in U.S. Dollars)

(Unaudited)

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

b) IFRS 15 – Revenue from Contracts with Customers

IFRS 15 clarifies the principles for recognizing revenue from contracts with customers. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2018 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 RECEIVABLE (PAYABLE)

	January 31, 2016	October 31, 2015
	\$	\$
South African Value-Added Tax Receivable (Payable)	154	19,073
Canadian Goods and Services Tax Receivable	3,653	3,048
	<hr/>	<hr/>
	3,807	22,121
	<hr/>	<hr/>

NOTE 6 – INVENTORIES

Raw Materials	251,057	227,843
Finished Goods – Calcine	99,384	284,157
	<hr/>	<hr/>
	350,441	512,000
	<hr/>	<hr/>

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2016

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

	Land \$	Building	Computer Equipment \$	Leasehold Improvements \$	Office Equipment \$	Plant and Equipment \$	Vehicles \$	Total \$
COST								
Balance, October 31, 2015	7,232	74,159	14,736	166,482	11,149	4,418,886	99,702	4,792,346
Additions	-	-	-	-	-	19,940	-	19,940
Foreign Currency Translation	-	(10,562)	(1,912)	(21,604)	(1,447)	(342,791)	(7,166)	(385,482)
Balance, January 31, 2016	7,232	63,597	12,824	144,878	9,702	4,096,035	92,536	4,426,804
ACCUMULATED DEPRECIATION								
Balance, October 31, 2015	-	4,944	14,494	144,606	9,834	3,177,164	66,191	3,417,233
Depreciation	-	339	445	3,276	161	77,819	2,131	83,771
Foreign Currency Translation	-	(658)	(1,884)	(18,924)	(1,284)	(185,404)	(2,921)	(211,075)
Balance, January 31, 2016	-	4,625	12,655	128,958	8,711	3,069,579	65,401	3,289,929
NET BOOK VALUE								
October 31, 2015	7,232	69,215	242	21,876	1,315	1,241,722	33,511	1,375,113
January 31, 2016	7,232	58,972	169	15,920	991	1,026,456	27,135	1,136,875

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2016

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 8 – TRADE AND OTHER PAYABLES

	January 31, 2016	October 31, 2015
	\$	\$
Trade Payables	411,336	733,776
Accrued Liability	4,000	27,500
	<u>415,336</u>	<u>761,276</u>

NOTE 9 – BANK LOAN

Bank Loan	771,104	950,137
Less: Current Portion	<u>(223,580)</u>	<u>(341,278)</u>
	<u>547,524</u>	<u>608,859</u>

The bank loan is subject to interest at 9.25% per annum, repayable over 42 months in blended monthly payments of Rand 393,235 (\$28,440 translated at year-end exchange rate), and is secured by an instalment sale agreement on the Company's new furnace acquired with the proceeds from the loan. During the period ended January 31, 2016, the Company incurred interest expense totaling \$19,640 (October 31, 2015 – 78,045).

NOTE 10 – SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without par value. As at January 31, 2016, 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, 2015 and January 31, 2016.

NOTE 11 – 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:

- During the period ended January 31, 2016, the Company incurred accounting fees of \$10,228 (2015 – \$12,953) to an Officer (also a Director) of the Company for administration and bookkeeping services.
- During the period ended January 31, 2016, the Company incurred consulting fees of \$17,743 (2015 – \$18,493) to an Officer (also a Director) of the Company for administration and management services.
- The Company paid management fees of \$28,300 (2015 – \$40,806) to three Directors of the Company for administration and management services in relation to the Company's coal processing business in South Africa.

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

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2016

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 12 – SUPPLEMENTAL CASH FLOW INFORMATION

a) Change in Non-Cash Working Capital Accounts

	Three Months Ended	
	2016	January 31, 2015
	\$	\$
Trade Receivables	361,580	1,140,656
Sales Tax Receivable	18,314	(19,627)
Inventories	161,559	(72,271)
Prepaid Expenses and Deposits	1,364	(6,948)
Trade and Other Payables	(349,940)	(62,127)
Sales Tax Payable	-	(32,374)
Income Taxes Payable	25,273	26,858
	<u>222,150</u>	<u>974,167</u>

b) Other Items

South Africa Income Tax Paid	23,361	38,123
Interest Paid	19,640	-
Interest Received	1,435	1,583

NOTE 13 – COST OF SALES

	Three Months Ended	
	2016	January 31, 2015
	\$	\$
Inventories, Beginning of the Period	512,000	355,888
Analysis Fees	2,843	9,835
Depreciation	83,771	74,301
Electricity	44,910	114,676
Fuel, Oil and Lubricants	1,279	6,679
Machinery Rental	22,890	10,689
Medical Expenses	168	612
Product Purchases	602,612	1,843,823
Professional and Project Management Fee	810	12,291
Protective Clothing	848	3,775
Provident Fund	2,704	3,466
Repairs and Maintenance	48,351	83,375
Salaries and Benefits	78,645	102,715
Transportation	100,593	273,797
Foreign Exchange Loss	-	(20,757)
Inventories, End of the Period	<u>(350,441)</u>	<u>(428,159)</u>
	<u>1,151,983</u>	<u>2,447,006</u>

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2016

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 14 – GENERAL AND ADMINISTRATIVE EXPENSES

	Three Months Ended	
	2016	January 31, 2015
	\$	\$
Bank Charges and Interest	797	1,933
Consulting Fees	17,743	18,493
Management Fees	28,300	40,806
Office, Insurance and Sundry	13,763	39,278
Professional Fees	20,200	31,872
Promotion	146	172
Telephone	3,181	4,643
Transfer Agent and Filing Fees	511	779
Travel	8,609	10,803
	<hr/>	<hr/>
	93,250	148,779

NOTE 15 – ECONOMIC DEPENDENCE

Sales from the Company's South African coal processing business are substantially derived from two customers and as a result, the Company is economically dependent on these customers. The Company's exposure to credit risk is limited to the carrying value of its accounts receivable. As at January 31, 2016, trade receivables of \$333,327 were due from these customers and were collected subsequent to year-end.

NOTE 16 – COMMITMENT

The Company has an agreement to lease premises for its coal processing plant in South Africa for a term of ten years, expiring on December 31, 2020. The agreement offers the Company, in lieu of rent, feedstock coal to be delivered to its adjacent premises, which it purchases at market price. Should the Company decide to purchase feedstock coal from an alternative supplier which the lessor is otherwise able to provide, then a monthly rent of Rand 200,000 (\$14,465) is payable. To date, the Company has not been required to pay any rent for the premises as it has continued to purchase feedstock coal from the landlord.

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2016

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 17 – SEGMENT INFORMATION

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

	Canada \$	South Africa \$	Total \$
January 31, 2016			
Net (Loss) Income for the Period	(39,419)	(255,063)	(294,482)
Revenues (Note 15)	-	1,022,773	1,022,773
Gross Profit (Loss)	-	(129,210)	(129,210)
Depreciation – Cost of Sales	-	83,771	83,771
Interest Expense	-	19,640	19,640
Current Income Taxes Expense	-	-	-
Deferred Income Taxes Expense	-	53,817	53,817
Current Assets	50,396	1,333,935	1,384,331
Property, Plant and Equipment	-	1,136,875	1,136,875
Intangible Assets	-	1	1
Total Assets	50,396	2,470,811	2,521,207
October 31, 2015			
Net (Loss) Income for the Year	(228,537)	356,979	128,442
Revenues (Note 15)	-	9,156,927	9,156,927
Gross Profit	-	791,044	791,044
Depreciation – Cost of Sales	-	344,404	344,404
Interest Expense	-	78,045	78,045
Current Income Taxes Expense	34,713	42,820	77,533
Deferred Income Taxes Expense	-	90,626	90,626
Current Assets	47,624	2,089,488	2,137,112
Property, Plant and Equipment	-	1,375,113	1,375,113
Intangible Assets	-	1	1
Total Assets	47,624	3,464,602	3,512,226

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2016

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 18 – CAPITAL RISK MANAGEMENT

The Company's objectives in managing its capital are to ensure adequate resources are available to fund its coal processing business in South Africa, to seek out and acquire new projects of merit, and to safeguard its ability to continue as a going concern. The Company manages its share capital as capital, which as at January 31, 2016, totalled \$8,079,463 (2015 – \$8,079,463).

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

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

The Company has no externally imposed capital requirements and has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future. There were no changes in the Company's approach to capital management during the period ended January 31, 2016.

NOTE 19 – 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 South African Rand. The Company does not currently use financial instruments to mitigate this risk.

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2016

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 19 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

b) Credit Risk

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

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

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company ensures, as far as reasonably possible, that it will have sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company has working capital of \$706,248 as at January 31, 2016. There can be no assurance that the Company will continue to be successful with generating and maintaining profitable operations or will be able to secure future debt or equity financing for its working capital and expansion activities.

d) Interest Rate Risk

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

e) Commodity Price Risk

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

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Three Months Ended January 31, 2016

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 19 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

f) Fair Value

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

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

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

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

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

The Company's financial assets measured at fair value through profit or loss use Level 1 valuation techniques during the period ended January 31, 2016 and October 31, 2015. The carrying values of the Company's financial assets and liabilities approximate their fair values as at January 31, 2016.