

CANAF

INVESTMENTS INC

For the nine months ended 31st July 2019

Consolidated Financial Statements

(Expressed in U.S. dollars)

(Unaudited – Prepared by Management)

- Consolidated Statements of Financial Position
- Consolidated Statements of Comprehensive Income
- Consolidated Statements of Changes in Equity
- Consolidated Statements of Cash Flows
- Notes to the Consolidated Financial Statement

CANAF INVESTMENTS INC. (Formerly Canaf Group Inc.)

Consolidated Statements of Financial Position

As at July 31, 2019 and October 31, 2018

(Expressed in U.S. Dollars)

	Note	July 31 2019 US\$	October 31 2018 US\$
ASSETS			
CURRENT			
Cash		1,488,225	552,351
Trade Receivables	16	1,299,636	1,240,730
Sales Tax Receivable	6	77	4,559
Inventories	7	894,752	836,551
Prepaid Expense and Deposits		25,372	21,896
		<u>3,708,061</u>	<u>2,656,088</u>
NON-CURRENT			
Property, Plant and Equipment	8	749,697	868,059
Interest Bearing Borrowings	5	1,272,013	1,250,290
Intangible	2(f)	1	1
		<u>2,021,711</u>	<u>2,118,350</u>
		<u>5,729,771</u>	<u>4,774,438</u>
LIABILITIES			
CURRENT			
Trade and Other Payables	9	1,652,185	1,088,227
Sales Tax Payable		3,739	-
Income Taxes Payable	6	42,049	11,958
Current Portion of Bank Loan	10		78,412
		<u>1,697,973</u>	<u>1,178,597</u>
NON-CURRENT			
Bank Loan	10	-	-
Deferred Tax Liability			
		<u>1,697,973</u>	<u>1,178,597</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		(1,631,276)	(1,778,337)
Non-Controlling Interest	5	71,442	74,228
Deficit		(3,830,380)	(4,122,063)
		<u>4,031,798</u>	<u>3,595,840</u>
		<u>5,729,771</u>	<u>4,774,437</u>
		1,488,225	
Working Capital (excluding cash)		2,010,088	1,477,490

Nature of Operations (Note 1)
Commitment (Note 18)

Economic Dependence (Note 17)
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. (Formerly Canaf Group Inc.)

Consolidated Statements of Comprehensive Income

For the Quarter Ended July 31, 2019 and 2018

(Expressed in U.S. Dollars)

	Note	3 Months Ended 31 July		9 Months Ended 31 July	
		2019	2018	2019	2018
		US\$	US\$	US\$	US\$
SALES		3,422,222	3,444,253	7,680,313	12,137,604
COST OF SALES	14	(3,037,641)	(3,209,160)	(6,887,814)	(11,204,417)
GROSS PROFIT		384,581	235,093	792,499	933,187
EXPENSES					
General and Administrative	15	(121,380)	(140,009)	(360,900)	(418,788)
Interest on Bank Loan	10	-	(5,838)	(1,398)	(25,747)
Foreign Exchange Gain		2,187	-	59	-
		(119,194)	(145,847)	(362,240)	(444,535)
INCOME BEFORE OTHER ITEMS		265,387	89,246	430,259	488,652
Interest Income		43,200	8,546	127,108	53,645
Other Income		2,909	-	13,469	-
INCOME BEFORE INCOME TAXES		311,496	97,792	570,836	542,297
Current Income Tax (Expense)		(89,289)	(32,784)	(157,550)	(26,192)
Deferred Income Tax (Expense) Recovery		-	-	-	-
NET INCOME FOR THE YEAR		222,208	65,008	413,286	516,105
OTHER COMPREHENSIVE LOSS					
Foreign Currency Translation Gain/(Loss)		44,999	(115,670)	158,113	119,153
NET COMPREHENSIVE INCOME FOR THE YEAR		267,206	(50,662)	571,399	635,258
Attributable to the Shareholders		201,007	(50,662)	438,745	635,258
Attributable to the Non-Controlling Interest		66,200	-	132,654	-
		267,206	(50,662)	571,399	635,258
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 INVESTMENTS INC. (Formerly Canaf Group Inc.)

Consolidated Statements of Changes in Equity

For the Quarter Ended July 31, 2019 and 2018

(Expressed in U.S. Dollars)

	Notes	Number of Common Shares	Share Capital US \$	Foreign Currency Translation Reserve US \$	Additional Paid in Capital US \$	Deficit US \$	Non- Controlling Interest US \$	Total Sharehol- ders' Equity US \$
Balance, October 31, 2017		47,426,195	8,079,463	(1,463,628)		(4,707,197)	-	1,908,638
Sales of subsidiary to non- controlling interest	5				1,342,549		46,509	1,389,058
Net Income for the Period		-	-	-		585,134	38,750	623,884
Foreign Currency Translation Gain		-	-	(314,709)		-	(11,031)	(325,740)
Balance, October 31, 2018		47,426,195	8,079,463	(1,778,337)	1,342,549	(4,122,063)	74,228	3,595,840
Balance, October 31, 2018		47,426,195	8,079,463	(1,778,337)	1,342,549	(4,122,063)	74,228	3,595,840
Dividends Paid							(135,442)	(135,442)
Net Income for the Period		-	-	-		291,683	121,602	413,286
Foreign Currency Translation Gain		-	-	147,062		-	11,052	158,113
Balance, April 30, 2019		47,426,195	8,079,463	(1,631,275)	1,342,549	(3,830,380)	71,440	4,031,797

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

CANAF INVESTMENTS INC. (Formerly Canaf Group Inc.)

Consolidated Statements of Cash Flows

For the Quarter Ended July 31, 2019 and 2018

(Expressed in U.S. Dollars)

		9 Months Ended	
		Jul 31	Oct 31
		2019	2018
	Note	\$	\$
CASH PROVIDED BY (USED FOR):			
OPERATING ACTIVITIES			
Net Income for the period		413,286	623,884
Non-Cash Items			
Depreciation – Cost of Sales		292,272	409,937
Deferred Tax Expense (Recovery)			<u>(133,176)</u>
		705,557	900,645
Change in Non-Cash Working Capital Accounts	13	481,688	(161,264)
Dividends Paid (NCI)		<u>(135,442)</u>	
		<u>1,051,804</u>	<u>739,381</u>
FINANCING ACTIVITY			
Principal Repayments of Bank Loan		<u>(78,412)</u>	<u>(335,929)</u>
INVESTING ACTIVITY			
Purchase of Property, Plant and Equipment		<u>122,272</u>	<u>(269,949)</u>
INCREASE (DECREASE) IN CASH			
Effect of Exchange Rate Changes on Cash		(159,790)	(34,762)
Cash, Beginning of the Period		<u>552,351</u>	<u>453,609</u>
CASH, END OF THE PERIOD		<u>1,488,225</u>	<u>552,351</u>

Supplemental Cash Flow Information (Note 13)

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

CANAF INVESTMENTS INC. (Formerly Canaf Group Inc.)

Notes to the Consolidated Financial Statements

For the Quarter Ended July 31, 2019

(Expressed in U.S. Dollars)

NOTE 1 – NATURE OF OPERATIONS

Canaf Investments Inc. (formerly 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. In 2019 Canaf Investments (Pty) Ltd was incorporated in South Africa, which acts as Canaf’s South African holding company with the intention of creating a diverse Corporation focused on sustainable and long-term growth sectors within South Africa. Canaf Investments (Pty) Ltd owns 100% of Canaf Estate Holdings (Pty) Ltd., (“CEH”).

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 and from its new ventures via Canaf Investments (Pty) Ltd. The coal processing businesses sales are substantially derived from two 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 \$2,010,088 as at July 31, 2019 (\$1,477,490 as at October 31, 2018). 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 of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were approved and authorized for issue by the Board of Directors on September 22nd, 2019.

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. (formerly Canaf Group 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
Canaf (SL) Limited (dormant)	Sierra Leone	51%	Canadian Dollar
Nabisoga Mining Ltd. (dormant)	United States	100%	Canadian Dollar
Rwenzori Cobalt Company Ltd. (dormant)	United States	100%	Canadian Dollar

CANAF INVESTMENTS INC. (Formerly Canaf Group Inc.)

Notes to the Consolidated Financial Statements

For the Quarter Ended July 31, 2019

(Expressed in U.S. Dollars)

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.

Canaf (SL) Limited, Nabisoga Mining Ltd., and Rwenzori Cobalt Company Ltd. are inactive subsidiaries.

d) Foreign 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. (Formerly Canaf Group Inc.)

Notes to the Consolidated Financial Statements

For the Quarter Ended July 31, 2019

(Expressed in U.S. Dollars)

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 the 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

Revenue from the sale of calcine is recognized upon transfer of title which is completed when the physical product is delivered to customers and collection is reasonably assured. Interest and other income are recognized when earned and collection is reasonably assured.

j) 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 July 31, 2019 and October 31, 2018, the Company has no material provisions.

CANAF INVESTMENTS INC. (Formerly Canaf Group Inc.)

Notes to the Consolidated Financial Statements

For the Quarter Ended July 31, 2019

(Expressed in U.S. Dollars)

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.

o) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified at fair value through profit or loss) are added to, or

CANAF INVESTMENTS INC. (Formerly Canaf Group Inc.)

Notes to the Consolidated Financial Statements

For the Quarter Ended July 31, 2019

(Expressed in U.S. Dollars)

deducted from, the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets and financial liabilities are measured subsequently as described below. The Company does not have any derivative financial instruments.

i) Financial Assets

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories upon initial recognition:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments; and
- Available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

- **Financial assets at fair value through profit or loss** – Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The Company's cash falls into this category of financial instruments.
- **Loans and receivables** – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less any provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's loan receivable, due from non-controlling interest and trade receivables fall into this category of financial instruments.
- **Held-to-maturity investments** – Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables. Investments are classified as held-to-maturity if the Company has the intention and ability to hold them until maturity. The Company currently does not hold financial assets in this category.
- **Available-for-sale financial assets** – Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company currently does not hold financial assets in this category.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date that the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred.

ii) Financial Liabilities

For the purpose of subsequent measurement, financial liabilities are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities upon initial recognition.

- **Financial liabilities at fair value through profit or loss** – Financial liabilities at fair value

CANAF INVESTMENTS INC. (Formerly Canaf Group Inc.)

Notes to the Consolidated Financial Statements

For the Quarter Ended July 31, 2019

(Expressed in U.S. Dollars)

through profit or loss include financial liabilities that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. Liabilities in this category are measured at fair value with gains or losses recognized in profit or loss. The Company currently does not hold financial liabilities in this category.

- **Other financial liabilities** – Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method amortization process. The Company's trade and other payables and bank loan fall into this category of financial instruments.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

p) Non-Controlling Interest

Non-controlling interest in the Company's less than wholly owned 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 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.

b) 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.

c) 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.

CANAF INVESTMENTS INC. (Formerly Canaf Group Inc.)

Notes to the Consolidated Financial Statements

For the Quarter Ended July 31, 2019

(Expressed in U.S. Dollars)

NOTE 4 – 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 they become 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. Based on current facts and circumstances, the Company do not expect its financial performance or disclosure to be materially affected by the application of the standard.

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. Based on current facts and circumstances, the Company do not expect its financial performance or disclosure to be materially affected by the application of the standard.

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 \$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.

During the quarter no dividends were declared.

CANAF INVESTMENTS INC. (Formerly Canaf Group Inc.)

Notes to the Consolidated Financial Statements

For the Quarter Ended July 31, 2019

(Expressed in U.S. Dollars)

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

	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 translated amount due from the non-controlling interest amount as of the balance sheet date is \$1,272,013 (\$1,250,290 as at October 31, 2018).

NOTE 6 – SALES TAX RECEIVABLE (PAYABLE)

	Jul 31	Oct 31
	2019	2018
	US\$	US\$
South African Value-Added Tax Receivable (Payable)	-3,739	4,406
Canadian Goods and Services Tax Receivable (Payable)	77	153
	<u>-3,662</u>	<u>4,559</u>

NOTE 7 – INVENTORIES

	Apr 30	Oct 31
	2019	2018
	US\$	US\$
Raw Materials	203,314	401,043
Finished Goods – Calcine	691,438	435,508
	<u>894,752</u>	<u>836,551</u>

CANAF INVESTMENTS INC. (Formerly Canaf Group Inc.)

Notes to the Consolidated Financial Statements

For the Quarter Ended July 31, 2019

(Expressed in U.S. Dollars)

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

Expressed in USD

COST	Land	Building	Computer Equipment	Leasehold Improvements	Office Equipment	Plant & Equipment	Vehicles	Total
Balance, October 31, 2017	7,423	156,709	15,777	162,761	16,335	4,655,404	135,221	5,149,630
Additions	-	86,816	1,273	-	920	267,755	-	356,765
Foreign Currency Translation	(0)	(98,634)	(831)	(6,959)	(811)	(155,969)	(3,879)	(267,084)
Balance, October 31, 2018	7,423	144,891	16,219	155,802	16,444	4,767,190	131,342	5,239,311
Additions/ (Disposals)	-	124,745	-	-	-	-	(2,473)	122,272
Foreign Currency Translation	-	6,601	703	6,752	712	129,562	3,916	148,246
Balance, July 31, 2019	7,423	276,237	16,922	162,554	17,156	4,896,752	132,785	5,509,829
ACCUMULATED DEPRECIATION								
Balance, October 31, 2017	-	9,425	14,812	162,273	11,446	3,825,102	88,576	4,111,634
Depreciation	-	2,478	817	532	954	387,185	17,971	409,937
Foreign Currency Translation	-	(2,731)	(734)	(7,003)	(606)	(135,151)	(4,094)	(150,319)
Balance, October 31, 2018	-	9,172	14,895	155,802	11,794	4,077,136	102,453	4,371,252
Depreciation	-	2,523	610	-	692	271,607	16,840	292,272
Foreign Currency Translation	-	258	646	6,752	510	100,100	(11,658)	96,608
Balance, July 31, 2019	-	11,953	16,151	162,554	12,996	4,448,843	107,635	4,760,132
NET BOOK VALUE								
Balance, October 31, 2018	7,423	135,719	1,324	-	4,650	690,054	28,889	868,059
Balance, July 31, 2019	7,423	264,284	771	-	4,160	447,909	25,150	749,697

CANAF INVESTMENTS INC. (Formerly Canaf Group Inc.)

Notes to the Consolidated Financial Statements

For the Quarter Ended July 31, 2019

(Expressed in U.S. Dollars)

NOTE 9 – TRADE AND OTHER PAYABLES

	Jul 31	Oct 31
	2019	2018
	US\$	US\$
Trade Payables	1,633,104	1,036,256
Payroll Payable	0	28,930
Accrued Liability	19,080	23,041
	<u>1,652,185</u>	<u>1,088,227</u>

NOTE 10 – BANK LOAN

Bank Loan	-	78,412
Less: Current Portion	-	(78,412)
	<u>-</u>	<u>-</u>
Non-Current Portion	<u>-</u>	<u>-</u>

The bank loan bears interest at 10.25% per annum, and matured 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 (\$26,507 translated at October 31, 2018 exchange rate). During the quarter ended 31 January, 2019, the company incurred interest expense totaling \$1,398 (Year ended October 31, 2018 - \$27,853).

NOTE 11 – SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without par value. As at July 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 July 31, 2019.

NOTE 12 – 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:

		9 Months Ended	
		Jul 31	Jul 31
		2019	2018
Services	Party	US\$	US\$
Professional Fees	CFO and director of the Corporation	19,755	9,490
Professional Fees	Former CFO and director of the Corporation		28,921
Consulting Fees	President, CEO and director of the Corporation	54,698	65,981
Directors Fees	Directors of the coal processing operations in South Africa	86,865	99,260

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 INVESTMENTS INC. (Formerly Canaf Group Inc.)

Notes to the Consolidated Financial Statements

For the Quarter Ended July 31, 2019

(Expressed in U.S. Dollars)

NOTE 13 – SUPPLEMENTAL CASH FLOW INFORMATION

a) Change in Non-Cash Working Capital Accounts

	2019 US\$	2018 US\$
Trade Receivables	(58,906)	20,389
Sales Tax Receivable	8,221	(39,756)
Inventories	(58,201)	(496,292)
Prepaid Expenses and Deposits	(3,475)	13,500
Trade and Other Payables	563,957	412,178
Income Taxes Payable	30,091	(71,283)
	<u>481,688</u>	<u>(161,264)</u>

b) Other Items

Interest Paid	1,398	27,853
Interest Received	127,108	101,284
Income Tax Paid	-	277,842

NOTE 14 – COST OF SALES

	3 Months Ended		9 Months Ended	
	Jul 31		Jul 31	
	2019	2018	2019	2018
	\$	\$	\$	\$
Inventories, Beginning of the Year	475,645	418,389	836,551	472,221
Analysis Fees	3,491	858	4,689	5,043
Depreciation	93,514	100,490	289,891	306,258
Electricity	12,036	127,923	45,361	385,520
Fuel, Oil and Lubricants	23,334	7,821	70,805	30,096
Professional and Project Management Fee	2,131	2,768	9,575	8,318
Medical Expenses	1,872	1,853	6,899	8,330
Product Purchases	2,952,546	2,684,479	5,635,678	8,864,135
Protective Clothing	3,027	2,781	6,737	7,880
Provident Fund	5,383	3,165	13,527	9,648
Machinery Rental	36,510	112,946	67,720	369,281
Repairs and Maintenance	43,405	155,020	165,054	419,233
Salaries and Benefits	86,497	100,095	248,908	307,568
Transportation	193,002	176,555	381,171	696,869
Inventories, End of the Quarter	<u>-894,752</u>	<u>-685,983</u>	<u>-894,752</u>	<u>-685,983</u>
	<u>3,037,641</u>	<u>3,209,160</u>	<u>6,887,814</u>	<u>11,204,417</u>

CANAF INVESTMENTS INC. (Formerly Canaf Group Inc.)

Notes to the Consolidated Financial Statements

For the Quarter Ended July 31, 2019

(Expressed in U.S. Dollars)

NOTE 15 – GENERAL AND ADMINISTRATIVE EXPENSES

	3 Months Ended				9 Months Ended			
	Jul 31				Jul 31			
	2019	2018	Variance		2019	2018	Variance	
	\$	\$	\$	%	\$	\$	\$	%
Bank Charges and Interest	4,098	11,582	7,484	183%	5,954	13,160	7,206	121%
Consulting Fees	18,626	18,709	82	0%	54,698	65,981	11,282	21%
Management Fees	26,715	29,552	2,837	11%	88,577	99,260	10,683	12%
Office, Insurance and Sundry	14,115	15,424	1,310	9%	47,589	42,218	-5,371	-11%
Professional Fees	43,494	39,339	-4,155	-10%	91,152	95,026	3,874	4%
Promotion	758	0	-758	-100%	2,243	0	-2,243	-100%
Telephone	2,157	3,512	1,355	63%	7,065	14,234	7,169	101%
Transfer Agent and Filing Fees	501	3,986	3,485	696%	8,766	12,720	3,954	45%
Travel	5,039	11,305	6,266	124%	19,292	30,575	11,283	58%
Broad-Based Black Economic Empowerment	5,878	6,601	723	12%	35,563	45,615	10,052	28%
	121,380	140,009	18,629	15%	360,900	418,788	57,888	16%
Foreign Exchange gain	-2,187	0	2,187	-100%	-59		59	-100%
Finance Costs	0	5,838	5,838		1,398	25,747	24,349	1741%
Expenses	119,194	145,847	26,654	22%	362,240	444,535	82,295	23%
Interest Income	-43,200	-8,546	34,654	-80%	-127,108	-53,645	73,463	-58%
Other Income	-2,909	0	2,909	-100%	-13,469	0	13,469	-100%
	73,084	137,301	64,217	88%	221,663	390,890	169,228	76%

CANAF INVESTMENTS INC. (Formerly Canaf Group Inc.)

Notes to the Consolidated Financial Statements

For the Quarter Ended July 31, 2019

(Expressed in U.S. Dollars)

NOTE 16 – 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 July 31, 2019, trade receivables of \$1,299,636 were due from these customers and were collected subsequent to the quarter end.

NOTE 17 – 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 (\$2,490). Future minimum annual lease payments are as follows:

	US\$
2019	7,471
2020	29,885
2021	4,980
	<hr/>
	42,337
	<hr/>

CANAF INVESTMENTS INC. (Formerly Canaf Group Inc.)

Notes to the Consolidated Financial Statements

For the Quarter Ended July 31, 2019

(Expressed in U.S. Dollars)

NOTE 18 – SEGMENT INFORMATION

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

	9 Months Ended		
	Canada	South Africa	Total
	US\$	US\$	US\$
July 31, 2019			
Net (Loss) Income for the Period	(120,792)	534,078	413,286
Revenues (Note 16)	-	7,680,313	7,680,313
Gross Profit	-	792,499	792,499
Depreciation	-	-	-
Interest Expense	-	1,398	1,398
Current Income Tax Recovery	-	(157,550)	(157,550)
Current Assets	78,903	3,629,158	3,708,061
Property, Plant and Equipment (Note 7)	-	749,697	749,697
Interest Bearing Borrowings	-	1,272,013	1,272,013
Intangible Assets	-	1	1
Total Assets	78,903	5,650,869	5,729,771
12 Months Ended			
Oct 31, 2018			
Net (Loss) Income for the Period	(219,274)	843,158	623,884
Revenues (Note 16)	-	14,673,658	14,673,658
Gross Profit	-	1,171,328	1,171,328
Depreciation	-	409,937	409,937
Interest Expense	-	27,853	27,853
Current Income Tax Recovery	-	206,559	206,559
Deferred Income Tax Expense	-	133,176	133,176
Current Assets	108,523	2,547,564	2,656,087
Property, Plant and Equipment (Note 7)	-	868,059	868,059
Interest Bearing Borrowings	-	1,250,290	1,250,290
Intangible Assets	-	1	1
Total Assets	108,523	4,665,914	4,774,437

CANAF INVESTMENTS INC. (Formerly Canaf Group Inc.)

Notes to the Consolidated Financial Statements

For the Quarter Ended July 31, 2019

(Expressed in U.S. Dollars)

NOTE 19 – 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 July 31, 2019, totaled \$8,079,463 (2018 – \$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 quarter ended July 31, 2019.

NOTE 20 – 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.

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

CANAF INVESTMENTS INC. (Formerly Canaf Group Inc.)

Notes to the Consolidated Financial Statements

For the Quarter Ended July 31, 2019

(Expressed in U.S. Dollars)

NOTE 20 – 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 \$2,010,088 as at July 31, 2019 (\$1,477,490 as at October 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. 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, 2018. The carrying values of the Company's financial assets and liabilities approximate their fair values as at July 31, 2019.