CANAF GROUP INC.

October 31, 2011 and 2010

Consolidated Financial Statements

(Expressed in U.S. dollars)

Independent Auditors’ Report

To the Shareholders of:
CANAF GROUP INC.

We have audited the accompanying consolidated financial statements of Canaf Group Inc. and its subsidiaries, which comprise the consolidated balance sheets as at October 31, 2011 and 2010, and the consolidated statements of operations and deficit, comprehensive income and accumulated other comprehensive loss, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canaf Group Inc. and its subsidiaries as at October 31, 2011 and 2010, and their financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“Watson Dauphinee & Masuch”

Chartered Accountants

Vancouver, B.C.
February 27, 2012

CANAF GROUP INC.

Consolidated Balance Sheets

As at October 31, 2011 and 2010

(Expressed in U.S. Dollars)

	2011 $	2010 $
ASSETS		
CURRENT		
Cash	208,915	956,894
Accounts Receivable	1,675,054	1,749,114
Sales Tax Receivable	34,061	-
Inventories (Note 3)	1,300,373	518,035
Prepaid Expenses and Deposits	34,134	-
Due from Related Party (Note 10)	3,462	-
	3,255,999	3,224,043
Plant and Equipment (Note 4)	448,897	510,589
Intangible Assets (Note 2(h))	1	1
	3,704,897	3,734,633
LIABILITIES		
CURRENT		
Accounts Payable and Accrued Liabilities	1,527,461	1,544,515
Sales Tax Payable	-	52,313
Income Tax Payable	117,247	291,857
Current Portion of Long-Term Debt (Note 6)	40,035	-
Due to Related Parties (Note 10)	694,898	796,841
	2,379,641	2,685,526
Future Income Tax Liability (Note 11(b))	65,758	136,786
Debentures (Note 7)	150,000	184,611
Long-Term Debt (Note 6)	78,537	-
	2,673,936	3,006,923
SHAREHOLDERS' EQUITY		
Share Capital (Note 8(b))	8,079,463	8,079,463
Contributed Surplus (Note 8(b))	738,885	738,885
Accumulated Other Comprehensive (Loss) Income	(141,420)	130,095
Deficit	(7,645,967)	(8,220,733)
	1,030,961	727,710
	3,704,897	3,734,633

Nature of Operations and Ability to Continue as a Going Concern (Note 1)
Economic Dependence (Note 13)
Commitment (Note 14)

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

Approved by the Directors:

"Christopher Way"	**"Zeny Manalo"**
Christopher Way, Director	Zeny Manalo, Director

CANAF GROUP INC.
Consolidated Statements of Operations and Deficit
For the Years Ended October 31, 2011 and 2010

(Expressed in U.S. Dollars)

	2011 $	2010 $
SALES	13,336,725	11,807,383
COST OF SALES – SCHEDULE	11,670,369	9,813,660
GROSS PROFIT	1,666,356	1,993,723
EXPENSES		
Amortization	9,241	9,370
Bank Charges and Interest	3,995	17,099
Consulting Fees	54,053	43,992
Foreign Exchange Gain	-	(8,509)
Interest on Debentures	16,255	20,619
Interest on Long-Term Debt	3,775	76,325
Interest on Related Party Loan	34,855	54,537
Management Fees	230,289	173,956
Office, Insurance and Sundry	58,902	56,549
Professional Fees	142,701	129,939
Promotion	1,182	1,223
Telephone	16,968	12,740
Transfer Agent and Filing Fees	14,824	15,260
Travel	80,890	11,235
	667,930	614,335
INCOME BEFORE OTHER ITEMS AND INCOME TAXES	998,426	1,379,388
OTHER ITEMS		
Interest Income	13,572	145,134
Write-Down Equipment	-	(30,824)
Write-Off Mineral Property (Note 5)	-	(377,636)
INCOME BEFORE INCOME TAXES	1,011,998	1,116,062
Income Taxes (Note 11(a))	(437,232)	(564,510)
NET INCOME FOR THE YEAR	574,766	551,552
Deficit, Beginning of the Year	(8,220,733)	(8,772,285)
DEFICIT, END OF THE YEAR	(7,645,967)	(8,220,733)
BASIC AND DILUTED EARNINGS PER SHARE	0.01	0.01
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	47,426,195	47,426,195
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – DILUTED	48,526,195	48,526,195

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

CANAF GROUP INC.

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Loss

For the Years Ended October 31, 2011 and 2010

(Expressed in US Dollars)

	2011 $	2010 $
COMPREHENSIVE INCOME		
Net Income for the Year	574,766	551,552
Other Comprehensive (Loss) Income – Foreign Currency Translation	(271,515)	144,838
Comprehensive Income for the Year	303,251	696,390
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME		
Balance, Beginning of the Year	130,095	(14,743)
Other Comprehensive (Loss) Income – Foreign Currency Translation	(271,515)	144,838
Balance, End of the Year	(141,420)	130,095

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

CANAF GROUP INC.

Consolidated Statements of Cash Flows

For the Years Ended October 31, 2011 and 2010

(Expressed in U.S. Dollars)

	2011 $	2010 $
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net Income for the Year	574,766	551,552
Non-Cash Items		
Amortization	9,241	9,370
Amortization – Cost of Sales	413,818	375,418
Write-Off Equipment	-	30,824
Write-Down Mineral Property	-	377,636
Future Income Tax Recovery	(67,215)	(91,230)
	930,610	1,253,570
Change in Non-Cash Working Capital Accounts (Note 9(a))	(1,338,404)	(917,335)
	(407,794)	336,235
FINANCING ACTIVITIES		
Long-Term Debt – Net Proceeds (Repayment)	133,777	(666,470)
Debentures – Net (Repayment) Proceeds	(34,611)	20,619
	99,166	(645,851)
INVESTING ACTIVITIES		
Maturity of Long-Term Investments	-	669,493
Acquisition of Plant and Equipment	(385,720)	-
Mineral Property Exploration Costs, Net of Diamond Sales	-	(74,613)
	(385,720)	594,880
INCREASE IN CASH	(694,348)	285,264
Effect of Exchange Rate Changes on Cash	(53,631)	90,143
Cash, Beginning of the Year	956,894	581,487
CASH, END OF THE YEAR	208,915	956,894

Supplemental Cash Flow Information (Note 9)

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

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.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Several adverse conditions as set out below cast material uncertainties on the Company’s ability to continue as a going concern.

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 two fiscal years. The Company is dependent on the operating cash flows from its coal processing business, and the continuing financial support of its shareholders and related parties 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 13). 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.

As at October 31, 2011, the Company has accumulated consolidated losses since inception of $7,645,967.

These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared using 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 51% owned inactive 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 upon consolidation.

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 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. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Foreign Currency Translation (Continued)

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.

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

e) Mineral Property

The Company capitalizes all expenditures related to the acquisition, exploration and development of its mineral property until such time as the property is placed into commercial production, abandoned, sold or considered to be impaired in value. The sale of diamonds recovered from exploration activities are offset against capitalized exploration costs. Costs of an abandoned property are written off to operations.

Although the Company has taken steps to verify the title to mineral properties in which it has an interest in accordance with general industry standards, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and, as such, title may be affected.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Asset Retirement Obligation

The Company records the fair value of a liability for an asset retirement obligation, including site closure and reclamation costs associated with the abandonment and restoration of mineral properties, in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company records the estimated present value of future cash flows associated with site closure and reclamation as a liability when the liability is incurred and increases the carrying value of the related assets by that amount. The liability is accreted over time for changes in the fair value through charges to accretion expense. The costs capitalized to the related assets are depleted to earnings in a manner consistent with the underlying assets.

As at October 31, 2011 and 2010, the Company has no material asset retirement obligations relating to the restoration of its mineral property.

g) Impairment of Long-Lived Assets

Long-lived assets are reviewed by the Company for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds the undiscounted future cash flows expected to result from the use of the asset and its eventual disposition.

h) 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.

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) 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.

k) 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Stock-Based Compensation

The Company recognizes compensation cost for stock 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.

m) Earnings per Common Share

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

n) 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.

o) 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 cash as held-for-trading, and its accounts receivable and amount owing from related party as loans and receivable. Accounts payable and accrued liabilities, amounts owing to related parties, long-term debt, and debentures are classified as other financial liabilities.

p) 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 consolidated 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.

(Expressed in U.S. Dollars)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) 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 cannot be reasonably estimated at this time.

r) 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 years ended October 31, 2011 and 2010.

NOTE 3 – INVENTORIES

	2011 $	2010 $
Raw Materials	374,428	308,044
Finished Goods – Calcine	925,945	209,991
	1,300,373	518,035

NOTE 4 – PLANT AND EQUIPMENT

	Cost $	Accumulated Amortization $	Net Book Value $
2011			
Computer Equipment	14,488	14,488	-
Leasehold Improvements	166,142	165,769	373
Office Equipment	13,381	12,221	1,160
Plant and Equipment	3,707,446	3,264,530	442,916
Vehicles	59,557	55,109	4,448
	3,961,014	3,512,117	448,897
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 – MINERAL PROPERTY

	October 31, 2009 $	Additions 2010 $	October 31, 2010 $	Additions 2011 $	October 31, 2011 $
Sierra Leone					
Gendema and Tongo Property					
Exploration Costs	274,862	123,980	398,842	-	-
Amortization of Equipment	7,488	13,296	20,784	-	-
Net Proceeds from Diamond Sales	(22,083)	(49,368)	(71,451)	-	-
Abandonment of Property	-	(348,175)	(348,175)	-	-
	260,267	(260,267)	-	-	-

In October 2008, the Company acquired a 25-acre three-year mining lease for an annual lease and surface rent of approximately $10,000. The Company was subject to a royalty payable to the land owners for 10% of the gross diamond sales realized during the term of the lease.

In June 2009, the Company entered into a joint venture agreement with a private Sierra Leonean mining company (the “Joint Venture Partner”) for the exploration of the property with the net profit shared equally between the Company and the Joint Venture Partner. The Company was the operator of the project and the Joint Venture Partner provided the required exploration equipment.

During the year ended October 31, 2010, the Company abandoned the property and recorded a write-off of $377,636 which included all capitalized mineral property costs of $348,175 and a balance of $29,461 due from the Joint Venture Partner.

NOTE 6 – LONG-TERM DEBT

	2011 $	2010 $
Bank Loan	118,572	-
Less: Current Portion	(40,035)	-
	78,537	-

The bank loan bears interest at 8% per annum, matures on July 1, 2014, and is secured by the Company’s pilot modular impact crusher acquired in June 2011. During the year ended October 31, 2011, the Company incurred interest expense totaling $3,775 (2010 – $Nil).

The bank loan is repayable in South African Rand with a monthly blended payment of Rand 31,591. As at October 31, 2011, the outstanding bank loan balance was Rand 935,632 ($118,572).

The future principal payments are as follows:

Year	$
2012	40,035
2013	43,358
2014	35,179
	118,572

(Expressed in U.S. Dollars)

NOTE 7 – 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 8% per annum compounded annually effective May 1, 2011, and are secured by a first floating charge on all property and assets of the Company. The maturity of the debentures has been extended to May 1, 2013, at which date the debentures may be converted into common shares of the Company at $0.25 per common share. Prior to May 1, 2011, the debentures were subject to an interest rate of 12% per annum compounded annually.

During the year ended October 31, 2011, the Company incurred interest expense totalling $16,255 (2010 – $20,619). There was no interest outstanding as at October 31, 2011 (2010 – $34,611).

As at October 31, 2011, the amount of debenture and interest payable to the related company was $50,000 (2010 – $61,432). During the year ended October 31, 2011, interest expense paid to the related company was $5,415 (2010 – $6,861).

NOTE 8 – SHARE CAPITAL

a) Authorized Capital

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, 2009	47,426,195	8,079,463	738,885
Shares Issued – Nil	-	-	-
Balance, October 31, 2010 and 2011	47,426,195	8,079,463	738,885

c) Stock Options

	Number of Options	Weighted Average Exercise Price $
Balance, October 31, 2009	1,357,000	0.13
Expired	(57,000)	0.30
Cancelled	(200,000)	0.28
Balance, October 31, 2010	1,100,000	0.10
Issued – Nil	-	-
Balance, October 31, 2011	1,100,000	0.10

All outstanding stock options expired on November 27, 2011 unexercised.

(Expressed in U.S. Dollars)

NOTE 9 – SUPPLEMENTAL CASH FLOW INFORMATION

a) Change in Non-Cash Working Capital Accounts

	2011 $	2010 $
Accounts Receivable	(153,621)	(1,075,491)
Sales Tax Receivable	(88,289)	66,481
Due from Related Party	(3,463)	-
Inventories	(948,971)	(163,043)
Prepaid Expenses and Deposits	(34,134)	-
Accounts Payable and Accrued Liabilities	149,643	144,895
Income Tax Payable	(157,626)	211,532
Due to Joint Venture Partner	-	(34,710)
Due to Related Parties	(101,943)	(66,999)
	(1,338,404)	(917,335)

b) Other Items

South Africa Income and Secondary Tax Paid	655,064	456,708
Interest Paid	54,641	76,325
Interest Received	13,572	145,134

NOTE 10 – RELATED PARTY TRANSACTIONS

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

Due from Director (a)	3,462	-
Due to Related Parties:		
Director (b)	-	22,653
Company Controlled by a Director (c)	88,000	88,000
Company Controlled by a Director – Interest-Bearing (d)	606,898	686,188
	694,898	796,841

a) The amount due from a director (also an officer) for an advance made is unsecured, non-interest bearing, and has no specified terms of repayment. The Company incurred accounting fees of $54,626 (2010 – $56,513) to this director for monthly administration and bookkeeping services.

b) The amount due to a director (also an officer) is unsecured, non-interest bearing and has no specific terms of repayment. The Company incurred consulting fees of $48,295 (2010 – $37,833) to the director for administration and management services in relation to the Company's exploration activities in Sierra Leone.

c) The amount due to a company controlled by a director (also an officer) for advances made is unsecured, non-interest bearing and has no specific terms of repayment.

(Expressed in U.S. Dollars)

NOTE 10 – RELATED PARTY TRANSACTIONS (Continued)

d) The amount due to a company controlled by a director (also an officer) for advances made is unsecured, bears interest at 6% per annum effective November 1, 2010, and has no specific terms of repayment. Prior to November 1, 2010, the outstanding balance was subject to an interest rate of 7% per annum. As at October 31, 2011, the outstanding amount included accrued interest of $277,273 (2010 – $242,418). The Company recorded interest expense of $34,855 (2010 – $54,537).

e) The Company paid consulting fees of $5,758 (2010 – $6,160) to a former director (also an officer) for administration and management services.

f) The Company paid management fees of $230,289 (2010 – $173,956) 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 11 - INCOME TAXES

a) Provision for Income Taxes

A reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2011 $	2010 $
Expected Income Tax Expense	271,553	320,869
Amounts Not Deductible for Tax	143,185	136,794
Amounts Not Taxable	(140,708)	(182,092)
Effect of Differences in Tax Rates in Foreign Jurisdictions	18,906	(16,326)
Effect of Reduction in Statutory Tax Rates	1,243	23,490
Expiry of Non-Capital Loss Carry-Forward	52,304	14,759
South African Secondary Tax	54,832	46,231
Other	(21,391)	80,458
Change in Valuation Allowance	57,308	140,327
Income Tax Expense	437,232	564,510
Current Income Tax Expense	504,447	655,740
Future Income Tax Recovery	(67,215)	(91,230)
Income Tax Expense	437,232	564,510

(Expressed in U.S. Dollars)

NOTE 11 - INCOME TAXES (Continued)

b) Future Income Taxes

The significant components of the Company's Canadian and South African future income tax assets and liabilities are as follows:

	2011 $	2010 $
Future Income Tax Assets		
Mineral Property	51,123	49,860
Non-Capital Losses Carried Forward	686,188	620,922
Share Issue Costs	-	9,221
	737,311	680,003
Valuation Allowance	(737,311)	(680,003)
Net Future Income Tax Assets	-	-
Future Income Tax Liability – Plant and Equipment	65,758	136,786

As at October 31, 2011, the Company has accumulated Canadian non-capital losses of approximately $2,746,000 which are available to reduce future taxable income in Canada and expire as follows:

2015	401,000
2026	336,000
2027	476,000
2028	501,000
2029	152,000
2030	515,000
2031	365,000
	2,746,000

As at October 31, 2011, the Company has Canadian tax deductible exploration expenditures of $202,917 which can be carried forward indefinitely to offset future taxable income in Canada. No provision for Ugandan and Sierra Leonean income taxes has been recorded as the Company is unable to accurately determine the amount of its loss carry forwards and other tax attributes at this time.

Future tax benefits which may arise as a result of these losses have not been recognized and would be offset by a valuation allowance.

(Expressed in U.S. Dollars)

NOTE 12 – SEGMENTED INFORMATION

The Company operates in three reportable operating segments, including the head office operations in Canada, the exploration of mineral property in Sierra Leone which was abandoned in 2010, and the coal processing business in South Africa.

	Canada $	Sierra Leone $	South Africa $	Total $
2011				
Net (Loss) Income for the Year	(326,804)	-	901,570	574,766
Revenues	-	-	13,336,725	13,336,725
Gross Profit	-	-	1,666,356	1,666,356
Amortization	345	-	8,896	9,241
Amortization – Cost of Sales	-	-	413,818	413,818
Interest Expense	51,110	-	3,775	54,885
Income Tax Expense – Current	-	-	504,447	504,447
Income Tax Recovery – Future	-	-	(67,215)	(67,215)
Current Assets	89,592	-	3,166,407	3,255,999
Plant and Equipment	-	-	448,897	448,897
Intangible Assets	-	-	1	1
Total Assets	89,592	-	3,615,305	3,704,897
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
Intangible Assets	-	-	1	1
Total Assets	25,802	5,004	3,703,827	3,734,633

(Expressed in U.S. Dollars)

NOTE 13 – 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 upon these customers. The Company's exposure to credit risk is limited to the carrying value of its accounts receivable. As at October 31, 2011, accounts receivable of $1,675,054 (2010 – $1,749,114) due from these customers were collected subsequent to year-end.

NOTE 14 – COMMITMENT

The Company has entered into an agreement to lease premises for its coal processing plant in South Africa for a term of five years expiring on January 1, 2016. Minimum annual lease payments are as follows:

Year	$
2012	304,149
2013	304,149
2014	304,149
2015	304,149
2016	50,691
	1,267,287

NOTE 15 – CAPITAL MANAGEMENT

The Company's objectives in managing its capital are to ensure that 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 October 31, 2011 totalled $8,079,463 (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 institution, 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 requirement, and has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future. There were no changes in the Company's approach to capital management during the year ended October 31, 2011.

NOTE 16 – 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, accounts payable and accrued liabilities, long-term debt, debentures, and amounts due from and to related parties 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 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 (Note 1).

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 13). The Company has assessed its exposure to credit risk and has determined that no significant risks exist from these concentrations of credit.

d) Interest Rate Risk

Interest on the Company's long-term debt, debentures and amount due to a related party is based on fixed interest rates. The Company has not entered into any derivative agreements to mitigate the interest rate 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 subsidiaries, principally located in South Africa, routinely transact in the local currency, exposing the Company to potential foreign exchange risk in its financial position and cash flows.

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

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

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.

Schedule – Cost of Sales

For the Years Ended October 31, 2011 and 2010

(Expressed in U.S. Dollars)

	2011 $	2010 $
Inventories, Beginning of the Year	518,035	308,802
Amortization	413,818	375,418
Analysis Fees	30,075	34,196
Electricity	452,114	481,910
Fuel, Oil and Lubricants	9,122	6,934
Medical Expenses	4,574	2,681
Product Purchases	10,488,318	8,112,797
Professional and Project Management Fee	1,735	252
Protective Clothing	9,127	6,379
Rent	203,940	190,873
Repairs and Maintenance	257,305	289,789
Salaries, Wages and Labour	287,694	250,522
Site Establishment	-	540
Transportation	461,519	224,412
Foreign Exchange (Loss) Gain	(166,634)	46,190
Inventories, End of the Year	(1,300,373)	(518,035)
	11,670,369	9,813,660