



For the Nine Months Ended July 31, 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 July 31, 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)

### Statement of Financial Performance

	Note	April 30, 2018 \$	October 31, 2017 \$
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash		1,252,240	453,609
Trade Receivables	14	1,682,075	1,314,828
Income Taxes Receivable		-	-
Sales Tax Receivable	4	20,078	357
Inventories	5	685,983	472,221
Prepaid Expense and Deposits		25,496	36,220
		<u>3,665,873</u>	<u>2,277,235</u>
<b>NON-CURRENT</b>			
Property, Plant and Equipment	6	808,845	1,037,996
Intangible		1	1
		<u>4,474,719</u>	<u>3,315,232</u>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Trade and Other Payables	7	1,684,853	757,875
Sales Tax Payable		(859)	32,010
Income Taxes Payable		72,029	77,805
Current Portion of Bank Loan	8	174,801	310,819
		<u>1,930,824</u>	<u>1,178,509</u>
<b>NON-CURRENT</b>			
Bank Loan	8	-	106,063
Deferred Tax Liability			122,022
		<u>1,930,824</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		(1,344,476)	(1,463,628)
Deficit		(4,191,092)	(4,707,197)
		<u>2,543,895</u>	<u>1,908,638</u>
		<u>4,474,718</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)

### Income Statement

	Note	3 Months Ended			9 Months Ended		
		July 31	July 31	Variance	July 31	July 31	Variance
		2018	2017		2018	2017	
		\$	\$		\$	\$	
<b>SALES</b>		3,444,253	1,961,208	1,483,045	12,137,604	8,443,667	3,693,937
<b>COST OF SALES</b>	12	(3,209,160)	(1,756,888)	(1,452,272)	(11,204,417)	(7,554,442)	(3,649,975)
<b>GROSS PROFIT</b>		<u>235,093</u>	<u>204,320</u>	<u>30,773</u>	<u>933,187</u>	<u>889,225</u>	<u>43,962</u>
<b>EXPENSES</b>							
General and Administrative	13	(140,009)	(105,199)	(34,810)	(418,788)	(312,829)	(105,959)
Interest on Bank Loan	8	(5,838)	(12,762)	6,924	(25,747)	(42,420)	16,673
		<u>(145,847)</u>	<u>(117,961)</u>	<u>(27,886)</u>	<u>(444,535)</u>	<u>(355,249)</u>	<u>(89,286)</u>
<b>INCOME BEFORE OTHER ITEM</b>		89,246	86,359	2,887	488,652	533,976	-45,324
Interest Income		<u>8,546</u>	<u>2,996</u>	<u>5,550</u>	<u>53,645</u>	<u>12,177</u>	<u>41,468</u>
<b>INCOME BEFORE INCOME TAXES</b>		97,792	89,355	8,437	542,297	546,153	-3,856
Income Tax Recovery (Expense)		<u>(32,784)</u>	<u>76,709</u>	<u>(109,493)</u>	<u>(26,192)</u>	<u>49,563</u>	<u>(75,755)</u>
<b>NET INCOME FOR THE PERIOD</b>		65,008	166,064	-101,056	516,105	595,716	-79,611
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		-	1.00	-	-	1.00	-
Foreign Currency Translation (Loss) Gain		<u>-115,670</u>	<u>21,732</u>	<u>-137,402</u>	<u>119,153</u>	<u>27,014</u>	<u>92,139</u>
<b>NET COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>-50,662</u>	<u>187,796</u>	<u>-238,458</u>	<u>635,257</u>	<u>622,730</u>	<u>12,527</u>

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 \$	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, January 31, 2017</b>	47,426,195	8,079,463	(1,360,954)	(5,051,314)	1,667,195
<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	-	-	-	516,105	516,105
Foreign Currency Translation Gain	-	-	119,153	-	119,153
<b>Balance, July 31, 2017</b>	47,426,195	8,079,463	(1,344,475)	(4,191,092)	2,543,895

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

# CANAF GROUP INC.

## Consolidated Interim Statements of Cash Flows

For the Nine Months Ended July 31, 2018 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

		9 Months Ended	
		July 31	July 31
		2018	2017
	Note	\$	\$
<b>CASH PROVIDED BY (USED FOR):</b>			
<b>OPERATING ACTIVITIES</b>			
Net Income for the period		516,105	595,716
Non-Cash Items			
Depreciation – Cost of Sales		307,927	293,312
		<u>824,032</u>	<u>889,028</u>
Change in Non-Cash Working Capital Accounts	11	<u>176,304</u>	<u>(174,219)</u>
		<u>1,000,336</u>	<u>714,809</u>
<b>FINANCING ACTIVITY</b>			
Principal Repayments of Bank Loan		<u>(242,081)</u>	<u>(212,152)</u>
<b>INVESTING ACTIVITY</b>			
Purchase of Property, Plant and Equipment		<u>(78,776)</u>	<u>(238,866)</u>
<b>INCREASE (DECREASE) IN CASH</b>		679,479	263,791
Effect of Exchange Rate Changes on Cash		119,153	27,014
Cash, Beginning of the Period		<u>453,609</u>	<u>380,562</u>
<b>CASH, END OF THE PERIOD</b>		<u>1,252,240</u>	<u>671,367</u>

Supplemental Cash Flow Information (Note 11)

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

# CANAF INVESTMENTS INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 2018 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 1 – NATURE OF OPERATIONS

Canaf Investments Inc., “Formerly Canaf Group Inc.” (the “Corporation”) is incorporated in the Province of British Columbia 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 \$1,735,049 as at July 31, 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 September 26, 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 INVESTMENTS INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 2018 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

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

	July 31, 2018 \$	October 31, 2017 \$
South African Value-Added Tax (Payable) Receivable	20,078	(32,010)
Canadian Goods and Services Tax Receivable	859	357
	<hr/>	<hr/>
	20,937	(31,653)
	<hr/>	<hr/>

### NOTE 5 – INVENTORIES

Raw Materials	414,400	369,351
Finished Goods – Calcine	271,583	102,870
	<hr/>	<hr/>
	685,983	472,221
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# CANAF INVESTMENTS INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 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	-	16,423	1,387	-	-	955	78,053	-	96,818
Foreign Currency Translation	-	(94,606)	1,137	13,044	1,043	222	(1,552,195)	(37,208)	(1,668,563)
<b>Balance, April 30, 2018</b>	<b>7,423</b>	<b>78,526</b>	<b>18,301</b>	<b>175,805</b>	<b>14,055</b>	<b>4,500</b>	<b>3,181,262</b>	<b>98,013</b>	<b>3,577,885</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	-	1,669	643	409	460	367	290,597	13,782	307,927
Foreign Currency Translation	-	(1,566)	1,159	12,991	601	185	(1,622,501)	(41,389)	(1,650,521)
<b>Balance, April 30, 2018</b>	<b>-</b>	<b>9,528</b>	<b>16,614</b>	<b>175,673</b>	<b>12,507</b>	<b>552</b>	<b>2,493,198</b>	<b>60,969</b>	<b>2,769,040</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>68,998</b>	<b>1,687</b>	<b>132</b>	<b>1,549</b>	<b>3,948</b>	<b>688,064</b>	<b>37,044</b>	<b>808,845</b>

# CANAF INVESTMENTS INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 2018 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

### NOTE 7 – TRADE AND OTHER PAYABLES

	July 31, 2018 \$	October 31, 2017 \$
Trade Payables	1,636,557	706,085
Payroll Payable	30,017	27,790
Accrued Liability	18,279	24,000
	<u>1,684,853</u>	<u>757,875</u>

### NOTE 8 – BANK LOAN

	July 31, 2018 \$	October 31, 2017 \$
Bank Loan	174,801	416,882
Less: Current Portion	<u>(174,801)</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 (\$29,133 translated at July 31, 2018 exchange rate). During the nine months ended July 31, 2018, interest expense was \$25,747 (July 31, 2017 - \$42,420).

### NOTE 9 – SHARE CAPITAL

The Corporation is authorized to issue an unlimited number of common shares without par value. As at July 31, 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 July 31, 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:

- During the nine months ended July 31, 2018, the Corporation incurred professional fees of \$38,411 (2017 – \$30,282) to an Officer and Director and a former Officer and Director of the Corporation for administration and bookkeeping services.
- During the nine months ended July 31, 2018, the Corporation incurred consulting fees of \$65,981 (2017 – \$49,900) to an Officer (also a Director) of the Corporation for administration and management services.
- During the nine months ended July 31, 2018, the Corporation incurred management fees of \$99,260 (2017 – \$91,141) 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 INVESTMENTS INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 2018 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

### NOTE 11 – SUPPLEMENTAL CASH FLOW INFORMATION

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

	July 31 2018 \$	July 31 2017 \$
Trade Receivables	(367,247)	(263,439)
Income Taxes Receivable	-	
Sales Tax Receivable	(19,721)	16,295
Inventories	(213,762)	(101,271)
Prepaid Expense and Deposits	10,724	(11,946)
Trade and Other Payables	926,978	191,959
Sales Tax Payable	(32,869)	39,234
Income Taxes Payable/(Deferred)	(5,776)	(45,051)
Deferred Tax Liability	(122,022)	
	<u>176,304</u>	<u>(174,219)</u>

#### b) Other Items

	9 Months Ended	
Interest Paid	25,747	42,420
Interest Received	53,645	12,177
Income Tax Paid	101,606	

### NOTE 12 – COST OF SALES

	2018 \$	2017 \$	2018 \$	2017 \$
Inventories, Beginning of the Year	418,389	541,996	472,221	403,329
Analysis Fees	858	4,920	5,043	18,420
Depreciation	100,490	100,186	306,258	293,312
Electricity	127,923	44,883	385,520	224,979
Fuel, Oil and Lubricants	7,821	5,621	30,096	31,477
Professional and Project Management Fee	2,768	1,567	8,318	13,974
Medical Expenses	1,853	1,280	8,330	5,041
Product Purchases	2,684,479	1,285,173	8,864,135	5,889,634
Protective Clothing	2,781	2,260	7,880	7,072
Provident Fund	3,165	3,134	9,648	9,109
Machinery Rental	112,946	59,936	369,281	247,385
Repairs and Maintenance	155,020	42,757	419,233	209,032
Salaries and Benefits	99,795	97,708	307,268	291,581
Transportation	176,555	70,067	696,869	414,697
Inventories, End of the Year	<u>-685,983</u>	<u>-504,600</u>	<u>-685,983</u>	<u>-504,600</u>
	<u>3,208,860</u>	<u>1,756,888</u>	<u>11,204,117</u>	<u>7,554,442</u>

# CANAF INVESTMENTS INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 2018 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 13 – GENERAL AND ADMINISTRATIVE EXPENSES

#### GENERAL AND ADMIN EXPENSES

	3 Months Ended		9 Months Ended	
	July 31		July 31	
	2018	2017	2018	2017
	\$	\$	\$	\$
Bank Charges and Interest	11,582	1,216	13,160	2,655
Bad Debts	0	0	0	6,595
Consulting Fees	18,709	16,916	65,981	49,900
Management Fees	29,552	28,778	99,260	91,441
Office, Insurance and Sundry	15,364	21,441	42,218	52,289
Professional Fees	22,252	19,809	52,719	60,863
Promotion	0	286	0	675
Telephone	3,179	3,512	14,234	11,618
Transfer Agent and Filing Fees	3,986	750	12,720	7,077
Depreciation-Buildings	393		1,669	
Travel	11,305	12,491	30,575	29,716
Broad-Based Black Economic Empowerment	6,601		45,615	
Audit Fees	17,087		40,638	
	<u>140,009</u>	<u>105,199</u>	<u>418,788</u>	<u>312,829</u>

### NOTE 14 – ECONOMIC DEPENDENCE

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 news 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 INVESTMENTS INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 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.

	9 Months Ended		
	Canada	South Africa	Total
	\$	\$	\$
<b>July 31 2018</b>			
Net (Loss) Income for the Period	(180,112)	696,217	516,105
Revenues (Note 16)	-	12,137,604	12,137,604
Gross Profit	-	933,187	933,187
Depreciation	-	307,927	307,927
Interest Expense	-	25,747	25,747
Deferred Income Tax Expense	-	76,709	76,709
Current Assets	96,601	3,569,271	3,665,873
Property, Plant and Equipment (Note 7)	-	808,845	808,845
Intangible Assets	-	1	1
Total Assets	96,601	4,378,117	4,474,719
<b>12 Months Ends</b>			
<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 INVESTMENTS INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 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 July 31, 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 nine months ended July 31, 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 INVESTMENTS INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 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 July 31, 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 July 31, 2018 and year ended October 31, 2017. The carrying values of the Corporation's financial assets and liabilities approximate their fair values as at July 31, 2018.