



For the Six Months Ended April 30, 2018

## 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 April 30, 2018 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Corporation and are the responsibility of the Corporation's management.

The Corporation'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	April 30, 2018 \$	October 31, 2017 \$
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash		315,407	453,609
Trade Receivables	14	3,604,555	1,314,828
Sales Tax Receivable	4	3,091	357
Inventories	5	418,389	472,221
Prepaid Expense and Deposits		20,028	36,220
		<u>4,361,470</u>	<u>2,277,235</u>
<b>NON-CURRENT</b>			
Property, Plant and Equipment	6	953,801	1,037,996
Intangible		1	1
		<u>5,315,272</u>	<u>3,315,232</u>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Trade and Other Payables	7	2,296,780	757,875
Sales Tax Payable		17,689	32,010
Income Taxes Payable		129,439	77,805
Current Portion of Bank Loan	8	271,611	310,819
		<u>2,715,519</u>	<u>1,178,509</u>
<b>NON-CURRENT</b>			
Bank Loan	8	-	106,063
Deferred Tax Liability		-	122,022
		<u>2,715,519</u>	<u>1,406,594</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share Capital	9	8,079,463	8,079,463
Accumulated Other Comprehensive Loss – Foreign Currency Translation Reserve		(1,222,393)	(1,463,628)
Deficit		(4,257,317)	(4,707,197)
		<u>2,599,753</u>	<u>1,908,638</u>
		<u>5,315,272</u>	<u>3,315,232</u>
Nature of Operations (Note 1)			
Economic Dependence (Note 14)			
Commitment (Note 15)			
Segment Information (Note 16)			
Subsequent Event (Note 19)			

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 Loss

(Expressed in U.S. Dollars)

(Unaudited)

		Three Months Ended		Six Months Ended	
	Note	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
		\$	\$	\$	\$
<b>SALES</b>		5,425,213	3,490,753	8,698,426	6,482,459
<b>COST OF SALES</b>	12	4,970,606	3,191,729	7,995,257	5,797,554
<b>GROSS PROFIT</b>		454,607	299,024	703,169	684,905
<b>EXPENSES</b>					
General and Administrative	13	117,179	103,052	285,071	207,630
Interest on Bank Loan	8	19,909	14,336	19,909	29,658
		137,088	117,388	304,980	237,288
<b>INCOME BEFORE OTHER ITEM</b>		317,519	181,636	398,189	447,617
Interest Income		45,099	4,207	45,099	9,181
<b>INCOME BEFORE INCOME TAXES</b>		362,618	185,843	443,288	456,798
Income Tax Recovery (Expense)		(99,865)	46,118	6,592	(27,146)
<b>NET INCOME FOR THE PERIOD</b>		262,753	231,961	449,880	429,652
Foreign Currency Translation (Loss) Gain		(124,454)	4,752	241,235	5,282
<b>NET COMPREHENSIVE INCOME FOR THE YEAR</b>		138,299	236,713	691,115	434,934
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>		0.01	0.00	0.01	0.01
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED</b>		47,426,195	47,426,195	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)

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	Number of Common Shares	Share Capital \$	Foreign Currency Translation Reserve \$	Deficit \$	Total Shareholders' Equity \$
<b>Balance, October 31, 2016</b>	47,426,195	8,079,463	(1,361,484)	(5,249,005)	1,468,974
Net Income for the Period	-	-	-	197,691	197,691
Foreign Currency Translation Gain	-	-	530	-	530
<b>Balance April 30, 2017</b>	<u>47,426,195</u>	<u>8,079,463</u>	<u>(1,360,954)</u>	<u>(5,051,314)</u>	<u>1,667,195</u>
<b>Balance, October 31, 2017</b>	47,426,195	8,079,463	(1,463,628)	(4,707,197)	1,908,638
Net Income for the Period	-	-	-	449,880	449,880
Foreign Currency Translation Gain	-	-	241,235	-	241,235
<b>Balance April 30, 2018</b>	<u>47,426,195</u>	<u>8,079,463</u>	<u>(1,222,393)</u>	<u>(4,257,317)</u>	<u>2,599,753</u>

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

# CANAF GROUP INC.

## Consolidated Interim Statements of Cash Flows

For the Six Months Ended April 30, 2018 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

		Six Months Ended	
	Note	April 30, 2018	April 30, 2017
		\$	\$
<b>CASH PROVIDED BY (USED FOR):</b>			
<b>OPERATING ACTIVITIES</b>			
Net Income for the Period		449,880	429,652
Non-Cash Items			
Depreciation – Cost of Sales		207,044	193,126
		<u>656,924</u>	<u>622,778</u>
Change in Non-Cash Working Capital Accounts	11	<u>(768,241)</u>	<u>(683,313)</u>
		<u>(111,317)</u>	<u>(60,535)</u>
<b>FINANCING ACTIVITY</b>			
Principal Repayments of Bank Loan		<u>(145,271)</u>	<u>(141,950)</u>
<b>INVESTING ACTIVITY</b>			
Purchase of Property, Plant and Equipment		<u>(122,849)</u>	<u>(189,932)</u>
<b>INCREASE (DECREASE) IN CASH</b>			
		(379,437)	(392,417)
Effect of Exchange Rate Changes on Cash		241,235	5,282
Cash, Beginning of the Period		<u>453,609</u>	<u>380,562</u>
<b>CASH, END OF THE PERIOD</b>			
		<u>315,407</u>	<u>(6,573)</u>

Supplemental Cash Flow Information (Note 11)

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

# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2018 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 1 – NATURE OF OPERATIONS

Canaf Group Inc. (the “Corporation”) 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 Corporation are located at Suite 500 – 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 3P6.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on the basis that the Corporation is a going concern and will be able to meet its obligations and continue its operations for its next fiscal year.

The Corporation’s ability to continue as a going concern is dependent upon its ability to generate profitable operations from its coal processing business. Sales of the Corporation are substantially derived from two customers, and as a result, the Corporation is economically dependent on these customers (Note 14). The Corporation 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 Corporation’s financial condition.

The Corporation has working capital of \$1,645,951 as at April 30, 2018 (as at year end October 31, 2017 - \$1,098,726). Management believes that the Corporation has sufficient cash resources to meet its obligations for at least 12 months from the end of the reporting period.

### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

#### a) Statement of Compliance

The consolidated interim financial statements have been prepared in accordance to IAS 34 Interim Financial Reporting using accounting policies consistent with the International Financial Reporting Standards (“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 June 27, 2018.

#### b) Basis of Preparation

These consolidated interim financial statements have been prepared on a historical cost basis. Cost is the fair value of the consideration given in exchange for net assets. These consolidated interim financial statements do not include all the information required for full annual financial statements. The consolidated interim financial statements should be read in conjunction with the Corporation’s annual financial statements for the year ended October 31, 2017. The accounting policies, methods of computation and presentation applied in these financial statements are consistent with those of the previous financial year.

### NOTE 3 – ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

There are no new accounting standards, amendments to standards, and interpretations have been issued but not yet effective up the date of issuance of the Corporation’s consolidated financial statements not yet effective that the Corporation intends to adopt when they becomes effective.

# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2018 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 4 – SALES TAX (PAYABLE) RECEIVABLE

	April 30, 2018	October 31, 2017
	\$	\$
South African Value-Added Tax (Payable) Receivable	(17,689)	(32,010)
Canadian Goods and Services Tax Receivable	3,091	357
	<hr/>	<hr/>
	(14,598)	(31,653)
	<hr/>	<hr/>

### NOTE 5 – INVENTORIES

Raw Materials	380,999	369,351
Finished Goods – Calcine	37,390	102,870
	<hr/>	<hr/>
	418,389	472,221
	<hr/>	<hr/>



# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2018 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

### NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Computer Equipment	Leaseholds Improvements	Office Equipment	Furniture & Fittings	Plant and Equipment	Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>COST</b>									
<b>Balance October 31, 2016</b>	7,423	76,115	15,971	170,873	12,192	-	4,711,642	101,159	5,095,375
Additions	-	89,602	598	-	1,681	3,323	88,018	38,944	222,166
Foreign Currency Translation	-	(9,008)	(792)	(8,112)	(861)	-	(144,256)	(4,882)	(167,911)
<b>Balance October 31, 2017</b>	7,423	156,709	15,777	162,761	13,012	3,323	4,655,404	135,221	5,149,630
Additions	-	-	1,387	-	-	955	78,053	-	80,395
Foreign Currency Translation	-	(83,565)	710	21,636	1,730	442	380,547	12,063	333,563
<b>Balance April 30, 2018</b>	<b>7,423</b>	<b>73,144</b>	<b>17,874</b>	<b>184,397</b>	<b>14,742</b>	<b>4,720</b>	<b>5,114,004</b>	<b>147,284</b>	<b>5,563,588</b>
<b>ACCUMULATED DEPRECIATION</b>									
<b>Balance October 31, 2016</b>	-	6,597	15,172	163,132	10,914	-	3,566,537	76,332	3,838,684
Depreciation	-	3,329	382	7,296	1,113	-	363,989	14,576	390,685
Foreign Currency Translation	-	(501)	(742)	(8,155)	(581)	-	(105,424)	(2,332)	(117,735)
<b>Balance October 31, 2017</b>	-	9,425	14,812	162,273	11,446	-	3,825,102	88,576	4,111,634
Depreciation	-	-	414	277	238	230	195,290	9,319	205,768
Foreign Currency Translation	-	(9,425)	639	21,571	1,314	207	272,209	5,870	292,385
<b>Balance April 30, 2018</b>	<b>-</b>	<b>-</b>	<b>15,865</b>	<b>184,121</b>	<b>12,998</b>	<b>437</b>	<b>4,292,601</b>	<b>103,765</b>	<b>4,609,787</b>
<b>NET BOOK VALUE</b>									
<b>Balance October 31, 2017</b>	<b>7,423</b>	<b>147,284</b>	<b>965</b>	<b>488</b>	<b>1,566</b>	<b>3,323</b>	<b>830,302</b>	<b>46,645</b>	<b>1,037,996</b>
<b>Balance April 30, 2018</b>	<b>7,423</b>	<b>73,144</b>	<b>2,009</b>	<b>276</b>	<b>1,744</b>	<b>4,283</b>	<b>821,403</b>	<b>43,519</b>	<b>953,801</b>

# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2018 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

### NOTE 7 – TRADE AND OTHER PAYABLES

	April 30, 2018	October 31, 2017
	\$	\$
Trade Payables	2,229,296	706,085
Payroll Payable	31,484	27,790
Accrued Liability	36,000	24,000
	<u>2,296,780</u>	<u>757,875</u>

### NOTE 8 – BANK LOAN

	April 30, 2018	October 31, 2017
	\$	\$
Bank Loan	271,611	416,882
Less: Current Portion	<u>(271,611)</u>	<u>(310,819)</u>
	<u>-</u>	<u>106,063</u>

The bank loan bears interest at 10.25% per annum, matures on January 7, 2019, and is secured by the Corporation's furnace acquired with the proceeds from the loan. The bank loan is repayable in blended monthly payments of Rand 391,624 (\$31,558 translated at April 30, 2018 exchange rate). During the six months ended April 30, 2018, interest expense was \$19,909 (April 30, 2017 - \$29,658).

### NOTE 9 – SHARE CAPITAL

The Corporation is authorized to issue an unlimited number of common shares without par value. As at April 30, 2018, the Corporation 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 April 30, 2018 and 2017.

### NOTE 10 – RELATED PARTY TRANSACTIONS

In addition to those transactions disclosed elsewhere in these consolidated financial statements, the Corporation has amounts owed to the following related parties:

- a) During the six months ended April 30, 2018, the Corporation incurred professional fees of \$25,088 (2017 – \$20,282) to an Officer and Director and a former Officer and Director of the Corporation for administration and bookkeeping services.
- b) During the April 30 months ended April 30, 2018, the Corporation incurred consulting fees of \$47,271 (2017 – \$32,984) to an Officer (also a Director) of the Corporation for administration and management services.
- c) During the six months ended April 30, 2018, the Corporation incurred management fees of \$69,708 (2017 – \$62,633) to three Directors of the Corporation for administration and management services in relation to the Corporation'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 Six Months Ended April 30, 2018 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 11 – SUPPLEMENTAL CASH FLOW INFORMATION

#### a) Change in Non-Cash Working Capital Accounts

	Six Months Ended	
	April 30, 2018	April 30, 2017
	\$	\$
Trade Receivables	(2,289,727)	(1,855,614)
Income Taxes Receivable		
Sales Tax Receivable	(2,734)	16,399
Inventories	53,832	(138,667)
Prepaid Expense and Deposits	16,192	(7,974)
Trade and Other Payables	1,538,905	1,244,771
Sales Tax Payable	(14,321)	27,511
Income Taxes Payable/(Deferred)	51,634	30,261
Deferred Tax Liability	(122,022)	-
	<u>(768,241)</u>	<u>(683,313)</u>

#### b) Other Items

Interest Paid	(19,909)	14,336
Interest Received	39,078	4,207
Income Tax Paid	(63,796)	-

### NOTE 12 – COST OF SALES

# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2018 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

	April 30, 2018 \$	April 30, 2017 \$	April 30, 2018 \$	April 30, 2017 \$
Inventories, Beginning of the Year	895,361	403,329	472,221	403,329
Analysis Fees	1,751	6,954	4,185	13,500
Depreciation	109,758	98,293	205,768	193,126
Electricity	152,183	146,832	257,597	180,096
Fuel, Oil and Lubricants	12,352	8,117	22,275	25,856
Machinery Rental	152,155	91,033	256,335	187,449
Medical Expenses	4,721	3,550	6,477	3,761
Product Purchases	3,471,711	2,620,165	6,179,656	4,604,461
Professional and Project Management Fee	4,257	8,951	5,550	12,407
Protective Clothing	2,689	3,155	5,099	4,812
Provident Fund	3,402	3,038	6,483	5,975
Repairs and Maintenance	171,427	84,255	264,213	166,275
Salaries and Benefits	101,271	91,111	207,473	193,873
Transportation	305,957	174,898	520,314	344,630
Foreign Exchange Gain/Loss	-	(9,956)	-	-
Inventories, End of the Year	(418,389)	(541,996)	(418,389)	(541,996)
	<u>4,970,606</u>	<u>3,191,729</u>	<u>7,995,257</u>	<u>5,797,554</u>

### NOTE 13 – GENERAL AND ADMINISTRATIVE EXPENSES

#### General and admin expenses

	Three Months Ended		Six Months Ended	
	April 30, 2018 \$	April 30, 2017 \$	April 30, 2018 \$	April 30, 2018 \$
Bank Charges and Interest	1,301	704	2,314	1,439
Bad Debts	-	6,595	-	6,595
Consulting Fees	19,513	16,411	47,272	32,984
Management Fees	31,627	27,461	69,708	62,663
Office, Insurance and Sundry	19,176	13,071	42,985	30,437
Professional Fees	7,059	17,367	25,088	41,054
Promotion	-	225	-	389
Telephone	3,610	3,995	6,994	8,106
Transfer Agent and Filing Fees	8,071	6,447	8,734	6,738
Depreciation - Building	431	-	1,276	-
Travel	8,379	10,776	23,331	17,225
Broad-Based Black Economic Empowerment	10,757	-	39,014	-
Depreciation	431	-	1,276	-
Audit Fees	6,824	-	17,079	-
	<u>117,179</u>	<u>103,052</u>	<u>285,071</u>	<u>207,630</u>

### NOTE 14 – ECONOMIC DEPENDENCE

# **CANAF GROUP INC.**

## **Notes to the Interim Consolidated Financial Statements**

For the Six Months Ended April 30, 2018 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

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Sales from the Corporation's South African coal processing business are substantially derived from two customers and as a result, the Corporation is economically dependent on these customers. The Corporation's exposure to credit risk is limited to the carrying value of its accounts receivable.

### **NOTE 15 – COMMITMENT**

The Corporation has an agreement to lease premises for Quantum's coal processing plant in South Africa for a term of ten years, expiring on December 31, 2020. The agreement offers the Corporation, in lieu of rent, feedstock coal to be delivered to its adjacent premises, which it purchases at market price. Should the Corporation 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 (\$14,888) is payable. During May 2018, the Corporation agreed new terms with the lessor to pay a revised monthly rent of Rand 35,000, given the fact that the lessor has been unable to supply feedstock coal to Quantum since August 2018. The new agreed terms are valid until December 31, 2018, after which new or extended terms will be agreed.

# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2018 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

### NOTE 16 – SEGMENT INFORMATION

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

	<b>Canada</b>	<b>South Africa</b>	<b>Total</b>
	\$	\$	\$
<b>April 30, 2018</b>			
Net (Loss) Income for the Period	(111,512)	561,392	449,880
Revenues (Note 16)	-	8,698,426	8,698,426
Gross Profit	-	703,169	703,169
General and Administrative	(111,512)	(32,209)	(79,303)
Depreciation – Cost of Sales	-	(205,768)	(205,768)
Interest Expense (Note 13)	-	(19,909)	(19,909)
Interest Income	-	45,099	45,099
Deferred Income Tax Recovery (Note 12(a))	-	6,592	6,592
Current Assets	94,766	4,266,704	4,361,470
Property, Plant and Equipment (Note 7)	-	953,801	953,801
Intangible Assets	-	1	1
Total Assets	94,766	5,220,506	5,315,272
<b>October 31, 2017</b>			
Net Loss for the Year	(171,119)	712,927	541,808
Revenues	-	10,699,117	10,699,117
Gross Profit	-	1,223,110	1,223,110
Depreciation – Cost of Sales	-	390,685	390,685
Interest Expense	-	86,837	86,837
Current Income Taxes Expense	-	82,445	82,445
Deferred Income Taxes Expense	-	112,031	112,031
Current Assets	100,322	2,176,913	2,277,235
Property, Plant and Equipment (Note 6)	-	953,801	1,037,996
Intangible Assets	-	1	1
Total Assets	100,322	3,130,715	3,315,232

# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2018 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 17 – CAPITAL RISK MANAGEMENT

The Corporation'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 Corporation manages its share capital as capital, which as at April 30, 2018, totaled \$8,079,463 (2017 – \$8,079,463).

The Corporation 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 Corporation will be able to obtain debt or equity capital in the case of operating cash deficits.

The Corporation 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 Corporation 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 Corporation 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 Corporation's approach to capital management during the six months ended April 30, 2018.

### NOTE 18 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Corporation is exposed to various risks in relation to financial instruments. The Corporation's financial assets and liabilities by category are summarized in Note 2(o) of the October 31, 2017 Consolidated Financial Statements. The Corporation's risk management is coordinated by the officers and the board of directors and focuses on actively securing the Corporation's short to medium-term cash flows and raising finances for the Corporation's capital expenditure program. The Corporation does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Corporation is exposed are described below.

#### a) Foreign Currency Risk

Foreign exchange risk arises because of fluctuations in exchange rates. The Corporation conducts a significant portion of its business activities in foreign currencies. The Corporation's subsidiaries, principally located in South Africa, routinely transact in the local currency, exposing the Corporation 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 Corporation has outstanding debt obligations that are payable in South African Rand. The Corporation 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 Corporation 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 Corporation has credit risk exposure related to its economic dependence on two customers for its calcine sales (Note 14). The Corporation has assessed its exposure to credit risk and has determined that no significant risk exists from these concentrations of credit.

# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2018 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

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

**c) Liquidity Risk**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations when they become due. The Corporation 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 Corporation's holdings of cash. The Corporation has working capital of \$1,645,951 as at April 30, 2018. There can be no assurance that the Corporation 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 Corporation's bank loan is based on a fixed rate, and as such, the Corporation is not exposed to significant interest rate risk.

**e) Commodity Price Risk**

The Corporation'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 Corporation has the ability to address its price-related exposure through the use of sales contracts.

**f) Fair Value**

The Corporation 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 Corporation's financial assets measured at fair value through profit or loss use Level 1 valuation techniques during the year to date ended April 30, 2018 and year ended October 31, 2017. The carrying values of the Corporation's financial assets and liabilities approximate their fair values as at April 30, 2018.