CANAF GROUP INC

For the Three Months Ended January 31, 2018

Consolidated Interim Financial Statements

(Expressed in U.S. dollars)

(Unaudited – Prepared by Management)

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

NOTICE OF NO AUDITOR REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited consolidated interim financial statements of Canaf Group Inc. for the period ended January 31, 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	January 31, 2018	October 31, 2017
		$	$
ASSETS			
CURRENT			
Cash		394,520	453,609
Trade Receivables	14	2,678,248	1,314,828
Income Taxes Receivable			-
Sales Tax Receivable	4	17,942	357
Inventories	5	895,361	472,221
Prepaid Expense and Deposits		31,114	36,220
		4,017,185	2,277,235
NON-CURRENT			
Property, Plant and Equipment	6	1,172,010	1,037,996
Intangible		1	1
		5,189,196	3,315,232
LIABILITIES			
CURRENT			
Trade and Other Payables	7	2,211,185	757,875
Sales Tax Payable		-	32,010
Income Taxes Payable		119,979	77,805
Current Portion of Bank Loan	8	310,819	310,819
		2,641,983	1,178,509
NON-CURRENT			
Bank Loan	8	85,760	106,063
Deferred Tax Liability		-	122,022
		2,727,743	1,406,594
SHAREHOLDERS' EQUITY			
Share Capital	9	8,079,463	8,079,463
Accumulated Other Comprehensive Loss – Foreign Currency Translation Reserve		(1,097,939)	(1,463,628)
Deficit		(4,520,071)	(4,707,197)
		2,461,453	1,908,638
		5,189,196	3,315,232

Nature of Operations (Note 1)
Economic Dependence (Note 14)
Commitment (Note 15)
Segment Information (Note 16)
Subsequent Event (Note 19)

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

Approved on Behalf of the Board:

"Christopher Way" | *"Kevin Corrigan"*
Christopher Way, Director | Kevin Corrigan, Director

CANAF GROUP INC.

Consolidated Interim Statements of Comprehensive Loss

(Expressed in U.S. Dollars)
(Unaudited)

	Note	Three Months Ended January 31, 2018	2017
		$	$
SALES		3,273,213	2,991,706
COST OF SALES	12	3,024,651	2,605,825
GROSS PROFIT		248,562	385,881
EXPENSES			
General and Administrative	13	167,892	104,578
Interest on Bank Loan	8	-	15,322
		167,892	119,900
INCOME BEFORE OTHER ITEM		80,670	265,981
Interest Income		-	4,974
INCOME BEFORE INCOME TAXES		80,670	270,955
Income Tax Recovery (Expense)		106,456	(73,264)
NET INCOME FOR THE PERIOD		187,126	197,691
Foreign Currency Translation (Loss) Gain		365,689	530
NET COMPREHENSIVE INCOME FOR THE YEAR		552,815	198,221
BASIC AND DILUTED EARNINGS PER SHARE		0.00	0.00
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 GROUP INC.

Consolidated Interim Statements of Changes in Equity

(Expressed in U.S. Dollars)
(Unaudited)

	Number of Common Shares	Share Capital $	Foreign Currency Translation Reserve $	Deficit $	Total Shareholders' Equity $
Balance, October 31, 2016	47,426,195	8,079,463	(1,361,484)	(5,249,005)	1,468,974
Net Income for the Period	-	-	-	197,691	197,691
Foreign Currency Translation Gain	-	-	530	-	530
Balance, January 31, 2017	47,426,195	8,079,463	(1,360,954)	(5,051,314)	1,667,195
Balance, October 31, 2017	47,426,195	8,079,463	(1,463,628)	(4,707,197)	1,908,638
Net Income for the Period	-	-	-	187,126	187,126
Foreign Currency Translation Gain	-	-	365,689	-	365,689
Balance, January 31, 2018	47,426,195	8,079,463	(1,097,939)	(4,520,071)	2,461,453

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

CANAF GROUP INC.

Consolidated Interim Statements of Cash Flows

For the Three Months Ended January 31, 2016 and 2017

(Expressed in U.S. Dollars)

(Unaudited)

	Note	Three Months Ended January 31, 2018 $	2017 $
CASH PROVIDED BY (USED FOR):			
OPERATING ACTIVITIES			
Net Income for the Period		187,126	197,691
Non-Cash Items			
Depreciation – Cost of Sales		96,010	94,833
		283,136	292,524
Change in Non-Cash Working Capital Accounts	11	(457,587)	30,771
		(174,451)	323,295
FINANCING ACTIVITY			
Principal Repayments of Bank Loan		(20,303)	(73,346)
INVESTING ACTIVITY			
Purchase of Property, Plant and Equipment		(230,024)	(35,235)
INCREASE (DECREASE) IN CASH		(424,778)	214,714
Effect of Exchange Rate Changes on Cash		365,689	530
Cash, Beginning of the Period		453,609	380,562
CASH, END OF THE PERIOD		394,520	595,806

Supplemental Cash Flow Information (Note 11)

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

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 3P6.

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 $1,375,202 as at January 31, 2018 (October 31, 2017 - $1,098,726). 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 March 28, 2018.

b) Basis of Preparation

These consolidated interim financial statements have been prepared on a historical cost basis. Cost is the fair value of the consideration given in exchange for net assets. These consolidated interim financial statements do not include all the information required for full annual financial statements. The consolidated interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended October 31, 2017. The accounting policies, methods of computation and presentation applied in these financial statements are consistent with those of the previous financial year.

(Expressed in U.S. Dollars)

NOTE 3 – ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

There are no new accounting standards, amendments to standards, and interpretations have been issued but not yet effective up the date of issuance of the Company's consolidated financial statements not yet effective that the Company intends to adopt when they becomes effective.

NOTE 4 – SALES TAX (PAYABLE) RECEIVABLE

	January 31, 2018 $	October 31, 2017 $
South African Value-Added Tax (Payable) Receivable	17,266	(32,010)
Canadian Goods and Services Tax Receivable	676	357
	17,942	(31,653)

NOTE 5 – INVENTORIES

Raw Materials	847,394	369,351
Finished Goods – Calcine	47,967	102,870
	895,361	472,221

(Expressed in U.S. Dollars)

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Computer Equipment	Leaseholds mprovements	Office Equipment	Furniture & Fittings	Plant and Equipment	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	-	89,602	598	-	1,681	3,323	88,018	38,944	222,166
Foreign Currency Translation	-	(9,008)	(792)	(8,112)	(861)	-	(144,256)	(4,882)	(167,911)
Balance, October 31, 2017	7,423	156,709	15,777	162,761	13,012	3,323	4,655,404	135,221	5,149,630
Additions	-	-	1,387	-	-	-	43,347	-	44,734
Foreign Currency Translation	-	18,901	1,597	30,782	2,462	628	544,326	17,162	615,858
Balance, January 31, 2018	**7,423**	**175,610**	**18,761**	**193,543**	**15,474**	**3,951**	**5,243,077**	**152,383**	**5,810,222**
ACCUMULATED DEPRECIATION									
Balance, October 31, 2016	-	6,597	15,172	163,132	10,914	-	3,566,537	76,332	3,838,684
Depreciation	-	3,329	382	7,296	1,113	-	363,989	14,576	390,685
Foreign Currency Translation	-	(501)	(742)	(8,155)	(581)	-	(105,424)	(2,332)	(117,735)
Balance, October 31, 2017	-	9,425	14,812	162,273	11,446	-	3,825,102	88,576	4,111,634
Depreciation	-	-	124	132	113	89	91,123	4,429	96,010
Foreign Currency Translation	-	(9,425)	1,426	30,703	1,959	229	396,870	8,806	430,568
Balance, January 31, 2018	**-**	**-**	**16,362**	**193,108**	**13,518**	**318**	**4,313,095**	**101,811**	**4,638,212**
NET BOOK VALUE									
Balance, October 31, 2017	**7,423**	**147,284**	**965**	**488**	**1,566**	**3,323**	**830,302**	**46,645**	**1,037,996**
Balance, January 31, 2018	**7,423**	**175,610**	**2,399**	**435**	**1,956**	**3,633**	**929,982**	**50,572**	**1,172,010**

(Expressed in U.S. Dollars)

NOTE 7 – TRADE AND OTHER PAYABLES

	January 31, 2018 $	October 31, 2017 $
Trade Payables	2,148,139	706,085
Payroll Payable	33,046	27,790
Accrued Liability	30,000	24,000
	2,211,185	757,875

NOTE 8 – BANK LOAN

Bank Loan	396,579	416,882
Less: Current Portion	(310,819)	(310,819)
	85,760	106,063

The bank loan bears interest at 10.25% 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 in blended monthly payments of Rand 391,624 ($32,934 translated at January 31, 2017 exchange rate). During the Three months ended January 31, 2018, for the quarter interest expense was $Nil (January 31, 2017 - $ $15,322).

Future principal repayments for the next two fiscal years are as follows:

	$
2018	310,819
2019	85,760
	396,579

NOTE 9 – SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without par value. As at January 31, 2018, 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 January 31, 2018 and 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 three months ended January 31, 2018, the Company incurred professional fees of $18,030 (January 31, 2017 – $10,084) to an Officer and Director and a former Officer and Director of the Company for administration and bookkeeping services.

(Expressed in U.S. Dollars)

NOTE 10 – RELATED PARTY TRANSACTIONS (Continued)

b) During the three months ended January 31, 2018, the Company incurred consulting fees of $27,759 (January 31, 2017 – $16,573) to an Officer (also a Director) of the Company for administration and management services.

c) During the three months ended January 31, 2018, the Company incurred management fees of $38,081 (2017 – $35,202) 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.

NOTE 11 – SUPPLEMENTAL CASH FLOW INFORMATION

a) Change in Non-Cash Working Capital Accounts

	Three Months Ended January 31,	
	2018	**2017**
	$	**$**
Trade Receivables	(1,363,420)	(654,921)
Income Taxes Receivable	(704)	11,966
Sales Tax Receivable	(17,585)	-
Inventories	(423,140)	9,956
Prepaid Expense and Deposits	5,106	(1,306)
Trade and Other Payables	1,453,310	590,268
Sales Tax Payable	(32,010)	74,808
Income Taxes Payable/(Deferred)	(79,144)	-
	(457,587)	30,771

b) Other Items

Interest Paid	-	15,322
Interest Received	6,021	4,974

(Expressed in U.S. Dollars)

NOTE 12 – COST OF SALES

	Three Months Ended January 31	
	2018	**2017**
	$	**$**
Inventories, Beginning of the Year	472,221	403,329
Analysis Fees	2,434	6,546
Depreciation	96,010	94,833
Electricity	105,414	33,264
Fuel, Oil and Lubricants	9,923	17,739
Machinery Rental	104,180	96,416
Medical Expenses	1,756	211
Product Purchases	2,707,945	1,984,296
Professional and Project Management Fee	1,293	3,456
Protective Clothing	2,410	1,657
Provident Fund	3,081	2,937
Repairs and Maintenance	92,786	82,020
Salaries and Benefits	106,202	102,762
Transportation	214,357	169,732
Inventories, End of the Year	(895,361)	(393,373)
	3,024,651	2,605,825

NOTE 13 – GENERAL AND ADMINISTRATIVE EXPENSES

	Three Months Ended January 31	
	2018	**2017**
	$	**$**
Bank Charges and Interest	109	735
Consulting Fees (Note 10(b))	27,759	16,573
Management Fees (Note 10(c))	38,081	35,202
Office, Insurance and Sundry	67,702	17,366
Professional Fees (Note 10(a))	26,159	23,687
Promotion	143	164
Telephone	1,064	4,111
Transfer Agent and Filing Fees	664	291
Travel	6,211	6,449
	167,892	104,578

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 January 31, 2018, trade receivables of $2,678,248 (October 31, 2017 - $ $1,314,828) were due from these customers and were collected subsequent to period-end.

(Expressed in U.S. Dollars)

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 ($16,819) 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.

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
	$	$	$
January 31, 2018			
Net (Loss) Income for the Period	(62,605)	249,731	187,126
Revenues (Note 16)	-	3,273,213	3,273,213
Gross Profit	-	248,562	248,562
Depreciation – Cost of Sales	-	96,010	96,010
Interest Expense (Note 13)	-	6	6
Deferred Income Tax Recovery (Note 12(a))	-	106,456	106,456
Current Assets	92,988	3,924,197	4,017,185
Property, Plant and Equipment (Note 7)	-	1,172,010	1,172,010
Intangible Assets	-	1	1
Total Assets	92,988	5,096,208	5,189,196
October 31, 2017			
Net Loss for the Year	(171,119)	712,927	541,808
Revenues	-	10,699,117	10,699,117
Gross Profit	-	1,223,110	1,223,110
Depreciation – Cost of Sales	-	390,685	390,685
Interest Expense	-	86,837	86,837
Current Income Taxes Expense	-	82,445	82,445
Deferred Income Taxes Expense	-	112,031	112,031
Current Assets	100,322	2,176,913	2,277,235
Property, Plant and Equipment (Note 6)	-	1,172,010	1,037,996
Intangible Assets	-	1	1
Total Assets	100,322	3,348,924	3,315,232

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 January 31, 2018, totaled $8,079,463 (2017 – $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 three months ended January 31, 2018.

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 October 31, 2017 Consolidated 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.

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.

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

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 $1,375,202 as at January 31, 2018. 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 a fixed rate, 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.

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 years ended October 31, 2017 and 2016. The carrying values of the Company's financial assets and liabilities approximate their fair values as at January 31, 2018.

NOTE 19 – SUBSEQUENT EVENT

In February 2018, the Company terminated the proposed transaction announced in January 2018, to sell 30% of the issued shares of its subsidiary, Southern Coal (Proprietary) Limited, to Elkhat Pty Ltd. ("Elkhat") for R18 million in the form of cumulative, redeemable preference shares of Elkhat. Elkhat is a 100% black-owned company incorporated in South Africa. The proposed transaction would have complied with the Broad-Based Black Economic Empowerment ("BBBEE") incentive program in South Africa. This proposed transaction was terminated due to the parties' inability to come to final terms.