



For the Six Months Ended April 30, 2017

Consolidated Interim Financial Statements

(Expressed in U.S. dollars)

(Unaudited – Prepared by Management)

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

NOTICE OF NO AUDITOR REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited consolidated interim financial statements of Canaf Group Inc. for the period ended April 30, 2017 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company and are the responsibility of the Company's management.

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

CANAF GROUP INC.

Consolidated Interim Statements of Financial Position

(Expressed in U.S. Dollars)

(Unaudited)

	Note	April 30, 2017 \$	October 31, 2016 \$
ASSETS			
CURRENT			
Cash		-	380,562
Trade Receivables	14	2,499,259	643,645
Sales Tax Receivable	4	1,471	17,870
Inventories	5	541,996	403,329
Prepaid Expense and Deposits		35,194	27,220
		<u>3,077,920</u>	<u>1,472,626</u>
NON-CURRENT			
Property, Plant and Equipment	6	1,253,497	1,256,691
Intangible		1	1
		<u>4,331,418</u>	<u>2,729,318</u>
LIABILITIES			
CURRENT			
Bank Overdraft		6,573	-
Trade and Other Payables	7	1,784,836	540,065
Sales Tax Receivable		27,511	-
Income Taxes Payable		947	941
Current Portion of Bank Loan	8	153,581	298,244
		<u>1,973,448</u>	<u>839,250</u>
NON-CURRENT			
Bank Loan	8	406,699	403,986
Deferred Tax Liability		47,363	17,108
		<u>2,427,510</u>	<u>1,260,344</u>
SHAREHOLDERS' EQUITY			
Share Capital	9	8,079,463	8,079,463
Accumulated Other Comprehensive Loss – Foreign Currency Translation Reserve		(1,356,202)	(1,361,484)
Deficit		(4,819,353)	(5,249,005)
		<u>1,903,908</u>	<u>1,468,974</u>
		<u>4,331,418</u>	<u>2,729,318</u>

Nature of Operations (Note 1)
Economic Dependence (Note 14)
Commitment (Note 15)
Segment Information (Note 16)

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

Approved on Behalf of the Board:

“Christopher Way”

Christopher Way, Director

“Kevin Corrigan”

Kevin Corrigan, Director

CANAF GROUP INC.

Consolidated Interim Statements of Comprehensive Income

(Expressed in U.S. Dollars)

(Unaudited)

		Three Months Ended		Six Months Ended	
		April 30,		April 30,	
		2017	2016	2017	2016
	Notes	\$	\$	\$	\$
SALES		3,490,753	757,843	6,482,459	1,780,616
COST OF SALES	12	3,191,729	718,730	5,797,554	1,870,713
GROSS PROFIT (LOSS)		299,024	39,113	684,905	(90,097)
EXPENSES					
General and Administrative	13	103,052	83,427	207,630	176,677
Interest on Bank Loan	8	14,336	18,733	29,658	38,373
		(117,388)	(102,160)	(237,288)	(215,050)
INCOME (LOSS)					
BEFORE OTHER ITEMS		181,636	(63,047)	447,617	(305,147)
Interest Income		4,207	638	9,181	2,073
INCOME (LOSS)					
BEFORE INCOME TAXES		185,843	(62,409)	456,798	(303,074)
Income Taxes		46,118	21,027	(27,146)	(32,790)
NET INCOME (LOSS) FOR THE PERIOD		231,961	(41,382)	429,652	(335,864)
OTHER COMPREHENSIVE LOSS					
Foreign Currency Translation Gain (Loss)		4,752	130,914	5,282	(65,922)
NET COMPREHENSIVE (LOSS)					
INCOME FOR THE PERIOD		236,713	89,531	434,934	(401,786)
BASIC AND DILUTED					
EARNINGS PER SHARE		0.00	0.00	0.01	(0.01)
WEIGHTED AVERAGE NUMBER OF					
COMMON SHARES OUTSTANDING –					
BASIC AND DILUTED		47,426,195	47,426,195	47,426,195	47,426,195

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

CANAF GROUP INC.

Consolidated Interim Statements of Changes in Equity

(Expressed in U.S. Dollars)

(Unaudited)

	Number of Common Shares	Share Capital \$	Reserve for Stock Options \$	Foreign Currency Translation Reserve \$	Deficit \$	Total Shareholders' Equity \$
Balance, October 31, 2015	47,426,195	8,079,463	-	(1,378,574)	(5,069,850)	1,631,039
Net Income for the Period	-	-	-	-	(335,864)	(335,864)
Foreign Currency Translation Loss	-	-	-	(65,922)	-	(65,922)
Balance, April 30, 2016	47,426,195	8,079,463	-	(1,444,496)	(5,405,714)	1,229,253
Balance, October 31, 2016	47,426,195	8,079,463	-	(1,361,484)	(5,249,005)	1,468,974
Net Loss for the Period	-	-	-	-	429,652	429,652
Foreign Currency Translation Gain	-	-	-	5,282	-	5,282
Balance, April 30, 2017	47,426,195	8,079,463	-	(1,356,202)	(4,819,353)	1,903,908

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

CANAF GROUP INC.

Consolidated Interim Statements of Cash Flows

(Expressed in U.S. Dollars)

(Unaudited)

		Three Months Ended		Six Months Ended	
		April 30,		April 30,	
		2017	2016	2017	2016
	Notes	\$	\$	\$	\$
CASH PROVIDED BY (USED FOR):					
OPERATING ACTIVITIES					
Net Income (Loss) for the Period		231,961	(41,382)	429,652	(335,864)
Non-Cash Items					
Depreciation – Cost of Sales		98,293	83,591	193,126	167,362
		330,254	42,209	622,778	(168,502)
Change in Non-Cash Working Capital Accounts	11(a)	(714,084)	27,223	(683,313)	249,373
		(383,830)	69,432	(60,535)	80,871
FINANCING ACTIVITIES					
Loan Payable		-	-	-	-
Principal Repayments of Bank Loan		(68,604)	25,909	(141,950)	(153,124)
		(68,604)	25,909	(141,950)	(153,124)
INVESTING ACTIVITY					
Purchase of Property, Plant and Equipment		(154,697)	(134,645)	(189,932)	19,822
INCREASE (DECREASE) IN CASH		(607,131)	(39,304)	(392,417)	(54,431)
Effect of Exchange Rate Changes on Cash		4,752	130,914	5,282	(65,922)
Cash, Beginning of the Period		595,806	671,359	380,562	881,322
CASH, END OF THE PERIOD		(6,573)	762,969	(6,573)	762,969

Supplemental Cash Flow Information (Note 11)

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

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 1 – NATURE OF OPERATIONS

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

The head office, principal address, and records office of the Company are located at Suite 500 – 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2P6.

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

The Company’s ability to continue as a going concern is dependent upon its ability to generate profitable operations from its coal processing business. Sales of the Company are substantially derived from two customers, and as a result, the Company is economically dependent on these customers (Note 14). The Company is dependent on the operating cash flows from its coal processing business and the financial support of its shareholders and related parties to finance its operations and to discharge liabilities in the normal course of business. Loss of a customer or reduced sales from a customer may have a material adverse effect on the Company’s financial condition.

The Company has working capital of \$1,104,472 as at April 30, 2017. Management believes that the Company has sufficient cash resources to meet its obligations for at least 12 months from the end of the reporting period.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

The consolidated interim financial statements have been prepared in accordance to IAS 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were approved and authorized for issue by the Board of Directors on June 15, 2017.

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 Company’s annual financial statements for the year ended October 31, 2016. The accounting policies, methods of computation and presentation applied in these financial statements are consistent with those of the previous financial year.

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 3 – ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new accounting standards, amendments to standards, and interpretations have been issued but not yet effective up the date of issuance of the Company's consolidated financial statements. The Company intends to adopt the following standards when it becomes effective.

a) IFRS 9 – Financial Instruments

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The mandatory effective date has been set for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company does not intend to early adopt IFRS 9. The Company has not yet determined the impact of this standard on its consolidated financial statements.

b) IFRS 15 – Revenue from Contracts with Customers

IFRS 15 clarifies the principles for recognizing revenue from contracts with customers. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company does not intend to early adopt IFRS 15. The Company has not yet determined the impact of this standard on its consolidated financial statements.

NOTE 4 – SALES TAX RECEIVABLE (PAYABLE)

	April 30, 2017	October 31, 2016
	\$	\$
South African Value-Added Tax Receivable (Payable)	(27,511)	17,298
Canadian Goods and Services Tax Receivable	1,471	572
	<u>(26,040)</u>	<u>17,870</u>

NOTE 5 – INVENTORIES

Raw Materials	316,033	286,009
Finished Goods – Calcine	225,963	117,320
	<u>541,996</u>	<u>403,329</u>

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

	Land \$	Building	Computer Equipment \$	Leasehold Improvements \$	Office Equipment \$	Plant and Equipment \$	Furniture & Fittings	Vehicles \$	Total \$
COST									
Balance, October 31, 2016	7,423	76,115	15,971	170,873	12,192	4,711,642	-	101,159	5,095,375
Additions	-	91,581	-	-	699	66,645	3,512	20,012	182,449
Foreign Currency Translation	-	561	107	1,148	88	20,057	-	381	22,342
Balance, April 30, 2017	7,423	168,257	16,078	172,021	12,979	4,798,344	3,512	121,552	5,300,166
ACCUMULATED DEPRECIATION									
Balance, October 31, 2016	-	6,597	15,172	163,132	10,914	3,566,537	-	76,332	3,838,684
Depreciation	-	1,265	187	5,252	483	180,072	65	5,805	193,126
Foreign Currency Translation	-	40	103	1,142	76	13,268	-	230	14,859
Balance, April 30, 2017	-	7,902	15,462	169,526	11,473	3,759,877	65	82,364	4,046,669
NET BOOK VALUE									
October 31, 2016	7,423	69,518	799	7,741	1,278	1,145,105		24,827	1,256,691
April 30, 2017	7,423	160,355	616	2,495	1,506	1,038,467	3,447	39,188	1,253,497

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 7 – TRADE AND OTHER PAYABLES

	April 30, 2017	October 31, 2016
	\$	\$
Trade Payables	1,772,836	516,065
Accrued Liability	12,000	24,000
	<u>1,784,836</u>	<u>540,065</u>

NOTE 8 – BANK LOAN

Bank Loan	560,280	702,230
Less: Current Portion	<u>(153,581)</u>	<u>(298,244)</u>
	<u>406,699</u>	<u>403,986</u>

The bank loan bears interest at 9.25% per annum, matures on January 7, 2019, and is secured by the Company's furnace acquired with the proceeds from the loan. The bank loan is repayable over 42 months in blended monthly payments of Rand 393,779 (\$29,230 translated at October 31, 2016 exchange rate). During the period ended April 30, 2017, the Company incurred interest expense totaling \$29,658 (October 31, 2017 – \$71,721).

NOTE 9 – SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without par value. As at April 30, 2017, the Company had 47,426,195 common shares issued and outstanding as presented in the consolidated statements of changes in shareholders' equity. There are no stock options and share purchase warrants outstanding as at October 31, 2016 and April 30, 2017.

NOTE 10 – 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:

- a) During the period ended April 30, 2017, the Company incurred accounting fees of \$20,282 (2016 – \$20,202) to an Officer (also a Director) of the Company for administration and bookkeeping services.
- b) During the period ended April 30, 2017, the Company incurred consulting fees of \$32,984 (2016 – \$34,631) to an Officer (also a Director) of the Company for administration and management services.
- d) The Company paid management fees of \$62,663 (2016 – \$51,096) to three Directors of the Company for administration and management services in relation to the Company's coal processing business in South Africa.

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

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 11 – SUPPLEMENTAL CASH FLOW INFORMATION

a) Change in Non-Cash Working Capital Accounts

	Three Months Ended		Six Months Ended	
	2017	April 30, 2016	2017	April 30, 2016
	\$	\$	\$	\$
Trade Receivables	(1,200,693)	30,952	(1,855,614)	392,532
Sales Tax Receivable	4,433	(785)	16,399	17,529
Inventories	(148,623)	(9,422)	(138,667)	152,137
Prepaid Expenses and Deposits	(6,668)	(3,421)	(7,974)	(2,057)
Trade and Other Payables	654,503	384	1,244,771	(345,556)
Sales Tax Payable	27,511	9,909	27,511	9,909
Income Taxes Payable	(44,547)	(394)	30,261	24,879
	(714,084)	27,223	(683,313)	249,373

b) Other Items

Interest Paid	14,336	18,733	29,658	38,373
Interest Received	4,207	638	9,181	2,073

NOTE 12 – COST OF SALES

	Three Months Ended		Six Months Ended	
	2017	April 30, 2016	2017	April 30, 2016
	\$	\$	\$	\$
Inventories, Beginning of the Period	403,329	350,441	403,329	512,000
Analysis Fees	6,954	3,871	13,500	6,714
Depreciation	98,293	83,591	193,126	167,362
Electricity	146,832	18,427	180,096	63,337
Fuel, Oil and Lubricants	8,117	3,223	25,856	4,502
Machinery Rental	91,033	28,352	187,449	51,242
Medical Expenses	3,550	1,348	3,761	1,516
Product Purchases	2,620,165	461,970	4,604,461	1,064,582
Professional and Project Management Fee	8,951	10,670	12,407	11,480
Protective Clothing	3,155	2,004	4,812	2,852
Provident Fund	3,038	2,614	5,975	5,318
Repairs and Maintenance	84,255	20,904	166,275	69,255
Salaries and Benefits	91,111	63,201	193,873	141,846
Transportation	174,898	38,647	344,630	139,240
Foreign Exchange Gain/Loss	(9,956)	(10,670)	-	(10,670)
Inventories, End of the Period	(541,996)	(359,863)	(541,996)	(359,863)
	3,191,729	718,730	5,797,554	1,870,713

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 13 – GENERAL AND ADMINISTRATIVE EXPENSES

	Three Months Ended		Six Months Ended	
	2017	April 30, 2016	2017	April 30, 2016
	\$	\$	\$	\$
Bank Charges and Interest	704	686	1,439	1,483
Bad Debts	6,595		6,595	-
Consulting Fees	16,411	16,888	32,984	34,631
Management Fees	27,461	22,796	62,663	51,096
Office, Insurance and Sundry	13,071	9,333	30,437	23,096
Professional Fees	17,367	16,560	41,054	36,760
Promotion	225	179	389	325
Telephone	3,995	3,902	8,106	7,083
Transfer Agent and Filing Fees	6,447	5,517	6,738	6,028
Travel	10,776	7,566	17,225	16,175
	103,052	83,427	207,630	176,677

NOTE 14 – 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, 2017, trade receivables of \$2,499,259 were due from these customers and were collected subsequent to period-end.

NOTE 15 – COMMITMENT

The Company has an agreement to lease premises for its coal processing plant in South Africa for a term of ten years, expiring on December 31, 2020. The agreement offers the Company, in lieu of rent, feedstock coal to be delivered to its adjacent premises, which it purchases at market price. Should the Company decide to purchase feedstock coal from an alternative supplier which the lessor is otherwise able to provide, then a monthly rent of Rand 200,000 (\$14,846) is payable. To date, the Company has not been required to pay any rent for the premises as it has continued to purchase feedstock coal from the landlord.

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 16 – SEGMENT INFORMATION

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

	Canada \$	South Africa \$	Total \$
April 30, 2017			
Net (Loss) Income for the Period	21,720	407,932	429,652
Revenues (Note 15)	-	6,482,459	6,482,459
Gross Profit (Loss)	-	684,905	684,905
Depreciation – Cost of Sales	-	193,126	193,126
Interest Expense	-	29,658	29,658
Current Income Taxes Expense	-	-	-
Deferred Income Taxes Expense	-	27,146	27,146
Current Assets	72,450	3,005,470	3,077,920
Property, Plant and Equipment	-	1,253,497	1,253,497
Intangible Assets	-	1	1
Total Assets	72,450	4,258,968	4,331,418
	Canada \$	South Africa \$	Total \$
October 31, 2016			
Net Loss for the Year	(176,785)	(2,370)	(179,155)
Revenues	-	4,703,528	4,703,528
Gross Profit	-	103,065	103,065
Depreciation – Cost of Sales	-	345,188	345,188
Interest Expense	-	71,721	71,721
Current Income Tax Recovery	-	(36,318)	(36,318)
Deferred Income Tax Recovery	-	(96,745)	(96,745)
Current Assets	63,737	1,408,889	1,472,626
Property, Plant and Equipment	-	1,256,691	1,256,691
Intangible Assets	-	1	1
Total Assets	63,737	2,665,581	2,729,318

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2017

(Expressed in U.S. Dollars)

(Unaudited)

NOTE 17 – CAPITAL RISK MANAGEMENT

The Company's objectives in managing its capital are to ensure adequate resources are available to fund its coal processing business in South Africa, to seek out and acquire new projects of merit, and to safeguard its ability to continue as a going concern. The Company manages its share capital as capital, which as at April 30, 2017 totalled \$8,079,463 (2016 – \$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, 2017.

NOTE 18 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to various risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarized in Note 2(o) of the audited financial statements. The Company's risk management is coordinated at its head office in Canada in close co-operation with the board of directors and focuses on actively securing the Company's short to medium-term cash flows and raising finances for the Company's capital expenditure program. The Company does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Company is exposed are described below.

a) Foreign Currency Risk

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

The assets, liabilities, revenue and expenses that are denominated in foreign currencies will be affected by changes in the exchange rate between the United States dollar and these foreign currencies. The Company has outstanding debt obligations that are payable in South African Rand. The Company does not currently use financial instruments to mitigate this risk.

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2017

(Expressed in U.S. Dollars)

(Unaudited)

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

b) Credit Risk

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

The Company has credit risk exposure related to its economic dependence on two customers for its calcine sales (Note 14). The Company has assessed its exposure to credit risk and has determined that no significant risk exists from these concentrations of credit.

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company ensures, as far as reasonably possible, that it will have sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company has working capital of \$1,104,472 as at April 30, 2017. There can be no assurance that the Company will continue to be successful with generating and maintaining profitable operations or will be able to secure future debt or equity financing for its working capital and expansion activities.

d) Interest Rate Risk

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

e) Commodity Price Risk

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

f) Fair Value

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

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

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

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

CANAF GROUP INC.

Notes to the Interim Consolidated Financial Statements

For the Six Months Ended April 30, 2017

(Expressed in U.S. Dollars)

(Unaudited)

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

f) Fair Value

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

The Company's financial assets measured at fair value through profit or loss use Level 1 valuation techniques during the period ended April 30, 2017 and October 31, 2016. The carrying values of the Company's financial assets and liabilities approximate their fair values as at April 30, 2017.