

Canaf Group Inc.

Management Discussion & Analysis FORM 51-102F

**For the Year Ended
OCTOBER 31, 2009**

(Expressed in U.S. Dollars)

March 1, 2010

The following discussion is management's assessment and analysis of the results and financial condition of Canaf Group Inc. (the "Corporation") and should be read in conjunction with the accompanying financial statements for the year ended October 31, 2009 and related notes. The preparation of financial data is in accordance with Canadian generally accepted accounting principles ("GAAP") and all figures are reported in United States dollars unless otherwise indicated.

Additional information relating to the Company is available on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A together with the Company's financial statements for the year ended October 31, 2009 contain certain statements that may be deemed "forward-looking statements". All statements in this MD&A, other than statements of historical fact, that address exploration drilling, exploitation activities and events or developments that the Company expects to occur, are forward looking statements. Forward looking statements in this document are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential" and similar expressions, or that events or conditions "will", "would", "may", "could" or "should" occur. Information inferred from the interpretation of drilling results and information concerning resource estimates may also be deemed to be forward looking statements, as it constitutes a prediction of what might be found to be present when and if a project is actually developed. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results may differ materially from those in the forward-looking statements.

Inherent in forward-looking statements are risks and uncertainties beyond the Company's ability to predict or control, including risks that may affect the Company's operating or capital plans, including risks generally encountered in the exploration and development of natural resource properties, such as unusual or unexpected geological formations, unanticipated metallurgical difficulties, ground control problems, process upsets and equipment malfunctions; risks associated with labour and unavailability of skilled labour; fluctuations in the market prices of the Company's principal products, which are cyclical and subject to substantial price fluctuations; risks created through competition for natural resource properties; risks associated with lack of access to markets; risks associated with mineral and resource estimates, including the risk of errors in assumptions or methodologies; risks posed by fluctuations in exchange rates and interest rates, as well as general economic conditions;

risks associated with environmental compliance and permitting, including those created by changes in environmental legislation and regulation; risks associated with the Company's dependence on third parties in the provision of transportation and other critical services; risks associated with aboriginal title claims and other title risks; social and political risks associated with operations in foreign countries; and risks associated with legal proceedings.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, the following assumptions: that there is no material deterioration in general business and economic conditions; that there is no unanticipated fluctuation of interest rates and foreign exchange rates; that the supply and demand for, deliveries of, and the level and volatility of commodity prices develop as expected; that the Company receives regulatory and governmental approvals as are necessary on a timely basis; that the Company is able to obtain financing as necessary on reasonable terms; that there is no unforeseen deterioration in the Company's activity costs; that the Company is able to continue to secure adequate transportation as necessary for its exploration activities; that the Company is able to procure equipment and supplies, as necessary, in sufficient quantities and on a timely basis; that exploration activity timetables and capital costs for the Company's planned projects are not incorrectly estimated or affected by unforeseen circumstances; that costs of closure of various operations are accurately estimated; that there are no unanticipated changes to market competition; that the Company's estimates in relation to its natural resource interests are within reasonable bounds of accuracy (including with respect to size, grade and recoverability of mineral projects) and that the geological, operational and price assumptions on which these are based are reasonable; that no environmental and other proceedings or disputes arise; and that the Company maintains its ongoing relations with its employees, consultants and advisors.

Readers are cautioned that the foregoing list of important factors and assumptions is not exhaustive. Forward-looking statements are not guarantees of future performance. Events or circumstances could cause the Company's actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of factors, whether as a result of new information or future events or otherwise, except as may be required under applicable laws.

OVERALL PERFORMANCE

Canaf Group Inc., (the "Company") is incorporated in the Province of Alberta and is engaged in the acquisition and exploration of mineral properties in Sierra Leone. The Company has a 100% interest in Quantum Screening and Crushing (Proprietary) Limited ("Quantum") and a 51% interest in Canaf (SL) Ltd, ("Canaf (SL)"). Quantum is a South African company carrying on the business of processing of coal products into carbon for sales. On May 3, 2007, the Company changed its name from CanAfrican Metals and Mining Group to Canaf Group Inc.

Gendema Property, Sierra Leone

Canaf (SL) holds a small scale mining lease covering an area of 25 acres, expiring on October 31, 2011, and renewable upon application. Canaf (SL) is committed to pay annual lease and surface rent totalling approximately \$10,000 and pay a royalty to the land owners at 10% of gross diamond sales during the term of the lease.

On June 10, 2009, Canaf (SL) signed a joint venture agreement with a private Sierra Leonean mining company (the "Joint Venture Partner") for the exploration of the property during the term of the mining lease with the net profit shared equally between the Company and the Joint Venture Partner. Canaf (SL) is the operator of the project and the Joint Venture Partner provides the required exploration equipment. As at October 31, 2009, the Canaf (SL) owed \$5,250 to the Joint Venture Partner for advances received net of the Joint Venture Partner's share of diamond sales and exploration expenditures.

To date Canaf (SL) has discovered diamond bearing gravels of various grades, which have warranted further exploration and investment. Internal management results have shown some extremely promising grades, some of over 1.0 carats per cubic metre.

During the months of November and December 2009 the company commissioned a diving operation at the Gendema property. Unfortunately, due to the compacted nature of the gravel, sufficient tonnes of gravel were not extracted to warrant the continuation of the operation.

Despite the pumping operation not reaching a profitable stage, the findings were again encouraging and in January 2010 the Company decided to further invest in Canaf (SL). Canaf (SL) is now mobilising heavy earthmoving equipment to the Gendema property to enable the construction of a large cofferdam so that extraction of gravel will be possible with an excavator.

Quantum Screening and Crushing, South Africa

In 2007, the Company acquired 100% of Quantum Screening and Crushing (Proprietary) Limited (Quantum). Quantum is a private South African company and 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 Arcelor Mittal 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 35 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 of between 82% and 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 6 years.

The last year has been a difficult one due to the worldwide recession. BHP Billiton took no product for some eight months whilst Arcelor Mittal cut their orders by one half and did not take any product for two months. The board have made sure that costs are contained as far as possible and feel that it is essential to retain the facility as it appears that the recession is near its end and recovery is in sight. Orders are presently (February 2010) regular and the kilns are operating at full capacity

REVENUE RECOGNITION

Revenue from the sale of calcine and diamonds is recognized upon transfer of title which is completed when the physical product is delivered to customers and collection is reasonably assured. The sale of diamonds recovered from exploration activities are offset against capitalized exploration costs. Interest and other income are recognized when earned and collection is reasonably assured.

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, 2009, 2008 and 2007.

	2009	2008	2007
	\$	\$	\$
Sales	4,561,417	9,038,397	6,193,884
Cost of Sales	(4,630,882)	(8,207,714)	(5,455,041)
Gross Profit	(69,465)	830,683	738,843
Loss before income taxes	(574,327)	(3,273,168)	(684,465)
Income tax recovery (expense)	34,718	667,436	(37,000)
Net loss for the year	(539,609)	(2,605,732)	(721,465)
Interest Income	9,405	13,042	16,558
Long-term debt	Nil	521,858	797,216
Total Assets	3,270,899	3,134,842	7,203,120
Basic and diluted per shares	(0.01)	(0.06)	(0.02)

Financial position

Revenue from the sale of calcine and coal is derived substantially from two customers and as a result the company is dependent on these customers for its revenue. The revenue decreased due to the recession and thus a reduction in orders.

The Company earned \$9,405 of interest income during the year on its cash held in Canadian and South Africa banking institutions. The decrease is due to less cash on hand to invest in interest bearing financial assets and the reduction in interest rates.

The main components making up the balance of \$3,270,899 of total assets as at October 31, 2009 are \$895,849 property, plant and equipment, \$581,487 in cash and cash equivalents, \$669,403 in current portion of long-term investment and \$555,000 in accounts receivable. The total assets have increased due to increases in long term investment and cash on hand.

Long term debt of \$666,470 represents the current portion of the debt maturing in April 2010. The debt is held in South Africa and secured with a long term investment at Liberty Life.

The Company's loss has decreased significantly in 2009 due mainly to the write-offs of the following: mineral properties costs of \$146,208, deposits on acquisition of subsidiary of \$661,567 and intangible assets of \$1,876,458 in fiscal 2008.

RESULTS OF OPERATIONS

For the year ended October 31, 2009, the Company reported a loss of \$539,609 (2008 - \$2,605,732). The Company's loss per share was \$0.01 (2008 - \$0.06). The decrease in loss relative to the corresponding period in the prior year is primarily due to the write off of mineral property, write down of intangible assets and deposits on acquisition of subsidiary in fiscal 2008.

	<u>October 2009</u>	<u>October 2008</u>	<u>%Change</u>
Sales	\$ 4,561,417	\$ 9,038,397	(50%)
Cost of sales	(4,630,382)	(8,207,714)	(44%)
Administrative expenses	(518,830)	(1,504,908)	(66%)
Other items	13,968	(2,598,943)	(101%)
Income taxes recovery	34,718	667,436	(95%)
Total loss for the period	<u>(539,609)</u>	<u>(2,605,732)</u>	<u>(79%)</u>

Sales

All of the sales during the last twelve months have been generated by Quantum Screening and Crushing, the calcining operation, except for the sale of two small parcels of diamonds by Canaf (SL) Ltd which was recorded against capitalized exploration expenditures.

During the year ended October 31, 2009 sales have decreased by 50% due to the recession. As mentioned above orders from customers reduced considerably with one customer actually taking no product for approximately eight months. Production costs also decreased by 44% due to decrease in production volumes and the cutting of all costs wherever possible.

Expenses

Expenses for the period ended October 31, 2009 decreased by 66% compared to the same period in 2008. The larger loss of fiscal 2008 was primarily due to the Company's non-cash compensation cost, amortization of plant and equipment and intangible assets, and higher accounting and legal fee.

Differences in general administrative expenses incurred are as follows:

- Director salaries of \$117,704 (2008-\$166,427) were paid to directors of Quantum.
- Interest and office and sundry expenses decrease due to decreases in the Company's business operation in South Africa.
- Transfer agent and filing fees of \$10,645 (2008-\$22,591) consisted of fees paid to regulatory bodies in Canada in connection with routine filings.
- Travel of \$4,622 (2008-\$54,480) management traveled in Vancouver, UK, and South Africa

where the Company has business offices. Travel was paid primarily for executive travel to examine potential business opportunities and meet with potential investors.

- Consulting fee of \$36,988 (2008-\$92,545) were paid and accrued to a director of the Company, in consideration of management consulting services.
- The Company issued debentures totalling \$150,000 which bear interest of 12% per annum, with \$13,992 accrued interest for the year (2008-\$Nil).
- The Company uses the fair value based method of accounting for all stock-based awards. The Company recorded \$Nil (2008-\$53,662) of non-cash compensation costs due to the grant of stock option during the period

Other Items

- The Company's investment income has decreased by \$9,405 (2008-\$13,042) in the year ended October 31, 2009 due to less cash on hand to invest in interest bearing financial assets and the reduction of interest rates
- In fiscal 2008, the Company wrote down the following: advanced deposits totalling \$661,567 for the acquisition of New Stone Mining, mineral property of \$146,208 and intangible assets of \$1,876,458.

Net income tax recovery amounted to \$34,718 (2008- \$667,436) during the year of which (\$64,838) (2008-(\$342,900)) was current income tax expense and \$99,556 (2008-\$1,010,336) future income tax recovery. A majority of the future income tax assets originating in Canada include share issuance costs and tax-loss carryforwards. The future income tax liability included in the balance sheet of \$227,899 (2008-\$324,260) was recorded to reflect the temporary difference originated on the value assigned to plant and equipment in South Africa.

The Company is subject to transactions in four currencies (United States Dollars, British Pound, South African Rand and Canadian Dollars) and is therefore subject to fluctuations in international currency markets. The current year comprehensive gain on foreign exchange in the amount of \$185,228 mostly as a result of the settlement of foreign-currency denominated operational transactions and intercompany balances. In addition, the Company incurred a current comprehensive loss of \$354,381 as a result of the change in the fair value, as measured in US Dollar, of the Company's assets and liabilities denominated in South African Rand. Though the Company does not maintain a formal strategy to manage currency movements, management works with the Company's financial institutions and the Board of Directors to manage currency fluctuations.

SUMMARY OF QUARTERLY REPORTS

The following selected financial data has been prepared in accordance with Canadian GAAP and should be read in conjunction with the Company's yearly and interim financial statements.

	Three Months Ended			
	October 31, 2009 \$	July 31, 2009 \$	April 30, 2009 \$	January 31, 2009 \$
Gross Profit (Loss)	(68,632)	67,230	(60,186)	(7,877)
Net (loss)	(166,152)	(101,449)	(168,577)	(103,431)
Basic and diluted loss per share	(0.00)	(0.00)	(0.01)	(0.00)

	Three Months Ended			
	October 31, 2008 \$	July 31, 2008 \$	April 30, 2008 \$	January 31, 2008 \$
Gross Profit	489,880	62,021	147,459	131,323
Net (loss)	(1,603,381)	(383,573)	(446,680)	(172,098)
Basic and diluted loss per share	(0.04)	(0.01)	(0.01)	(0.00)

Over the last eight quarters, expenditures have been consistent reflecting operational activities. Losses and earnings varied from quarter to quarter. In the fourth quarter of fiscal 2008, the Company recorded a loss of \$1,603,381. During the fourth quarter in 2008, the company wrote down the following: advanced deposits totalling \$661,567 for the acquisition of New Stone Mining, mineral property of \$146,208 and intangible assets of \$1,876,458.

Revenue in fiscal 2009 is significantly lower than the previous year. In fact, Quantum has experienced extremely difficult conditions during the last financial year; inconsistent power supply, a scheduled overhaul and subsequent shutdown of Arcelor Mittal's plant in Newcastle and most recently the reduction in orders from both customers; with all this in mind, the Company has still managed to operate profitably. The board does expect the coming months and quarters to improve dramatically.

During the year, Canaf (SL) generated gross revenue of approximately \$28,000.00 from sale of diamonds, ten percent of which was paid directly to the local community for development and the remaining revenues shared equally with the joint venture partner. Canaf (SL)'s net share of the diamond sales of \$22,083 in 2009 were offset against capitalized exploration expenditures.

FOURTH QUARTERS

Revenue

Quantum again made end of year profits for 2008-2009, albeit significantly lower than the previous year. In fact, Quantum has experienced extremely difficult conditions during the financial year; inconsistent power supply, a scheduled overhaul of Arcelor Mittal's plant in Newcastle and most recently the reduction in orders from both customers; the Company has still managed to operate profitably. The board expects the coming months and quarters to improve.

Also, in the fourth quarter of fiscal 2008, the Company incurred a loss of \$1,636,973 (2008-\$383,944). During the quarter, the company wrote down the following: advanced deposits totalling \$661,567 for the acquisition of New Stone Mining, mineral property and deferred cost of \$146,2008 and intangible assets of \$1,996,709.

RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended October 31, 2008 have been restated to correct foreign exchange translation of the Company's self-sustaining foreign operations for the year ended October 31, 2007, and the translation of the Company's head office and integrated foreign operations to the reporting currency for the years ended October 31, 2008 and 2007. See Note 2 of the consolidated financial statements.

The restatement has no impact on the closing balance of the consolidated shareholders' deficiency as at October 31, 2008.

LIQUIDITY AND CAPITAL RESOURCES

During the period ended October 31, 2009, the Company had cash and cash equivalent net of \$581,487 (2008-\$377,539) and working capital deficiency of \$732,906 (2008-\$1,046,539).

Non cash items accounted for \$421,018 of the operating costs in 2009 (2008-\$3,006,783). The major non cash items included \$520,574 in amortization and future income tax recovery of \$99,556.

In 2009, \$504,668 in funds arose from the net change in current non cash working capital during the period. The major factors in the change in non cash working capital items were the use of income tax payable of \$69,506, accounts receivable of \$506,470 and amounts due to related parties of \$165,459.

Shares Issued for Debt

During the year, the Board of Directors approved the issuance of 2,892,442 common shares with a deemed value of CDN\$0.25 per share in settlement of amounts of CDN\$723,111 owing to a company controlled by the President of the Company.

Debt Financing

In January 2009, the Company completed debt financing totaling \$150,000 which included \$50,000 being funded by a company controlled by the President of the Company. The debentures bear interest at 12% per annum compounded annually, are repayable by January 31, 2011, and are secured by a first floating charge on all property and assets of the Company. During the year, the Company accrued interest totalling \$13,992 (2008 - \$Nil)

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.

CONTRACTUAL OBLIGATIONS

	Less than 1 year	1-3 years	4-5 years	After 5years
Long term debt	\$664,470	-	-	-

The debts bear interest at rates between 8.5% to 13.0% per annum and is due in April 2010. The loan is secured with a fixed income investment which the Company is committed to making monthly investment of \$10,683 to provide for the repayment of the loan upon maturity

TRANSACTIONS WITH RELATED PARTIES

All of the undernoted fees are in respect to the current period ended October 31, 2009, unless otherwise indicated.

- a) Consulting fee of \$36,988 (2008-\$47,546) were paid and accrued to a director of the Company, in consideration of management consulting services and overseeing the Company's exploration activities and management in Sierra Leone properties. This director was owed \$33,116 at October 31, 2009 (2008-\$nil).
- b) Director's management fees of \$ 117,704 (2008 - \$166,427), were paid to directors and officers of the Company for management compensation in the normal course of operation of the Company's subsidiaries in South Africa.
- c) Administrative and accounting fees of \$50,505 (2008 - \$59,891) were paid to a director of the Company for secretarial, general administrative and accounting services and overseeing regulatory filings and requirements.
- d) The Company issued 2,892,442 common shares for the settlement of US\$587,513 in debt owing to a private Company controlled by the President of the Company. At October 31, 2009, the aggregate balance due to this director and the related company is \$829,902 (2008-\$1,282,348) including interest of \$187,889 (2008-\$126,521).

ECONOMIC DEPENDENCE

Sales of the Company realized from its South African coal processing business are substantially derived from two customers, and as a result is economically dependent upon these two customers. The Company's exposure to credit risk is limited to the carrying value of its accounts receivable. As at October 31, 2009, accounts receivable included \$540,355 due from these two customers which have been subsequently collected. In light of the global economy downturn, these customers have significantly reduced its purchases from the Company in 2009. Reduced sales may have a significant adverse impact on the Company.

FINANCIAL INSTRUMENTS

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash, receivables, due to related parties and accounts payable and accrued liabilities.

Cash and cash equivalent is designated as held-for-trading and therefore carried at fair value, with the unrealized gains or losses recognized in net income. Receivables are classified as loans and receivables, which are measured at amortized cost, if assets is derecognized or impaired, recognized in net income. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost, if liability is derecognized, recognized in net income.

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.

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.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is dependent upon on the availability of credit from its supplier and its ability to generate sufficient fund from equity financing or from third parties to meet current and future obligations. There can be no assurances that such financing will be available on terms acceptable to the Company.

Credit Risk

Credit risk on financial instruments arises from the potential for counterparties to default on their obligations to the Company. Current credit exposure is on the loss that would be incurred if the Company's counterparties were to default at the same time.

The Company has a credit risk exposure related to its counterparties under its calcine and coke sales as disclosed in Notes 15 to the consolidated financial statements. The Company has assessed its exposure to credit risk and has determined that no significant risks exist from these concentrations of credit.

Interest Rate Risk

Interest on the Company's long-term debt is based on both fixed and variable rates and exposes the Company to interest rate risk. The Company has not entered into any derivative agreements to mitigate this risk.

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 rather than the United States dollar, 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 Canadian dollars and has issued securities convertible or exercisable into common shares at values expressed in Canadian dollars.

The Company does not currently use financial instruments to mitigate this risk.

Commodity Price Risk

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

The Company is in great deal of uncertainty in the medium term future owing to the fact that Quantum Screening & Crushing Ltd the South African subsidiary is experiencing vast reductions in orders - down more than 50% at the date of this report.

Fair Value Risk

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, long term debts, debentures, and amounts due to related parties and the joint venture partner 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.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements

ADOPTION OF NEW ACCOUNTING POLICY

Going Concern

The CICA Handbook Section 1400 "General Standards of Financial Statement Presentation" requires management to assess an entity's ability to continue as a going concern. Management has disclosed the material uncertainties related to events or conditions that may cast doubt on the Company's ability to continue as a going concern in Note 1 of the consolidated financial statements.

FUTURE ACCOUNTING CHANGE

International Financial Reporting Standards (“IFRS”)

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 01, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company’s reporting for the first quarter ending January 31, 2012. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

OUTLOOK

The outlook for the Company during the next years holds the potential to generate a positive cash-flow from its new venture in Sierra Leone but also holds a degree of uncertainty with regards to the decline in orders for calcine product from Quantum and the uncertainty attached to the cost of feedstock material.

The tempestuous global economic climate had an adverse effect on many industries worldwide. The board of Canaf is confident that the Company has survived the economic downturn and predicts the return to good profitability in the year ahead.

Quantum again made end of year profits for 2008-2009, albeit significantly lower than the previous year. In fact, although Quantum experienced extremely difficult conditions during the last financial year; inconsistent power supply, a scheduled overhaul of Arcelor Mittal’s plant in Newcastle and most recently the reduction in orders from both customers; it still managed to operate profitably. The board expects the coming months and quarters to improve.

The last year has seen Canaf (SL) Ltd., the newly incorporated company in Sierra Leone start production on its first small scale mining lease on the River Sewa. The company successfully discovered the existence of diamond bearing gravels of varying grades. Internal management results have shown some extremely promising grades, some of over 1.0 carats per cubic metre. The company maintains the view that the global diamond market will improve over the coming years and maintains the view that there is still great opportunity to further explore the concessions in country.

The outlook for Canaf (SL) remains positive after the discovery of some extremely promising grades of diamond bearing gravels. The dredging operation during November and December 2010 was not a success as insufficient volumes of gravel were not achieved to warrant the operation. However, despite the small production, the Company was happy with the grade of gravel and so decided to construct a cofferdam during the month of March 2010. The new cofferdam will encompass the previous dam constructed in 2009.

Canaf (SL) is now established in county and is hopeful that the coming 6 months will see the company turn profitable.

All in all, the outlook for Canaf Group Inc. is one of further improvement.

OUTSTANDING SHARES

Authorized

Unlimited number of common and preferred shares without par value.

As at March 1, 2010, the Company had the following securities issued and outstanding:

Common shares outstanding:		47,426,195	
<u>Type</u>	<u>Number Outstanding</u>	<u>Exercise Price (CDN)</u>	<u>Expiry Date</u>
Options	37,000	\$0.32	March 3, 2010
Options	1,100,000	\$0.10	November 26, 2011
Option	200,000	\$0.28	June 14, 2012

DIRECTORS AND OFFICERS

David Way	<i>Director, Chief Executive Officer</i>
Mike Hopley	<i>Director, Chief Financial Officer</i>
Kevin Corrigan	<i>Director</i>
Zeny Manalo	<i>Director</i>

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 and the Company's website.

On Behalf of the Board,

Canaf Group Inc.

"David Way"

David Way
Chief Executive Officer

"Mike Hopley"

Mike Hopley
Chief Financial Officer