

# **Canaf Group Inc.**

(formerly *CanAfrican Metals and Mining Corp*)

## **Management Discussion & Analysis FORM 51-102F**

**For the Year Ended  
OCTOBER 31, 2007**

April 15, 2008

The following discussion is management's assessment and analysis of the results and financial condition of Canaf Group Inc. (*formerly CanAfrican Metals and Mining Corp*) (the "Corporation") and should be read in conjunction with the accompanying consolidated financial statements for the year ended October 31, 2007 and related notes. The preparation of financial data is in accordance with Canadian generally accepted accounting principles ("GAAP") and all figures are reported in US dollars unless otherwise indicated.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **OVERALL PERFORMANCE**

Canaf Group Inc. (the "Corporation") was incorporated on May 27, 1996 under the laws of the Province of Alberta and through its subsidiaries, Nabisoga Mining Ltd. ("Nabisoga") and Rwenzori Cobalt Company Ltd. ("Rwenzori"), is engaged in the acquisition and exploration of mineral properties in British Columbia and Sub-Saharan, Africa. On March 1, 2007, the Company acquired an 85% interest in Quantum Screening and Crushing (Proprietary) Limited ("Quantum"). Quantum is a South African company carrying on the business of calcining coal products into carbon. On May 3, 2007, the Company changed its name from CanAfrican Metals and Mining Group to Canaf Group Inc.

### **Business Acquisition**

#### **Quantum Screening and Crushing, South Africa**

On March 1, 2007, the Company entered into an agreement to purchase 85% of the issued and outstanding shares of Quantum Screening and Crushing (Proprietary) Limited, ("Quantum") for the issuance of 5,929,876 common shares of the Company valued at \$1,125,702 and cash of \$2,222,339 to certain shareholders of Quantum.

Also, subsequent to the year ended October 31, 2007, the Company increased its ownership of Quantum from 85% to 100% by acquiring the remaining 15% of Quantum's outstanding shares as follows:

- 5% for \$143,142 (R1,000,000) by the issuance of 573,000 common shares (issued) at a deemed price of \$0.25.
- 10% for \$381,390 (R2, 777,778) by the issuance of 953,472 common shares (issued) at a deemed price of \$0.20 and \$190,352 (1,388,889) in cash.

Quantum a private South African company is one of South Africa's largest producers of calcined coke, a product that is vital in the manufacturing process of steel and manganese. The company's two largest clients are Mittal Steel and BHP Billiton, world leaders in steel and manganese production respectively. Quantum has a plant in Newcastle, KwaZulu Natal, where its two kilns operate around the clock calcining the raw material anthracite. The majority of Quantum's feedstock anthracite is supplied by Springlake Colliery, which has reserves in excess of 40 years and is based in Dundee, the neighbouring town to Newcastle.

Calcining is a process whereby anthracite coal is fed through a rotary kiln (at temperatures between 1000 and 1200 degrees centigrade and devolatilisation takes place - sulphur content is lowered and gases such as nitrogen are burnt off. The final product is calcine which is a coke substitute with a high carbon content - 82 - 85%. The final product is used as a reductant in the manufacture of steel and manganese. Quantum, through its wholly owned subsidiary Southern Coal (Proprietary) Limited, ("Southern Coal") has been profitably carrying on this business for the last 5 years.

Quantum is currently negotiating a five-year extension to its trading contract with BHP Billiton. Further to that, Mittal Steel, a company that purchases over half of Quantum's monthly product for its Newcastle steel plant, is testing Quantum's product at a second plant, located at Vanderbijlpark. Quantum is supplying the Vanderbijlpark plant with approximately 1,250 tonnes of product each month but could substantially increase this once the trial period is completed, a move that would require Quantum to construct an additional kiln to cater for the extra demand.

## **Mineral Properties**

### **British Columbia, Canada**

#### ***Bonaparte Property***

The Company acquired six mining claims in July 2002 located approximately 45 kilometres west of the Thompson River in the Kamloops Mining Division of British Columbia, in consideration for \$10 and the issuance of 50,000 common shares of the Company valued at US\$3,288.

On February 21, 2003, the Company signed an option agreement with Clan Resources Inc. ("Clan") whereby Clan could have acquired a 100% interest in the property for total consideration to the Company of CDN \$60,000 and 200,000 common shares of Clan. The Company received CDN\$30,000 and 150,000 common shares and was notified during the current year that Clan had returned the property to the Company.

## **SELECTED ANNUAL INFORMATION**

The following financial data, which has been prepared in accordance with Canadian generally accepted accounting principles, is derived from the Company's audited consolidated financial statements for the years ended October 31, 2007, 2006 and 2005.

	2007	2006	2005
	\$	\$	\$
Revenue net of manufacturing expenses	738,483	-	-
Interest Income	16,558	4,660	4,656
Net loss for the year	(721,465)	(2,585,591)	(472,487)
Long-term debt	797,216	-	-
Total Assets	7,203,120	103,393	1,926,965
Basic and diluted per shares	(0.02)	(0.10)	(0.03)

### **Financial position**

The main components making up the balance of \$7,203,120 of total assets as at October 31, 2007 are \$2,052,440 million in property, plant and equipment, \$2,023,165 in tangible assets, \$751,677 in cash and cash equivalents and \$1,336,836 in accounts receivable. Long term debt of \$797,216 represents the non-current portion of a balance of \$803,607 in debt existing as at October 31, 2007. The debt is held in South Africa and repayable as indicated under the "Liquidity and Capital Resources" section of this MD&A.

The Company's loss has decreased significantly in 2007 due mainly to the write-off of mineral property costs of \$1,933,369 in 2006.

### **RESULTS OF OPERATIONS**

Before the Quantum Acquisition on March 1, 2007, the Company had no income. Since the Quantum Acquisition, the Company is engaged in the calcining of coal product into carbon, a product that is vital in the manufacturing process of steel and manganese in South Africa. The total net revenue for the year of \$6,193,884 (2006 and 2005-Nil) and manufacturing expenses of \$5,455,041 (2006 and 2005-Nil).

The Company earned \$16,558 of interest income during the year on its cash and cash equivalent held in Canadian and South Africa banking institutions (2006 - \$4,660 and 2005- \$4,656).

Income tax expense amounted to \$37,000 during the year (2006 and 2005 - \$ Nil) of which \$189,000 was current tax expense and (\$152,000) future tax recovery. A majority of the future income tax assets originating in Canada include share issuance costs and tax-loss carry-forwards. The future income tax liability included in the balance sheet of \$1,164,000 was recorded to reflect the temporary difference originated on the value assigned to plant and equipment and intangible assets in South Africa versus their tax basis, when 85% of Quantum was acquired.

The non-controlling interest line in the income statement of \$155,808 (2006 and 2005 - \$Nil) relates to the proportionate interest in the results of Quantum for the period from March 1, 2007 to October 31, 2007, being the time during which the Company held a 85% controlling interest in Quantum.

Additional increases in expenses in the year ended October 31, 2007 as compared to the October 31, 2006 year end consist of:

- Director fees of \$110,556 (2006-Nil) paid to the director of a subsidiary of the Company.
- \$272,355 (2006-\$85,329) of non-cash compensation cost resulting from granting stock options during the year.
- Property investigation cost for \$100,000 (2006-Nil). A non refundable deposits in the proposed acquisition of mineral property in Zimbabwe.
- \$28,102 (2006-\$261,132) property exploration expenses in Rwenzori, Uganda.

### **SUMMARY OF QUARTERLY REPORTS**

The selected consolidated information set out below has been gathered from quarterly financial statements for the period ending October 31, 2007:

	October 31, 2007 \$	Three Months Ended July 31, 2007 \$	April 30, 2007 \$	January 31 2007 \$
Revenue	1,250,217	Nil	Nil	Nil
Net earnings (loss)	(383,944)	(131,804)	(45,308)	(160,409)
Basic and diluted per shares	(0.01)	(0.01)	(0.01)	(0.01)

	October 31	Three Months Ended		January 31
	2006	July 31	April 30	2006
	\$	\$	\$	\$
Revenue	Nil	Nil	Nil	Nil
Net earnings (loss)	(169,166)	(272,618)	(2,007,549)	(136,238)
Basic and diluted per shares	(0.01)	(0.01)	(0.08)	(0.01)

#### **FOURTH QUARTERS**

In the fourth quarter, the Company incurred a loss of \$383,944 (2006-\$169,166). Some of the larger expenses incurred and significant events are as follows:

- The Company completed its acquisition of 85% of the outstanding share capital of Quantum, a private South African company, pursuant to an agreement dated January 30, 2007. Pursuant to the agreement, the Company acquired 85% of the issued share capital of Quantum in exchange for the issuance of 5,929,876 common shares of the Company valued at \$1,125,702 and cash of \$2,222,339 to certain existing shareholders of Quantum.
- The Company recorded revenue after manufacturing expenses of \$738,483 from a subsidiary of the company.
- Completed a private placement of 8,000,000 units at CDN\$0.25 for a net proceeds of \$1,790,394.

#### **LIQUIDITY AND CAPITAL RESOURCES**

At October 31, 2007, the Company had cash and cash equivalent net of \$751,677 (2006-\$10,813) and working deficiency of \$120,432 (2006-\$401,736).

During the period ended October 31, 2007, the Company:

- received \$131,424 from the flow-through private placement for 1,758,260 shares at Cdn\$0.115.
- issued 453,000 common shares upon exercise of 453,000 stock options at \$0.10 for proceeds of \$40,595.
- received \$85,807 from a private placement of 1,000,000 shares at Cdn\$0.10.
- received a gross proceeds of \$1,790,394 from the private placement of 8,000,000 units at Cdn\$0.25

Major uses of cash during the year ended October 31, 2007 were in respect of \$1,691,636 paid on the resources property exploration and business acquisition, and \$403,796 paid for operating costs.

Possible sources of funds available to the Company to finance its capital expenditure program and operations include cash flows from operations, which are expected to continue increasing with anticipated increases in production and the issuance of additional common shares.

The payment of contractual obligations, committed as at October 31, 2007, as follows:

	Less than 1 year	1-3 years	4-5 years	After 5 years
Long term debt	\$5,903	\$720,606	-	-

### **TRANSACTIONS WITH RELATED PARTIES**

During the period ended October 31, 2007, the Company entered into the following transactions with related parties:

- a) Accrued and paid management fees and expense reimbursements of \$Nil (2006 - \$20,817) to a corporation controlled by a director and former president of the Company. At October 31, 2007, the aggregate balance due to this former director is \$19,197.
- b) Accrued and paid consulting fees and expense reimbursements of \$62,902 (2006 - \$53,225) to another director of the Company. Reclassifying \$282,418 due to a private company of which a director is a fifty percent shareholder and assume the debt. At October 31, 2007, the aggregate balance due to this director is \$282,418.
- c) \$68,591 due to three former directors of the Company.
- d) Paid directors' fees of \$110,556 to the directors of a subsidiary of the Company.

### **SIGNIFICANT ACCOUNTING POLICIES**

#### *Translation of Foreign Currency*

The Company translates its foreign operations into U.S. dollars on the following basis: monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date and non-monetary assets and liabilities are translated at the historical rates. Revenues and expenses are translated at rates prevailing at the date of the transaction, except for amortization which is translated at the historical rate. Foreign exchange gains and losses from the translation of foreign operations are recognized in the statement of operations for the period in which they occurred, or are included in deferred exploration costs.

#### *Impairment of Long-lived Assets*

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted

value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. Management believes there has been no impairment of the Company's long-lived assets as at October 31, 2007 and 2006.

#### *Asset Retirement Obligations ("ARO")*

The Company records a liability for the fair value of the statutory, contractual or legal asset retirement obligations associated with the retirement and reclamation of tangible long-lived assets when the related assets are put into use, with a corresponding increase to the carrying amount of the related assets. This corresponding increase to capitalized costs is amortized to earnings on a basis consistent with depreciation, depletion and amortization of the underlying assets. Subsequent changes in the estimated fair value of the ARO are capitalized and amortized over the remaining useful life of the underlying asset. The ARO liabilities are carried on the consolidated balance sheet at their discounted present value and are accreted over time for the change in their present value, with this accretion charge included in depreciation, depletion and amortization.

As at October 31, 2007 and 2006, the Company had no asset retirement obligations.

#### *Inventory*

Inventories are valued at the lower of cost or 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 related fixed and variable manufacturing overhead expenses based on normal capacity.

#### *Revenue Recognition*

Revenue, net of trade discounts and excluding value added tax, comprises the total invoice value of goods, services, co-marketing fees and royalties. Revenue from the sale of Calcine (carbon) is recognized upon transfer of title which is completed when the physical product is delivered to customers, the amount of revenue is fixed or determinable, invoiced and collectibility is reasonably assessed.

Interest income is recognized on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Company. Dividends are recognized when the right to receive payment is established.

#### *Intangible Assets*

Intangible assets represent the value of customer contracts acquired on the purchase of Quantum (Note 3). Intangible assets are amortized straight line over the length of the contract terms of five years.

#### *Flow-through Shares*

Effective March 19, 2004, the Canadian Institute of Chartered Accountants issued additional guidance on the accounting treatment of Canadian flow-through shares through its Emerging Issues Committee Abstract (“EIC”) No. 146. All flow-through shares issued by the Company on or after March 19, 2004 are accounted for in accordance with this Abstract. The Abstract recommends that, upon renunciation to the shareholders, the Company will reduce share capital and recognize a temporary future income tax liability for the amount of tax reduction renounced to the shareholders. In instances where the Company has sufficient available tax loss carry forwards or other deductible temporary differences available to offset, the renounced tax deduction is more likely-than-not able to utilize these tax losses before expiring. The realization of the deductible temporary differences will be credited to income in the period of renunciation.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expense during the reported periods. Actual results could differ from those estimates.

Reference should be made to Note 2 - Significant Accounting Policies in the notes to the Company’s consolidated audited annual financial statements for the year ended October 31, 2007 and 2006 for more information concerning the accounting principles used in the preparation of the Company’s consolidated financial statements.

## **ADOPTION OF NEW ACCOUNTING STANDARDS**

### *Changes in Accounting Policies*

On November 1, 2006, the Company adopted CICA Handbook Sections 1530, “Comprehensive Income”, Section 3251, “Equity”, Section 3855, “Financial Instruments – Recognition and Measurement”, Section 3861, “Financial Instruments – Disclosure and Presentation” and Section 3865, “Hedges”. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and, therefore, the comparative figures have not been restated. Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as for those related to the hedged item.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and



receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

Under adoption of these new standards, the Company designated its accounts payable and accrued liabilities as other financial liabilities, which are measured at amortized cost.

The adoption of these Handbook Sections had no impact on opening deficit.

#### *Accounting Policy Choice for Transaction Costs*

On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, Accounting Policy Choice for Transaction Costs ("EIC -166). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 effective October 31, 2007 and requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement. The Company has evaluated the impact of EIC-166 and determined that no adjustments are currently required.

#### *Future Accounting Changes*

##### Capital Disclosures and financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial instruments – Presentation. These standards are effective for interim and annual financial statements for the Company's reporting period beginning on November 1, 2007.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The Company is currently assessing the impact of these new accounting standards on its financial statements.

#### *Accounting Changes*

In July 2006, the Accounting Standards Board (“AcSB”) issued a replacement of The Canadian Institute of Chartered Accountants’ Handbook (“CICA Handbook”) Section 1506, Accounting Changes. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company’s results of operations and financial condition will depend on the nature of future accounting changes.

#### *Flow-through Shares*

Canadian tax legislation permits a company to issue securities referred to as flow-through shares whereby the investor may claim the tax deductions arising from the related resource expenditures. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized and shareholders’ equity is reduced. If the Company has sufficient unused tax loss carry-forwards to offset all or part of this future income tax liability and no future income tax assets have been previously recognized for these carry-forwards, a portion, of such unrecognized losses, is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures

### **RISKS AND UNCERTAINTIES**

The Company is subject to a number of risk factors due to the nature of the mining business in which it is engaged, including movements in commodity prices, which are difficult to forecast. The Company seeks to counter these risks as far as possible by selecting exploration areas on the basis of their recognized geological potential to host economic deposits.

The Company’s assets are of indeterminate value. For further particulars see the financial statements filed on [www.sedar.com](http://www.sedar.com).

### *Exploration and Development*

The Company's properties are in exploration stage and pre-development stage only and although they contain historic resources of gold and other metals, the Company has yet to determine whether its properties are economically viable. At this stage, it is not known if there is commercial ore. Development of the properties will only follow upon obtaining satisfactory results. Exploration and development of natural resources involve a high degree of risk and few properties which are explored are ultimately developed into producing properties. There is no assurance that the Company's exploration and development activities will result in any discoveries of commercial bodies of ore. The long term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors. Substantial expenditures are required to establish reserves through drilling, to develop processes to extract the resources and, in the case of new properties, to develop the extraction and processing facilities and infrastructure at any site chosen for extraction. Although substantial benefits may be derived from the discovery of a major deposit, no assurance can be given that resources will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.

### *Operating Hazards and Risks*

Exploration for natural resources involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of resources, any of which could result in work stoppages, damage to persons or property and possible environmental damage. Although the Company has or will obtain liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

### *Metal Prices*

Factors beyond the control of the Company affect the price and marketability of gold and other metals. Metal prices have fluctuated widely, particularly in recent years and are affected by numerous factors including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels. The effect of these factors on the Company's future prospects cannot accurately be predicted.

### *Political Risk*

Quantum is located in South Africa and consequently the Company will be subject to certain risks, including currency fluctuations, electricity outages and possible political or economic instability, and exploration and production activities may be affected in varying degrees by political stability and government regulations relating to the industry. Any changes in regulations or shifts in political attitudes are beyond the control of the Company and may adversely affect its business. Exploration may be affected in varying degrees by government

regulations with respect to restrictions on future exploitation and production, price controls, export controls, foreign exchange controls, income taxes, expropriation of property, environmental legislation and site safety.

#### *Environmental Factors*

All phases of the Company's operations will be subject to environmental regulation in South Africa.

Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. The exploration, development and production activities of the Company will require certain permits and licenses from various governmental authorities and such operations are and will be governed by laws and regulations governing exploration, development and production, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety and other matters. Companies engaged in exploration activities generally experience increased costs and delays as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that all licenses and permits which the Company may require to carry out exploration and development of its projects will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project that the Company may undertake.

#### *Cash Flows and Additional Funding Requirements*

Although since the acquisition of Quantum, the Company has significant revenues from operations, the majority of sources of funds currently available to the Company for its acquisition and development projects are in large portion derived from the issuance of equity. Although the Company presently has sufficient financial resources and has been successful in the past in obtaining equity and debt financing to undertake its currently planned exploration and development programs, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

#### *Exchange Rate Risk*

To the extent revenues and expenditures denominated in or strongly linked to the U.S. dollar are not equivalent the Company will be exposed to exchange rate risk. In South Africa, the Company will be exposed to the extent U.S. dollar revenues do not equal U.S. dollar expenditures. In addition, a portion of expenditures in South Africa are denominated in South African rand, which are difficult to hedge. The Company does not expect to use exchange rate derivatives to manage exchange rate risks.

### *Fair Value Risk*

Due to the short term nature of cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued liabilities, their carrying values approximate their fair values.

### *Title to Assets*

Although the Company has or will receive title options for any concessions in which it has or will acquire a material interest, there is no guarantee that title to such concessions will be not challenged or impugned. In some countries, the system for recording title to the rights to explore, develop and mine natural resources is such that a title opinion provides only minimal comfort that the holder has title. Also, in many countries, claims have been made and new claims are being made by aboriginal peoples that call into question the rights granted by the governments of those countries.

### *Enforcement of Civil Liabilities*

Substantially all of the assets of the Company will be located outside of Canada and certain of the directors and officers of the Company will be resident outside of Canada. As a result, it may be difficult or impossible to enforce judgments granted by a court in Canada against the assets of the Company or the directors and officers of the Company residing outside of Canada.

### *Management*

The Company is dependent on a relatively small number of key employees, the loss of any of whom could have an adverse effect on the Company.

## **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

### **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. Management evaluated the effectiveness of the Company's disclosure controls and procedures for the year ended October 31, 2007 as required by Canadian securities laws.

Based on that evaluation, management has concluded that the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

### **Internal Controls and Procedures**

The Company evaluated the design of its internal controls and procedures over financial reporting as defined under Multilateral Instrument 52-109 for the year ended October 31, 2007. Based on this evaluation, management has concluded that the design of these internal controls and procedures over financial reporting was effective. A system of internal control is maintained by management to provide reasonable assurance that assets are safeguarded and financial information is accurate and reliable. The Board of Directors approves the financial statements and ensures that management discharges its financial responsibilities. The Board's review is accomplished principally through the audit committee, which meets periodically with management and auditors to review financial reporting and control matters.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

### **SUBSEQUENT EVENTS**

Subsequent to October 31, 2007; the Company

- entered into a purchase agreement with the shareholders of New Stone Mining SPRL, a privately-owned mining company registered in the Democratic Republic of the Congo (DRC). New Stone Mining currently has four mining concessions in the DRC. Under the purchase agreement, Canaf will acquire 51% of the issued share capital of New Stone Mining for US\$20,000,000. The Company will pay a deposit of US\$1,000,000, comprising US\$75,000 on signing of the agreement (paid), \$925,000 (as at the date hereof, a further US\$350,000 has been paid, mostly by Quantum) on certain conditions being satisfied and \$19,000,000 on closing. On closing, the balance payable is due within 24 months and is without interest.

## **OUTLOOK**

Quantum would like to install a further kiln if tests at Mittal Steel in Vanderbijlpark prove successful (at the time of writing the tests look promising). It may well prove necessary to consider an alternative form of energy for the new kiln as South Africa is presently suffering from power outages which is not only adversely affecting all sectors of industry, including the two major customers of Quantum but also Quantum itself. Refractories in the plant have been badly affected by the constant large changes in temperatures

The probable acquisition of 51% of New Stone Mining could prove very profitable for Canaf. However, at this point in time the project must be considered as one of exploration and nothing more. The method of winning diamonds is quite different to other methods applied in that the gravel beds of rivers and old river tributaries are to be 'vacuumed', sorted and replaced (thereby raising no environmental issues).

Canaf have an engineer on site in the DRC at the time of writing assisting with the commissioning of the plant but, more importantly, monitoring the progress.

## **OUTSTANDING SHARES**

Authorized

Unlimited number of common and preferred shares without par value.

As at April 15, 2008, the Company had the following securities issued and outstanding:

Common shares outstanding:		44,533,753	
Type	Number Outstanding	Exercise Price (Cdn)	Expiry Date
Options	360,000	\$0.10	June 7, 2009
Options	135,000	\$0.25	November 26, 2009
Options	40,000	\$0.45	February 1, 2010
Options	167,000	\$0.32	March 28, 2010
Options	2,050,000	\$0.10	November 26, 2011
Option	200,000	\$0.28	June 14, 2012
Warrants	1,758,260	\$0.20	December 29, 2008
Warrants	1,000,000	\$0.15	October 31, 2008
Warrants	4,000,000	\$0.35	October 31, 2008

## **DIRECTORS AND OFFICERS**

David Way *Director, Chief Executive Officer*  
Mike Hopley *Director, Chief Financial Officer*  
Brad Jefferson *Director*  
Zeny Manalo *Director*

## **OTHER REQUIREMENTS**

Additional disclosure of the Company's technical reports, material change reports, news release and other information can be obtained on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website.

On Behalf of the Board,

### **CanAfrican Metals and Mining Corp**

"David Way"

---

David Way  
*Chief Executive Officer*

"Mike Hopley"

---

Mike Hopley  
*Chief Financial Officer*