

CANAF

INVESTMENTS INC

For the Years Ended October 31, 2020 and 2019

Consolidated Financial Statements

(Expressed in U.S. dollars)

- Independent Auditor's Report
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- Consolidated Statements of Comprehensive Income
- Consolidated Statements of Changes in Equity
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Independent Auditor's Report

To the Shareholders of:
CANAF INVESTMENTS INC.

Opinion

We have audited the financial statements of Canaf Investments Inc. ("the Company"), which comprise the statements of financial position as at October 31, 2020 and October 31, 2019 and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2020 and October 31, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 1 of the consolidated financial statements which indicates that Canaf Investments Inc. and its subsidiaries are dependent on the operating cash flows from its coal processing business and are economically dependent on three customers.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

SERVICE

INTEGRITY

TRUST



SUITE 420

1501 WEST BROADWAY

VANCOUVER, BRITISH COLUMBIA

CANADA V6J 4Z6

TEL: (604) 428-1866

FAX: (604) 428-0513

WWW.WDMCA.COM

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mike Kao.

WDM

Chartered Professional Accountants

Vancouver, British Columbia, Canada
February 24, 2021



CANAF INVESTMENTS INC.

Consolidated Statements of Financial Position

As at October 31, 2020 and 2019

(Expressed in U.S. Dollars)

	Note	2020 US\$	2019 US\$
ASSETS			
CURRENT			
Cash		2,047,774	390,916
Trade Receivables	17	1,296,617	2,358,108
Income Taxes Receivable		-	42,522
Inventories	7	417,400	649,498
Prepaid Expenses and Deposits		21,857	22,853
		<u>3,783,648</u>	<u>3,463,897</u>
NON-CURRENT			
Property, Plant and Equipment	8	740,404	643,860
Due from Non-Controlling Interest	5	1,055,996	1,146,260
Intangible	2(f)	1	1
		<u>1,796,401</u>	<u>2,790,321</u>
		<u>5,580,049</u>	<u>5,254,018</u>
LIABILITIES			
CURRENT			
Trade and Other Payables	9	1,146,251	1,410,661
Sales Tax Payable	6	67,845	5,071
Income Taxes Payable		12,938	-
		<u>1,227,034</u>	<u>1,415,732</u>
SHAREHOLDERS' EQUITY			
Share Capital	11	8,079,463	8,079,463
Additional Paid in Capital	5	1,342,549	1,342,549
Accumulated Other Comprehensive Loss – Foreign Currency Translation Reserve		(2,149,469)	(1,877,641)
Deficit		(3,049,200)	(3,729,687)
		<u>4,223,343</u>	<u>3,814,684</u>
Equity Attributable to Canaf Investments Inc. Shareholders			
Non-Controlling Interest	5	129,672	23,602
		<u>4,353,015</u>	<u>3,838,286</u>
		<u>5,580,049</u>	<u>5,254,018</u>

Nature of Operations (Note 1)
Economic Dependence (Note 17)
Commitment (Note 18)
Segment Information (Note 19)

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

Approved on Behalf of the Board:

“Christopher Way”
Christopher Way, Director

“Rebecca Williams”
Rebecca Williams, Director

CANAF INVESTMENTS INC.

Consolidated Statements of Comprehensive Income

For the Years Ended October 31, 2020 and 2019

(Expressed in U.S. Dollars)

	Note	2020 US\$	2019 US\$
SALES		13,541,667	11,750,350
COST OF SALES	15	(11,931,532)	(10,729,419)
GROSS PROFIT		1,610,135	1,020,931
EXPENSES			
General and Administrative	16	(536,692)	(479,475)
Interest on Bank Loan	10	-	(1,369)
Foreign Exchange Gain (Loss)		(217)	(639)
		(536,909)	(481,483)
INCOME BEFORE OTHER ITEMS		1,073,226	539,448
Interest Income		151,798	173,085
Other Income		23,480	12,058
Gain on Sale of Vehicle		-	5,746
		1,248,504	730,337
INCOME BEFORE INCOME TAXES			
Current Income Tax (Expense)	13	(351,091)	(191,683)
NET INCOME FOR THE YEAR		897,413	538,654
Attributable to the Parent		680,487	392,376
Attributable to the Non-Controlling Interest		216,926	146,278
		897,413	538,654
OTHER COMPREHENSIVE LOSS			
Foreign Currency Translation Loss		(274,761)	(81,081)
NET COMPREHENSIVE INCOME FOR THE YEAR		622,652	457,573
Attributable to the Shareholders		408,659	293,072
Attributable to the Non-Controlling Interest		213,993	164,501
		622,652	457,573
BASIC AND DILUTED EARNINGS PER SHARE		0.019	0.011
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED		47,426,195	47,426,195

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

CANAF INVESTMENTS INC.

Consolidated Statements of Changes in Equity

As at October 31, 2020 and 2019

(Expressed in U.S. Dollars)

	Note	Number of Common Shares	Share Capital US\$	Additional Paid In Capital US\$	Foreign Currency Translation Reserve US\$	Deficit US\$	Non- Controlling Interest US\$	Total Shareholders' Equity US\$
Balance, October 31, 2018		47,426,195	8,079,463	1,342,549	(1,778,337)	(4,122,063)	74,228	3,595,840
Net Income for the Year		-	-	-	-	392,376	146,278	538,654
Dividends Paid		-	-	-	-	-	(215,127)	(215,127)
Foreign Currency Translation Loss		-	-	-	(99,304)	-	18,223	(81,081)
Balance, October 31, 2019		47,426,195	8,079,463	1,342,549	(1,877,641)	(3,729,687)	23,602	3,838,286
Net Income for the Year		-	-	-	-	680,487	216,926	897,413
Dividends Paid	5	-	-	-	-	-	(107,923)	(107,923)
Foreign Currency Translation Loss		-	-	-	(271,828)	-	(2,933)	(274,761)
Balance, October 31, 2020		47,426,195	8,079,463	1,342,549	(2,149,469)	(3,049,200)	129,672	4,353,015

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

CANAF INVESTMENTS INC.
Consolidated Statements of Cash Flows
For the Years Ended October 31, 2020 and 2019
(Expressed in U.S. Dollars)

	Note	2020 US\$	2019 US\$
CASH PROVIDED BY (USED FOR):			
OPERATING ACTIVITIES			
Net Income for the Year		897,413	538,654
Non-Cash Items:			
Depreciation	8	192,520	375,145
Gain from Sale of Asset		-	(5,746)
Interest Income		(73,851)	(118,815)
		<u>1,016,082</u>	<u>789,238</u>
Change in Non-Cash Working Capital Accounts	14	<u>1,350,575</u>	<u>(673,762)</u>
		<u>2,366,657</u>	<u>115,476</u>
FINANCING ACTIVITY			
Principal Repayments of Bank Loan		<u>-</u>	<u>(75,561)</u>
INVESTING ACTIVITY			
Purchase of Property, Plant and Equipment	8	<u>(334,391)</u>	<u>(151,737)</u>
INCREASE (DECREASE) IN CASH		2,032,266	(111,822)
Effect of Exchange Rate Changes on Cash		(375,408)	(49,613)
Cash, Beginning of the Year		<u>390,916</u>	<u>552,351</u>
CASH, END OF THE YEAR		<u>2,047,774</u>	<u>390,916</u>

Supplemental Cash Flow Information (Note 14(b))

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

CANAF INVESTMENTS INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2020 and 2019
(Expressed in U.S. Dollars)

NOTE 1 – NATURE OF OPERATIONS

Canaf Investments Inc. (the “Company”) is incorporated in the Province of Alberta and owns and operates a coal processing business in South Africa which processes coal and coal products into calcine, a coke substitute with a high carbon content. Effective 2019, the Company expanded its business to also acquire, redevelop and rent rental properties in South Africa. The Company is also actively exploring investment opportunities into a new sector as part of its ongoing diversification strategy.

The Company’s shares are listed on the TSX Venture Exchange under the symbol CAF. The head office, principal address, and records office of the Company are located at 1100 – 1111 Melville Street, Vancouver, British Columbia, Canada, V6E 3V6.

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. The coal processing business sales are substantially derived from three customers, and as a result, the Company is economically dependent on these customers (Note 17). 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 US \$2,556,614 as at October 31, 2020 (October 31, 2019 – US \$2,048,165). 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 financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) and Interpretations 1 of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were approved and authorized for issue by the Board of Directors on February 24, 2021.

b) Basis of Preparation

These consolidated financial statements have been prepared on a historical cost basis. Cost is the fair value of the consideration given in exchange for net assets.

c) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and all its subsidiaries (collectively, the “Company”):

Entity	Country of Incorporation	Holding	Functional Currency
Canaf Investments Inc.	Canada	Parent Company	Canadian Dollar
Quantum Screening and Crushing (Proprietary) Limited	South Africa	100%	South African Rand
Southern Coal (Proprietary) Limited	South Africa	70%	South African Rand
Canaf Investments (Proprietary) Ltd.	South Africa	100%	South African Rand
Canaf Estate Holdings (Proprietary) Ltd.	South Africa	100%	South African Rand
Nabisoga Mining Ltd.	United States	100%	Canadian Dollar
Rwenzori Cobalt Company Ltd.	United States	100%	Canadian Dollar

CANAF INVESTMENTS INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2020 and 2019
(Expressed in U.S. Dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Basis of Consolidation (Continued)

Intercompany balances and transactions are eliminated in preparing these consolidated financial statements. The net assets and net profit attributable to outside shareholders are presented as amounts attributable to non-controlling interests in the consolidated statement of financial position and consolidated statement of comprehensive income.

Nabisoga Mining Ltd, and Rwenzori Cobalt Company Ltd. are inactive subsidiaries. Canaf (SL) Ltd, formerly a 51% owned subsidiary of Canaf, and incorporated in Sierra Leone, was determined in the year to no longer be in existence and is therefore not included in the consolidated financial statements of the Company.

d) Functional and Presentation Currency

These consolidated financial statements are presented in U.S. dollars. Each entity determines its own functional currency (Note 2(c)) and items included in the financial statements of each entity are measured using that functional currency.

i) Transactions and Balances in Foreign Currencies

Foreign currency transactions are translated into the functional currency of the respective entity, using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized immediately in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction and are not retranslated. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

ii) Foreign Operations

On consolidation, the assets and liabilities of foreign operations are translated into U.S. dollars from their functional currency at the exchange rate prevailing at the reporting date and their income statements are translated at the exchange rate prevailing at the dates of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income and accumulated in the foreign currency translation reserve in equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in earnings as part of the gain or loss on disposal.

e) 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.

f) 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.

CANAF INVESTMENTS INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2020 and 2019
(Expressed in U.S. Dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized to write off the cost of the property, plant and equipment less their residual values over their useful lives using the straight-line method at the following rates, except in the year of acquisition, when one half of the rates are used:

Computer Equipment	3 Years
Leasehold Improvements	5 Years
Office Equipment	5 Years
Plant and Equipment	5 Years
Vehicles	5 Years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

h) Impairment of Non-Current Assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. Individual assets are grouped together as a cash generating unit for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are independent from other group assets.

If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Where the carrying amount of a cash generating unit exceeds its recoverable amount, the cash generating unit is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are adjusted for the risks specific to the cash generating unit and are discounted to their present value with a discount rate that reflects current market indicators.

Where an impairment loss subsequently reverses, the carrying amount of the cash generating unit is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the cash generating unit in prior years. A reversal of an impairment loss is recognized as income immediately.

i) Revenue Recognition

Pursuant to IFRS 15 Revenue from Contracts with Customers, 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.

Rental revenue is recognized on a straight-line basis over the term of the lease and collection is reasonably assured. Interest and other income are recognized when earned and collection is reasonably assured.

j) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. As at October 31, 2020, the Company has no material provisions.

CANAF INVESTMENTS INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2020 and 2019

(Expressed in U.S. Dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Share Capital

Share capital includes cash consideration received for share issuances, net of commissions and 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.

l) Share-Based Payments

The fair value method of accounting is used for share-based payment transactions. Under this method, the cost of stock options and other share-based payments is recorded based on the estimated fair value using the Black-Scholes option pricing model at the grant date and is charged to profit over the vesting period. The amount recognized as an expense is adjusted to reflect the number of equity instruments expected to vest.

Upon the exercise of stock options and other share-based payments, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve 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. Diluted loss per share is the same as basic loss per share, as the issuance of shares on the exercise of stock options and share purchase warrants is anti-dilutive.

n) Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

i) Current Income Tax

Current income tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

ii) Deferred Income Tax

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

CANAF INVESTMENTS INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2020 and 2019
(Expressed in U.S. Dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Financial Instruments

The Company adopted all of the requirements of IFRS 9 Financial Instruments on January 1, 2018. IFRS 9 utilizes a revised model for recognition and measurement of financial instruments in a single, forward-looking “expected loss” impairment model.

The following is the Company’s new accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018.

The following table shows the classification under IFRS 9:

Financial assets/liabilities	Classification IFRS 9
Cash	FVTPL
Trade receivables	Amortized cost
Accounts payable	Amortized cost
Bank loan	Amortized cost

The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive income on January 1, 2018.

(ii) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of comprehensive loss in the period in which they arise.

Debt investments at FVTOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in Other Comprehensive Income (“OCI”). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVTOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

CANAF INVESTMENTS INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2020 and 2019
(Expressed in U.S. Dollars)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Financial Instruments (Continued)

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

The Company did not restate prior periods and determined that the adoption of IFRS 9 resulted in no impact to the opening accumulated deficit on January 1, 2018.

p) Non-Controlling Interest

Non-controlling interest in the Company's residual ownership interest in a controlled subsidiary is classified as a separate component of equity. On initial recognition, non-controlling interest is measured at the fair value of the non-controlling entity's contribution into the related subsidiary. Subsequent to the original transaction date, adjustments are made to the carrying amount of non-controlling interest for the non-controlling interest's share of changes to the subsidiary's equity.

NOTE 3 – SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the application of the Company's accounting policies which are described in Note 2, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

a) Useful Lives of Property, Plant and Equipment and Intangible Assets

Management reviews the useful lives of property, plant and equipment and intangible assets at each reporting date, based on the expected utility of these assets to the Company. Actual useful lives of these assets may differ from the estimate.

CANAF INVESTMENTS INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2020 and 2019
(Expressed in U.S. Dollars)

NOTE 3 – SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

b) Share-based Payments

The fair value of share-based payments is subject to the limitations of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

c) Impairment of Non-Current Assets

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future operating results. These assumptions relate to future events and circumstances. In addition, when determining the applicable discount rate, estimation is involved in determining the appropriate adjustments to market risk and asset-specific risk factors.

Actual results may vary and may cause significant adjustments to the Company's assets within the next financial year.

d) Deferred Tax Assets

Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

NOTE 4 – NEW ACCOUNTING STANDARDS ISSUED

IFRS 16 – Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases. The standard includes two recognition exemptions for lessees: leases of 'low-value' assets; and short-term leases. For those assets determined to meet the definition of a lease, at the commencement date, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. IFRS 16 also requires lessees to make more extensive disclosures than under IAS 17.

In transitioning to IFRS 16, which is effective for annual periods beginning on or after January 1, 2019, a lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Company will apply IFRS 16 on November 1, 2019 using the modified retrospective approach, which means the cumulative impact of adoption will be recognized as at November 1, 2019 and the comparatives will not be restated. The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Company has assessed its impact assessment of IFRS 16 and based on the Company's evaluation, IFRS 16 is not expected to have a material effect on the consolidated financial statements as the Company has elected to use the exemption proposed for lease terms that end within 12 months of the date of initial application.

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NOTE 5 – DUE FROM NON-CONTROLLING INTEREST

On July 3, 2018, the Company sold a 30% interest of its subsidiary, Southern Coal (Proprietary) Limited (“Southern Coal”), to Amandla Amakhulu (Pty) Ltd. (“AAM”) for the price of 18 million Rand (approximately US\$1.3 million). AAM is a 100% black-owned company incorporated in South Africa, and the sales transaction complies with the Broad-Based Black Economic Empowerment (“BBBEE”) incentive program in South Africa.

The sales proceeds are in the form of cumulative, redeemable preference shares of AAM in the amount of the purchase price, 18 million Rand (approximately \$1.3 million). These preference shares provide preferential dividends, until fully redeemed by AAM, with the dividends secured by an irrevocable direction from AAM to Southern Coal to pay the Company such dividends from any Southern Coal dividend distribution to AAM.

Dividends paid during 2020 totalled US\$107,923 (2019 – US\$215,127).

The following table presents the dilution gain recorded on the sale of a 30% interest in Southern Coal in 2018:

	US\$
Consideration Received	
Cumulative Redeemable Preference Shares of AAM (18 Million Rand)	<u>1,389,058</u>
Net Assets of Southern Coal	
Total Assets	3,137,562
Total Liabilities	<u>2,982,532</u>
	155,030
Non-Controlling Interest Percentage	<u>30%</u>
	<u>46,509</u>
Dilution Gain on Sale of Interest in Southern Coal	<u>1,342,549</u>

As there was no change in control of the Company’s subsidiary, the dilution gain was recorded as additional paid-in capital.

The due from non-controlling interest amount as of the balance sheet date is US\$1,055,996 (translated at October 31, 2020 exchange rate).

NOTE 6 – SALES TAX RECEIVABLE (PAYABLE)

	2020 US\$	2019 US\$
South African Value-Added Tax (Payable)	(67,965)	(5,146)
Canadian Goods and Services Tax Receivable	120	75
	<u>(67,845)</u>	<u>(5,071)</u>

NOTE 7 – INVENTORIES

Raw Materials	203,343	322,208
Finished Goods – Calcine	214,057	327,290
	<u>417,400</u>	<u>649,498</u>

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NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

	Land US\$	Buildings US\$	Computer Equipment US\$	Leasehold Improvements US\$	Office Equipment US\$	Plant and Equipment US\$	Vehicles US\$	Total US\$
COST								
Balance, October 31, 2018	7,423	144,891	16,219	155,802	16,444	4,767,190	131,342	5,239,311
Additions (Disposals)	-	145,810	-	-	-	-	(2,285)	143,525
Foreign Currency Translation	(783)	(8,707)	(306)	(2,945)	(311)	(56,513)	(1,538)	(71,103)
Balance, October 31, 2019	6,640	281,994	15,913	152,857	16,133	4,710,677	127,519	5,311,733
Additions	-	-	-	-	-	334,391	-	334,391
Foreign Currency Translation	-	(20,832)	(1,149)	(11,032)	(1,164)	(209,027)	(5,994)	(249,198)
Balance, October 31, 2020	6,640	261,162	14,764	141,825	14,969	4,836,041	121,525	5,396,926
ACCUMULATED DEPRECIATION								
Balance, October 31, 2018	-	9,172	14,895	155,802	11,794	4,077,136	102,453	4,371,252
Depreciation	-	3,131	744	-	908	356,050	14,312	375,145
Disposal	-	-	-	-	-	-	(13,959)	(13,959)
Foreign Currency Translation	-	(316)	(315)	(2,945)	(264)	(59,612)	(1,113)	(64,565)
Balance, October 31, 2019	-	11,987	15,324	152,857	12,438	4,373,574	101,693	4,667,873
Depreciation	-	2,751	458	-	798	180,107	8,405	192,520
Foreign Currency Translation	-	(843)	(1,103)	(11,032)	(891)	(185,940)	(4,061)	(203,871)
Balance, October 31, 2020	-	13,895	14,679	141,825	12,345	4,367,741	106,037	4,656,522
NET BOOK VALUE								
October 31, 2019	6,640	270,007	589	-	3,695	337,103	25,826	643,860
October 31, 2020	6,640	247,267	85	-	2,624	468,300	15,488	740,404

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NOTE 9 – TRADE AND OTHER PAYABLES

	2020	2019
	US\$	US\$
Trade Payables	1,052,447	1,353,956
Payroll Payable	25,935	30,164
Accrued Liability	67,869	26,541
	<u>1,146,251</u>	<u>1,410,661</u>

NOTE 10 – BANK LOAN

A bank loan which bore interest at 10.25% per annum, matured and was repaid in January 2019. The loan was used to acquire the Company's furnace. During the year ended October 31, 2020, the Company incurred interest expense totaling US\$Nil (2019 – US\$1,369).

NOTE 11 – SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without par value.

As at October 31, 2020, 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, 2020 and 2019.

NOTE 12 – RELATED PARTY TRANSACTIONS

In addition to those transactions disclosed elsewhere in these consolidated financial statements, the Company incurred expenses to the following related parties:

Related Party	Services	2020	2019
		US\$	US\$
CFO and Director	Professional fees for administration and management services	33,522	25,347
Chairman and Director	Consulting fees for administration and management services	44,936	-
President, CEO and Director	Consulting fees for administration and management services	116,393	72,606
Directors	Directors fees for administration and management services in relation to the Company's coal processing business in South Africa	73,521	114,165
Director	Consulting fees	13,028	1,479
		<u>281,400</u>	<u>213,597</u>

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.

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NOTE 13 – INCOME TAXES

a) Provision for Income Taxes

The income tax expense of the Company is reconciled to the net income for the year as reported in the consolidated statements of comprehensive income as follows:

	2020	2019
	US\$	US\$
Expected Income Tax Expense at Statutory Tax Rates	221,647	195,724
Amounts Not Deductible for Tax	591	868
Effect of Differences in Tax Rates in Foreign Jurisdictions	12,419	6,712
Effect of Exchange Rate Changes and Losses Expired	10,659	13,488
Change in Valuation Allowance	105,775	(25,109)
	<u>351,091</u>	<u>191,683</u>
Income Tax Expense	<u>351,091</u>	<u>191,683</u>
Current Income Tax Expense	351,091	191,683
Deferred Income Tax (Recovery)	-	-
	<u>351,091</u>	<u>191,683</u>
Income Tax Expense	<u>351,091</u>	<u>191,683</u>

b) Deferred Tax Assets and Liabilities

As at October 31, 2020 and 2019, the Company has temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company's deferred tax assets and liabilities are comprised of the following:

Deferred Tax Assets		
Canadian Non-Capital Losses	755,317	647,395
Canadian Net Capital Losses	137,734	139,385
Computer Equipment	319	323
Mineral Property	41,004	41,496
Deferred Tax Assets Not Recognized	(934,374)	(828,599)
	-	-
Deferred Tax Liability		
Plant and Equipment	-	-
	-	-
Net Deferred Tax Liability	<u>-</u>	<u>-</u>

As at October 31, 2020, the Company has accumulated Canadian non-capital losses of \$2,797,470 (CDN\$3,725,491) which are available to reduce future taxable income in Canada and expire as follows:

	US\$
2026	128,819
2027	356,331
2028	374,975
2029	113,562
2030	385,110
2031	270,159
2032	201,844
2033	181,056
2034 - 2040	785,614
	<u>2,797,470</u>

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NOTE 13 – INCOME TAXES (Continued)

b) Deferred Tax Assets and Liabilities (Continued)

As at October 31, 2020, the Company has Canadian tax-deductible exploration expenditures of \$125,987 (CDN\$167,781) which can be carried forward indefinitely to offset future taxable income in Canada.

No provision for Uganda and Sierra Leone income taxes has been recorded as the Company is unable to accurately determine the amount of such loss carry forwards and other tax attributes at this time.

NOTE 14 – SUPPLEMENTAL CASH FLOW INFORMATION

a) Change in Non-Cash Working Capital Accounts

	2020	2019
	US\$	US\$
Trade Receivables	884,162	(1,140,828)
Inventories	(1,425)	170,568
Prepaid Expenses and Deposits	(413)	(1,305)
Trade and Other Payables	(162,989)	342,511
Sales Tax Payable	62,640	9,547
Income Taxes Payable	568,600	(54,255)
	<u>1,350,575</u>	<u>(673,762)</u>

b) Other Items

Interest Paid	-	1,369
Interest Received	77,946	54,270
Income Tax Paid	258,813	237,247

NOTE 15 – COST OF SALES

Inventories, Beginning of the Year	649,498	836,551
Analysis Fees	2,581	7,266
Depreciation	189,769	375,145
Electricity	74,540	82,239
Fuel, Oil and Lubricants	77,308	92,975
Professional and Project Management Fees	19,159	14,448
Medical Expenses	7,358	8,654
Product Purchases	10,286,800	8,651,639
Protective Clothing	11,340	9,150
Provident Fund	15,915	16,207
Machinery Rental	106,867	106,610
Repairs and Maintenance	221,382	245,065
Salaries and Benefits	353,755	369,573
Transportation	332,660	563,395
Inventories, End of the Year	<u>(417,400)</u>	<u>(649,498)</u>
	<u>11,931,532</u>	<u>10,729,419</u>

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NOTE 16 – GENERAL AND ADMINISTRATIVE EXPENSES

	2020	2019
	US\$	US\$
Bank Charges and Interest	17,230	23,328
Consulting Fees (Note 12)	139,363	72,606
Management Fees (Note 12)	68,915	114,165
Directors Incentives (Note 12)	39,466	-
Office, Insurance and Sundry	54,993	58,039
Professional Fees (Note 12)	96,503	101,210
Promotion	1,107	2,314
Telephone	8,071	9,450
Transfer Agent and Filing Fees	9,682	11,894
Travel	22,701	28,615
Bad Debt	1,068	-
Broad-Based Black Economic Empowerment (“BBBEE”)	77,593	57,854
	536,692	479,475

NOTE 17 – ECONOMIC DEPENDENCE

Sales from the Company’s South African coal processing business are substantially derived from a very few 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 October 31, 2020, trade receivables of US\$1,296,617 were due from these customers and were collected subsequent to year end.

NOTE 18 – 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, with a monthly rent of Rand 35,000 (US\$2,156). Future minimum annual lease payments for 2021 is US\$4,312.

After lease expiry of December 31, 2020, the Company is operating under the same terms as the expired lease with an effective notice period of 60 days. Negotiations toward a long-term lease extension have not yet been formalized as at year end.

NOTE 19 – 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
	US\$	US \$	US\$
October 31 2020			
Net (Loss) Income for the Year	(266,048)	1,163,461	897,413
Revenues (Note 17)	-	13,541,667	13,541,667
Gross Profit	-	1,610,135	1,610,135
Depreciation – Cost of Sales	-	189,769	189,769
Current Income Tax Expense (Note 13(a))	-	351,091	351,091
Current Assets	133,770	3,649,878	3,783,648
Property, Plant and Equipment (Note 8)	-	740,404	740,404
Due from Non-Controlling Interest (Note 5)	-	1,055,996	1,055,996
Intangible Assets	-	1	1
Total Assets	133,770	5,446,279	5,580,049

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NOTE 19 – SEGMENT INFORMATION (Continued)

	Canada US\$	South Africa US \$	Total US\$
October 31, 2019			
Net (Loss) Income for the Year	(164,058)	702,712	538,654
Revenues (Note 17)	-	11,750,350	11,750,350
Gross Profit	-	1,020,931	1,020,931
Depreciation – Cost of Sales	-	375,145	375,145
Interest Expense (Note 14)	-	1,369	1,369
Current Income Tax Expense (Note 13(a))	-	191,683	191,683
Current Assets	101,122	3,362,775	3,463,897
Property, Plant and Equipment (Note 8)	-	643,860	643,860
Due from Non-Controlling Interest (Note 5)	-	1,146,260	1,146,260
Intangible Assets	-	1	1
Total Assets	101,122	5,152,896	5,254,018

NOTE 20 – 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 October 31, 2020, totaled US\$8,079,463 (2019 – US\$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 year ended October 31, 2020.

NOTE 21 – 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). 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.

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NOTE 21 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

a) Foreign Currency Risk (Continued)

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.

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 a very few customers for its calcine sales (Note 17). 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 US\$2,556,614 as at October 31, 2020 (October 31, 2019 - US\$ 2,048,165). 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) 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.

e) 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.

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 year ended October 31, 2020 and years ended October 31, 2019. The carrying values of the Company's financial assets and liabilities approximate their fair values as at October 31, 2020.

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NOTE 22 – COVID-19 PANDEMIC

The emerging pandemic scene globally could have negative consequences for all operations. Sickness as a result of the virus could impact sales, ability to service sales, rent collection, and general management. The Board has put contingency plans in place to support with continuing the Southern Coal (South African) operations and manage any care and maintenance measures that need to be implemented.

The operations of the Board, senior management, and administration, given its already remote working structure, should not be adversely affected by necessary measures to minimize the risks and effects of the virus; we do not see any reason why the corporate side of the business cannot function as usual. International travel of senior management will however be suspended until it is recommended safe by the respective Governments of the United Kingdom and South Africa.