

CANAF GROUP INC.

April 30, 2011 and 2010

Consolidated Financial Statements

(Expressed in U.S. dollars)

(Unaudited – Prepared by Management)

- Consolidated Balance Sheets
- Consolidated Statements of Operations and Deficit
- Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Income
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Notice to Reader

The accompanying unaudited interim consolidated financial statements of Canaf Group Inc. for the six month periods ended April 30, 2011 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company's independent auditors.

CANAF GROUP INC.

Consolidated Balance Sheets

(Expressed in U.S. Dollars)

	April 30, 2011 \$	October 31, 2010 \$
ASSETS		
CURRENT		
Cash	965,604	956,894
Accounts Receivable	2,343,938	1,749,114
Inventories (Note 3)	516,187	518,035
	<u>3,825,729</u>	<u>3,224,043</u>
Plant and Equipment (Note 4)	420,879	510,589
Intangible Assets (Note 2(h))	1	1
	<u>4,246,609</u>	<u>3,734,633</u>
LIABILITIES		
CURRENT		
Accounts Payable and Accrued Liabilities	2,449,150	1,596,828
Income Tax Payable	12,500	291,857
Due to Related Parties (Note 7)	673,346	796,841
	<u>3,134,996</u>	<u>2,685,526</u>
Future Income Tax Liability	136,698	136,786
Debentures (Note 5)	150,000	184,611
	<u>3,421,694</u>	<u>3,006,923</u>
SHAREHOLDERS' EQUITY		
Share Capital (Note 6)	8,079,463	8,079,463
Contributed Surplus (Note 6(a))	738,885	738,885
Accumulated Other Comprehensive Loss	189,661	130,095
Deficit	(8,183,094)	(8,220,733)
	<u>824,915</u>	<u>727,710</u>
	<u>4,246,609</u>	<u>3,734,633</u>

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

Approved by the Directors:

“David Way”

David Way, Director

“Brian Copsey”

Brian Copsey, Director

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

CANAF GROUP INC.

Consolidated Statements of Operations and Deficit

(Expressed in U.S. Dollars)

	Three Months Period Ended		Six Months Period Ended	
	2011	April 30, 2010	2011	April 30, 2010
	US\$	US\$	US\$	US\$
SALES	3,709,335	3,191,952	6,462,924	5,815,854
COST OF SALES - SCHEDULE	(3,325,814)	(2,425,741)	(5,898,688)	(4,666,572)
GROSS PROFIT (LOSS)	383,521	766,211	564,236	1,149,282
EXPENSES				
Amortization	8,331	2,343	16,324	4,685
Bank Charges and Interest	421	1,203	1,937	2,915
Consulting Fees	15,333	9,821	27,333	19,595
Interest on Debentures (recovery)	(650)	4,944	10,239	9,904
Interest on Long-Term Debts	-	16,423	-	30,754
Interest on Related Party Loans	10,490	14,074	21,465	27,901
Management Fees	55,990	46,771	102,201	88,290
Office, Insurance and Sundry	19,146	6,768	31,336	15,853
Professional Fees	41,207	33,878	81,720	59,002
Promotion	309	347	579	613
Realized Foreign Exchanges (Gain) Loss	(4,797)	(2,008)	(5,202)	(1,723)
Telephone	4,876	3,190	9,276	5,744
Transfer Agent and Filing Fees	8,627	7,864	9,651	8,625
Travel	15,291	467	23,086	1,740
	(174,574)	(146,085)	(329,945)	(273,898)
INCOME BEFORE OTHER ITEMS AND INCOME TAXES	208,947	620,126	234,291	875,384
OTHER ITEMS				
Interest income	2,594	87,255	6,842	87,968
INCOME BEFORE INCOME TAXES	211,541	707,381	241,133	963,352
Income Tax (Expenses) Recovery	(125,673)	(253,386)	(203,494)	(369,510)
NET INCOME FOR THE PERIOD	85,868	453,995	37,639	593,842
Deficit, Beginning of the Period	(8,268,962)	(8,632,438)	(8,220,733)	(8,772,285)
DEFICIT, END OF THE PERIOD	(8,183,094)	(8,178,443)	(8,183,094)	(8,178,443)
BASIC AND DILUTED LOSS PER SHARE	0.00	0.01	0.00	0.01
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	47,426,195	47,422,295	47,426,195	47,420,995

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

CANAF GROUP INC.

Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Income

(Expressed in US Dollars)

	Three Months Period Ended		Six Months Period Ended	
	2011	April 30, 2010	2011	April 30, 2010
	US\$	US\$	US\$	US\$
COMPREHENSIVE INCOME				
Net Income for the Period	85,868	453,995	37,639	593,842
Other Comprehensive Income:				
Foreign currency translation adjustment	114,127	15,925	57,566	24,894
COMPREHENSIVE INCOME FOR THE PERIOD	199,995	469,920	95,205	618,736
ACCUMULATED OTHER COMPREHENSIVE INCOME:				
Balance, Beginning of Period	75,534	(5,774)	130,095	(14,743)
Other Comprehensive Income				
Foreign currency translation adjustment	114,127	15,925	57,566	24,894
Balance, End of Period	189,661	10,151	189,661	10,151

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

CANAF GROUP INC.

Consolidated Statements of Cash Flows

(Expressed in U.S. Dollars)

	Three Months Period Ended		Six Months Period Ended	
	2011	April 30,	2011	April 30,
	US\$	US\$	US\$	US\$
CASH PROVIDED BY (USED FOR):				
OPERATING ACTIVITIES				
Net Income for the Period	85,868	453,995	37,639	593,842
Non-Cash Items				
Amortization	8,331	2,343	16,324	4,685
Amortization – Manufacturing Expense	86,025	89,948	172,050	180,096
	180,224	546,286	226,013	778,623
Changes in Non-Cash Working Capital Accounts (Note 8(a))	(46,033)	(456,772)	(143,594)	(655,787)
	134,191	89,514	82,419	122,836
FINANCING ACTIVITIES				
Repayment of Long-Term Debt	-	(686,012)	-	(666,470)
Debentures – Accrued Interest	(10,889)	4,944	(34,611)	9,904
	(10,889)	(681,068)	(34,611)	(656,566)
INVESTING ACTIVITIES				
Long-Term Investments	-	721,567	-	669,493
Purchase of Plant and Equipment	(4,645)	2,932	(98,664)	5,780
Mineral Property Exploration Costs	-	(84,910)	-	(133,180)
	(4,645)	639,589	(98,664)	542,093
INCREASE (DECREASE) IN CASH DURING THE PERIOD				
	118,657	48,035	(50,856)	8,363
Effect of exchange rate changes on cash and cash equivalents	114,127	15,925	59,566	24,894
Cash, Beginning of Period	732,820	550,784	956,894	581,487
CASH, END OF PERIOD	965,604	614,744	965,604	614,744

Supplemental Cash Flow Information (Note 8)

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

CANAF GROUP INC.

Notes to Consolidated Financial Statements

April 30, 2011 and 2010

(Expressed in U.S. Dollars)

NOTE 1 – NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN

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

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

These consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for consolidated interim financial information. Accordingly, they do not include all of the information and notes to the consolidated financial statements required by generally accepted accounting principles for complete consolidated financial statements. As at April 30, 2011, the Company has accumulated consolidated losses since inception of \$8,183,094. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. The results for the six month period ended April 30, 2011 are not necessarily indicative of the results that may be expected for the year ended October 31, 2011. The balance sheet at October 31, 2010 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

These interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company’s annual consolidated financial statements for the year ended October 31, 2010. For further information, refer to the consolidated financial statements and notes thereto included in the Company’s Annual Report to Shareholders for the year ended October 31, 2010.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) **Basis of Consolidation**

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

CANAF GROUP INC.

Notes to Consolidated Financial Statements

April 30, 2011 and 2010

(Expressed in U.S. Dollars)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Foreign Currency Translation

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

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

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

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

c) Inventories

Inventories consist of raw materials and finished goods (calcine), and are valued at the lower of cost and estimated net realizable value. Estimated net realizable value is the estimated selling price in the ordinary course of business less any cost of disposal.

Cost is determined on the following basis: Raw materials and packing material are valued at average cost. Finished goods are valued at raw material cost plus labour cost and an appropriate portion of the related fixed and variable manufacturing overhead expenses based on normal capacity.

Cost of sales is determined on a weighted average cost basis and includes transportation and handling costs.

d) Plant and Equipment

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

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

CANAF GROUP INC.

Notes to Consolidated Financial Statements

April 30, 2011 and 2010

(Expressed in U.S. Dollars)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Intangible Assets

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

f) 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.

g) Income Taxes

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

h) Share Capital

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

i) Stock-Based Compensation

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

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

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

j) Earnings per Common Share

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

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

CANAF GROUP INC.

Notes to Consolidated Financial Statements

April 30, 2011 and 2010

(Expressed in U.S. Dollars)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Comprehensive Income

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

l) Financial Instruments

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

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

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

m) Use of Estimates

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

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

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

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 01, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company’s reporting for the first quarter ending January 31, 2012. While the Company has begun assessing the adoption of IFRS for 2012, the financial reporting impact of the transition to IFRS is not expected to have a material effect on the Company’s Financial Statements.

o) 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 period ended April 30, 2011 and October 31, 2010.

CANAF GROUP INC.

Notes to Consolidated Financial Statements

April 30, 2011 and 2010

(Expressed in U.S. Dollars)

NOTE 3 – INVENTORIES

	April 30, 2011	October 31, 2010
	\$	\$
Stock consist of anthracite coal and calcine	516,187	518,035

NOTE 4 – PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
April 30, 2011			
Computer Equipment	17,150	16,862	288
Leasehold Improvements	302,604	208,865	93,739
Office Equipment	16,079	14,278	1,801
Plant and Equipment	3,664,555	3,348,400	316,155
Vehicles	62,598	53,702	8,896
	4,062,986	3,642,107	420,879

	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
October 31, 2010			
Computer Equipment	16,285	15,940	345
Leasehold Improvements	188,760	186,468	2,292
Office Equipment	15,202	13,114	2,088
Plant and Equipment	3,560,826	3,072,306	488,520
Vehicles	65,610	48,266	17,344
	3,846,683	3,336,094	510,589

NOTE 5 – DEBENTURES

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

During the period ended April 30, 2011, the Company paid/accrued interest expense of \$10,239 (2010 – \$9,904). As at April 30, 2011, the amount of debenture and interest payable to the related company was \$Nil (2010 – \$7,867).

CANAF GROUP INC.

Notes to Consolidated Financial Statements

April 30, 2011 and 2010

(Expressed in U.S. Dollars)

NOTE 6 – SHARE CAPITAL

a) Authorized

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

b) Issued and Outstanding Share Capital and Contributed Surplus

	Number of Shares	Share Capital \$	Contributed Surplus \$
Balance, October 31, 2010 and April 30, 2011	47,426,195	8,079,463	738,885

c) Stock Options

	Number of Options	Weighted Average Exercise Price \$
Balance, October 31, 2010 and April 30, 2011	1,100,000	0.10

As at April 30, 2011 and October 31, 2010, all outstanding stock options were vested with an exercise price of \$0.10 and expire on November 27, 2011.

NOTE 7 – 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:

	April 30, 2011 \$	October 31, 2010 \$
Director (a)	22,653	22,653
Company Controlled by a Director (b)	88,000	88,000
Company Controlled by a Director – Interest-Bearing (c)	562,693	686,188
	673,346	796,841

a) The balance is unsecured, non-interest bearing and has no specific terms of repayment. The Company paid consulting fees of \$24,000 (2010 – \$19,595) to the director for administration and management services.

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

CANAF GROUP INC.

Notes to Consolidated Financial Statements

April 30, 2011 and 2010

(Expressed in U.S. Dollars)

NOTE 7 – RELATED PARTY TRANSACTIONS (Continued)

- c) The balance is unsecured, bears interest at 7% per annum and has no specific terms of repayment. In April 30 2011, the outstanding amount included accrued interest of \$263,882 (October 31, 2010– \$242,418). The Company recorded interest expense of \$21,465.
- d) The Company paid accounting fees of \$27,009 (2010 – \$23,394) to a director for monthly administration and bookkeeping services.
- b) The Company paid consulting fees of \$3,333 (2010 – \$Nil) to the director for administration and management services.
- e) The Company paid management fees of \$102,201 (2010 – \$88,290) to the directors for administration and management services in relation to the Company’s coal processing business in South Africa.

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

NOTE 8 – SUPPLEMENTAL CASH FLOW INFORMATION

a) Change in Non-Cash Working Capital Accounts

	Three Months Period Ended		Six Months Period Ended	
	2011	April 30, 2010	2011	April 30, 2010
	\$	\$	\$	\$
Accounts Receivable	(1,087,690)	(1,039,828)	(594,824)	(1,408,609)
Prepaid Expenses	4,932	-	-	-
Inventories	380,184	(355,759)	1,848	(428,837)
Accounts Payable and Accrued Liabilities	836,152	750,319	852,322	1,075,631
Income Tax Payable	(126,097)	166,324	(279,445)	277,037
Due to Joint Venture Partner	-	30,000	-	24,750
Due to Related Parties	(53,514)	(7,828)	(123,495)	(195,759)
	(46,033)	(456,772)	(143,594)	(655,787)

b) Other Items

South Africa Income and Secondary Tax Paid	158,635	94,624	345,010	96,604
Interest Paid	34,611	-	34,611	-
Interest Received	(2,594)	(87,255)	(6,842)	(87,968)

NOTE 9 – 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 April 30, 2011, accounts receivable included \$2,213,647 due from these customers which were subsequently collected.

CANAF GROUP INC.

Notes to Consolidated Financial Statements

April 30, 2011 and 2010

(Expressed in U.S. Dollars)

NOTE 10 – SEGMENTED INFORMATION

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

	Canada \$	Sierra Leone \$	South Africa \$	Total \$
April 30, 2011				
Net (Loss) for the Period	(158,160)	-	195,799	37,639
Revenues	-	-	6,462,924	6,462,924
Gross Profit	-	-	564,236	564,236
Amortization	1,004	-	15,320	16,324
Amortization – Cost of Sales	-	-	172,050	172,050
Interest Expense	31,704	-	-	31,704
Income Tax Expense – Current	-	-	203,494	203,494
Current Assets	108,128	-	3,717,601	3,825,729
Plant and Equipment	288	-	420,591	420,879
Mineral Properties	-	-	-	-
Intangible Assets	-	-	1	1
Total Assets	108,416	-	4,138,193	4,246,609
December 31, 2010				
Net (Loss) Income for the Year	(264,061)	(412,481)	1,228,094	551,552
Revenues	-	-	11,807,383	11,807,383
Gross Profit	-	-	1,993,723	1,993,723
Amortization	474	-	8,896	9,370
Amortization – Cost of Sales	-	-	375,418	375,418
Interest Expense	75,148	-	76,333	151,481
Income Tax Expense – Current	-	-	655,740	655,740
Income Tax Recovery - Future	-	-	91,230	91,230
Current Assets	25,457	1,004	3,197,582	3,224,043
Plant and Equipment	345	4,000	506,244	510,589
Mineral Properties	-	-	-	-
Intangible Assets	-	-	1	1
Total Assets	25,802	5,004	3,703,827	3,734,633

CANAF GROUP INC.

Notes to Consolidated Financial Statements

April 30, 2011 and 2010

(Expressed in U.S. Dollars)

NOTE 11 – CAPITAL MANAGEMENT

The Company's objectives in managing its capital are to ensure adequate resources are available to fund its coal processing business in South Africa, to seek out and acquire new projects of merit, and to safeguard its ability to continue as a going concern. The Company manages its share capital as capital, which at April 30, 2011 totalled \$8,079,463 (October 31, 2010 – \$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 April 30, 2011.

NOTE 12 – MANAGEMENT OF FINANCIAL RISK

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

a) Fair Values

The carrying values of cash, accounts receivable, long-term investments, accounts payable and accrued liabilities, long-term debt, debentures, and amounts due to related parties and the joint venture partner approximate their fair value as at the balance sheet date.

b) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is dependent upon on the availability of credit from its supplier and its ability to generate sufficient fund from equity financing or from third parties to meet current and future obligations. There can be no assurances that such financing will be available on terms acceptable to the Company.

c) Credit Risk

Credit risk on financial instruments arises from the potential for counterparties to default on their obligations to the Company. Current credit exposure is on the loss that would be incurred if the Company's counterparties were to default at the same time.

The Company has a credit risk exposure related to its economic dependence on two customers for its calcine sales (Note 9). The Company has assessed its exposure to credit risk and has determined that no significant risks exist from these concentrations of credit.

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(Expressed in U.S. Dollars)

NOTE 12 – MANAGEMENT OF FINANCIAL RISK (Continued)

d) Interest Rate Risk

Interest on the Company's long-term debt is based on both fixed and variable rates and exposes the Company to interest rate risk. The Company has not entered into any derivative agreements to mitigate this risk.

e) Foreign Currency Risk

Foreign exchange risk arises because of fluctuations in exchange rates. The Company conducts a significant portion of its business activities in foreign currencies. The Company's subsidiary located in South Africa, routinely transacts in local currency, exposing the Company to potential foreign exchange risk in its financial position and cash flows.

The assets, liabilities, revenue and expenses that are denominated in foreign currencies will be affected by changes in the exchange rate between the United States dollar and these foreign currencies. The Company has outstanding debt obligations that are payable in Canadian dollars and has issued securities convertible or exercisable into common shares at values expressed in Canadian dollars.

The Company does not currently use financial instruments to mitigate this risk.

f) Commodity Price Risk

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

CANAF GROUP INC.

Schedules – Cost of Sales

(Expressed in U.S. Dollars)

	Three Months Period Ended		Six Months Period Ended	
	2011	April 30,	2011	April 30,
	US\$	2010	US\$	2010
		US\$		US\$
COST OF SALES				
Inventories, Beginning of the Period	903,107	376,905	518,035	308,802
Analysis fees	7,766	8,001	16,199	19,086
Amortization	86,025	89,948	172,050	180,096
Electricity	99,246	93,741	214,383	168,377
Fuel, oil and lubricants	2,726	1,715	4,597	3,090
Professional and project management fee	-	-	1,709	249
Medical expenses	1,803	2,216	1,803	2,364
Product purchases	2,388,271	2,304,018	4,842,021	4,188,033
Site establishment	-	-	-	535
Protective clothing	1,077	2,035	2,775	3,508
Rent – machinery	52,840	44,643	88,617	80,341
Rent – buildings	1,999	1,601	4,432	3,802
Repairs and maintenance	64,681	120,126	164,935	203,885
Salaries, wages and labour	72,649	60,122	176,141	127,108
Transportation	88,390	38,816	149,052	94,499
Foreign exchange gain	64,921	21,720	51,626	22,663
Inventories, End of the Period	(509,687)	(739,866)	(509,687)	(739,866)
	<u>3,325,814</u>	<u>2,425,741</u>	<u>5,898,688</u>	<u>4,666,572</u>