

Canaf Group Inc.

Management Discussion & Analysis

For the Year Ended
October 31, 2011

(Expressed in U.S. Dollar)

February 28, 2011

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 consolidated financial statements for the year ended October 31, 2011 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 consolidated financial statements for the year ended October 31, 2011 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 wholly owns a business in South Africa processing anthracite coal into de-volatilised (calcined) anthracite for sale to steel and manganese manufactures as a substitute product for coke.

The Company has a 100% shareholding in Quantum Screening and Crushing (Proprietary) Limited ("Quantum"), a South African company.

Quantum - Calcined Anthracite, South Africa

The company produces calcined anthracite, a product used as a substitute to coke in the manufacturing process of steel and manganese. The company's two largest clients are world leaders in steel and manganese production, namely ArcelorMittal and BHP Billiton respectively. Quantum has a plant near Newcastle, KwaZulu Natal, where its two kilns operate, calcining the raw material anthracite. The majority of Quantum's feedstock anthracite is supplied by the neighbouring Springlake Colliery, which has reserves in excess of 25 years.

Calcining is a process whereby anthracite coal is fed through a rotary kiln (at temperatures between 850 and 1100 degrees centigrade) and devolatilisation takes place; the volatiles are burnt off and the effective carbon content increased. 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 since 2004.

The fiscal year 2011 recorded the highest ever level of revenues for Quantum. Despite the setbacks of an unscheduled, four-month shutdown at ArcelorMittal's Newcastle facility, the company continued to see strong demand for its product and sales improved 13% to \$13,336,725 from \$11,807,383 the previous year.

The company continues to make progress on reducing total debt, both through decreasing reliance on related party credit and through lower interest expense charges. The Company's investment in Quantum remains a focus with the highlight being the July 2011 purchase of a new crushing and screening plant.

REVENUE RECOGNITION

Revenue from the sale of calcined anthracite 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.

RESULTS OF OPERATIONS

For the year ended October 31, 2011, the Company reported an income after tax of \$574,766 (2010-(\$551,552)). The Company's income per share was \$0.01 (2010- \$0.01). Income increased is due to increase in revenue and trading margins which were offset by the non-recurring loss of writing off the operations in Sierra Leone in 2010.

	<u>Fiscal 2011</u>	<u>Fiscal 2010</u>
Sales	\$ 13,336,725	\$ 11,807,383
Cost of sales	(11,670,369)	(9,813,660)
Administrative expenses	(667,930)	(614,335)
Other items	13,572	(263,326)
Income tax expense	(437,232)	(564,510)
Net income for the year	<u>\$ 574,766</u>	<u>\$ 551,552</u>

Sales

All of the sales during the last twelve months have been generated by Quantum Screening and Crushing.

During the year ended October 31, 2011, sales increased 13% to \$13,336,725 from \$11,807,383 the previous year, reflecting higher prices and marginally higher volume sales. The gross margin was 12.5% compared to 16.9% for the previous year.

Expenses

Expenses for the year ended October 31, 2011 increased by 9% compared to the same period in 2010. Differences in general administrative expenses incurred are as follows:

- Management fees of \$230,289 (2010-\$173,956) were paid to directors for administration and management services in relation to the Company's coal processing business in South Africa.
- The Company paid interest of \$3,775 (2010-\$76,325) for a long term debt.
- Interest expenses of \$34,855 (2010-\$54,537) accrued to a company controlled by a director of the Company. The loan is unsecured and bears interest of 7% per annum. Effective November 1, 2010 the interest rate were changed to 6% per annum.
- The Company issued debentures totalling \$150,000 which bear interest of 12% per annum, with \$16,255 (2010-\$20,619) of interest expense for the year. On May 1, 2011 the interest rate was changed to 8% per annum.
- Consulting fees of \$54,053 (2010-\$43,992) were paid to two directors: \$48,295 (2010-\$37,832) were paid to a director for administration and management services and \$5,758 (2010-\$6,160) was paid to a former director of the Company for consideration of management consulting services.
- Professional fees which include audit, tax, accounting fee and legal of \$142,701 (2010-\$129,939).

- Transfer agent and filing fees of \$14,824 (2010-\$15,260) consisted of fees paid to regulatory bodies in Canada in connection with routine filings.
- Travel of \$80,890 (2010-\$11,235) was incurred for management travelling in Sierra Leone, UK, and South Africa where the Company has business offices.

Other Items

- The Company's interest income has decreased by \$131,562 for the year.

Income Taxes

Income tax expenses amounted to \$437,232 (2010-\$564,510). A majority of the future income tax assets originating in Canada include share issuance costs and tax-loss carryforwards for which a valuation allowance has been recorded. The future income tax liability included in the balance sheet of \$65,758 (2010-\$136,786) was recorded to reflect the temporary difference originated on the value assigned to plant and equipment in South Africa.

Comprehensive Income

The Company is not subject to currency fluctuations in its core activities however the Company is subject to transactions in various currencies and the volatility in international currency markets does have an impact on some costs and translation into the reporting currency of the Company. The current year comprehensive loss on foreign exchange in the amount of \$271,515 (2010 gain-\$144,838) mostly as a result of the translation of foreign-currency denominated balances to the reporting currency and translation of the Company's self-sustaining subsidiary. As at October 31, 2011, the Company has accumulated other comprehensive loss of \$141,420 (2010 income - \$130,095). The Company does not hedge net asset translation movements, but where necessary and appropriate hedge currency risk for trading items.

FOURTH QUARTER OPERATIONS

During the fourth quarter, the Company reported a net income of \$259,931 compared to net loss of \$327,497 in the fourth the previous fiscal year. The reason for the increase is due to the fact that in the final quarter of 2010 the Company absorbed a non-recurring write down of equipment (\$30,824) and mineral property and capitalised costs (\$377,636) associated with the Gendema property in Sierra Leone. All of the sales for the fiscal year 2011 have been generated by Quantum Screening and Crushing.

During the fourth quarter ended October 31, 2011 gross profit increased to \$429,569 (2010 - \$276,427) due to increased sales and sales and inventories. During the fiscal year 2011, the increase was due to the fact that Quantum shut down operations in South Africa (due to the un-scheduled shutdown of ArcelorMittal's Newcastle facility) and sold inventory of stock, thus reducing overheads and feedstock costs. The gross margin during the fourth quarter was 16.7%.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

During the year ended October 31, 2011, the Company had cash and cash equivalent net of \$208,915 (2010- \$956,894). Working capital of \$876,358 (2010-\$538,517) and deficit of \$7,645,967 (2010-\$8,220,733).

Non-cash items accounted for \$355,844 of the operating costs in 2011 (2010-\$702,018). The major non-cash items included \$423,059 in amortization and future income tax recovery of \$67,215 in 2011.

During the period an increase in non-cash working capital amounted to \$1,338,404 (2010-917,335). This additional use of funds arose from an increase in accounts payable and accrued liabilities of \$149,643, offset by an increase in accounts receivable of \$153,621 and sales tax receivable of \$88,289, a decrease in

income tax payable of \$157,626 and amounts due to related parties of \$101,943 and an increase in inventories of \$948,971 (see note 9 (a) of the financial statements).

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 at the current rate.

Debenture

In January 2009, the Company issued debentures totalling \$150,000 which included \$50,000 subscribed by a related company controlled by the Chairman of the Company. The debentures bear interest at 8% per annum compounded annually effective May 1, 2011, and are secured by a first floating charge on all property and assets of the Company. The maturity of the debentures has been extended to May 1, 2013, at which date the debentures may be converted to common shares of the Company at \$0.25 per common share. Prior to May 1, 2011, the debentures were subject to an interest rate of 12% per annum compounded annually. The Company plans to pay off both debentures in full during the next financial year, end 2012 as part of the ongoing debt reduction program.

During the year ended October 31, 2011, the Company incurred interest expense totalling \$16,255 (2010 - \$20,619). There was no interest outstanding as at October 31, 2011 (2010 - \$34,611).

As at October 31, 2011, the amount of debenture and interest payable to the related company was \$50,000 (2010 - \$61,432). During the year ended October 31, 2011, interest expense paid to the related company was \$5,415 (2010 - \$6,861).

Contractual Obligations

Bank loan	\$ 118,572
Less: Current Portion	<u>40,035</u>
	<u>\$ 78,537</u>

The bank loan bears interest at 8% per annum, matures on July 1, 2014, and is secured by the Company's pilot modular impact crusher acquired in June 2011. During the year ended October 31, 2011, the Company incurred interest expense totaling \$3,775 (2010 - \$Nil).

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 October 31, 2011, accounts receivable included \$1,675,054 due from these customers which were subsequently collected. The Company is aiming to secure a long term contract with BHP Billiton which would increase financial security; trials will be carried out during the months of March, April and May 2012.

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, 2011, 2010 and 2009.

	2011	2010	2009
	\$	\$	\$
Sales	13,336,725	11,807,383	4,561,417
Cost of Sales	(11,670,369)	(9,813,660)	(4,630,882)
Gross Profit (Loss)	1,666,356	1,993,723	(69,465)
Income (loss) before income taxes	1,011,998	1,116,062	(574,327)
Income tax (expenses) recovery	(437,232)	(564,510)	34,718
Net income (loss) for the year	574,766	551,552	(539,609)
Interest Income	13,572	145,134	9,405
Long-term debt, including current portion	40,035	Nil	666,470
Total Assets	3,704,897	3,734,633	3,270,899
Basic and diluted earnings (loss) per share	0.01	0.01	(0.01)

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 increased due to increased orders and sales price of calcined anthracite for the company's main two clients. The company did not experience any major break-downs and electricity supply was consistent.

The Company earned \$13,572 (2010 - \$145,134) of interest income during the year on its long-term investment, and cash held in Canadian and South Africa banking institutions. The decrease is due to the reduction in the cash on hand.

The main components making up the balance of \$3,704,897 of total assets as at October 31, 2011 are \$448,897 property, plant and equipment, \$208,915 in cash, \$1,675,054 in accounts receivable and \$1,300,373 in inventories.

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.

	October 31,	Three Months Ended		January 31,
	2011	July 31,	April 30,	2011
	\$	\$	\$	\$
Sales	2,574,300	4,299,501	3,709,335	2,753,589
Gross Profit	429,569	672,551	383,521	180,715
Net Income (Loss)	259,931	277,196	85,868	(48,229)
Basic and diluted (loss) per share	0.00	0.01	0.00	(0.00)

	Three Months Ended			
	October 31, 2010	July 31, 2010	April 30, 2010	January 31, 2010
	\$	\$	\$	\$
Sales	2,983,161	3,008,368	3,191,952	2,623,902
Gross (Profit	276,427	568,014	766,211	383,071
Net (Loss) Income	(327,497)	285,207	453,995	139,847
Basic and diluted loss per share	(0.01)	0.01	0.01	0.00

The table above shows that the last financial year saw a steady increase in sales and profits during the first three quarters. It was due an unscheduled shutdown, and subsequently a force majeure being imposed on the Company, of ArcelorMittal's Newcastle facility (the Company's main customer), that sales reduced in the final quarter. Despite sales reducing by 40% in the fourth quarter of the last year compared to the previous quarter of the same year, the net income reduced by only 6%, due to the fact that the Company shut down all operations and sold their inventory of stock, and thus increased gross margin from 15.6% for the third quarter to 16.7%.

The first quarter of the last year reflects a net loss of \$48,229 due to a planned major maintenance shutdown of one of Quantum's kilns to re-line and emissions stack and complete other preventative maintenance on the refractories of both kilns.

In the fourth quarter of fiscal 2010, the Company recorded a loss of \$327,497 due to the Company writing down a total of \$408,460 of equipment and mineral property and deferred cost associated with Gendema property in Sierra Leone.

TRANSACTIONS WITH RELATED PARTIES

All of the undernoted fees are in respect to the current year ended October 31, 2011, unless otherwise indicated.

- a) Consulting fee of \$48,295 (2010-\$37,833) were paid to a director of the Company, in consideration of management consulting services and overseeing the Company's exploration activities in South Africa. This director was owed \$Nil at October 31, 2011.
- b) Director's management fees of \$ 230,289 (2010 - \$173,956), 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) The Company paid consulting fees of \$5,758 (2010 - \$6,160) to a former director for administration and management services.
- d) Administrative and accounting fees of \$54,626 (2010 - \$56,513) were paid to a director of the Company for secretarial, general administrative and accounting services and overseeing regulatory filings and requirements. As at October 31, 2011, an amount of \$3,462 (2010-\$Nil) was due from this director. The balance is unsecured, non-interest bearing and has no specified terms of repayment.
- e) The amount due to a company controlled by a director (also an officer) for advances made is unsecured, bears interest at 6% per annum effective November 1, 2010, and has no specific terms of repayment. Prior to November 1, 2010, the outstanding balance was subject to an interest rate of 7% per annum. As at October 31, 2011, the outstanding amount of \$606,898 (2010-\$686,188) included accrued interest of \$277,273 (2010 - \$242,418). The Company recorded interest expense of \$34,855 (2010 - \$54,537).

FINANCIAL INSTRUMENTS

As at October 31, 2011, the Company's financial instruments are cash, amounts receivable, accounts payable and accrued liabilities, amounts due to related parties, debentures, and long-term debt. The amounts reflected in the balance sheet are carrying amounts and approximate their fair values due to the short-term nature.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

Fair Values

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, long-term debt, debentures, and amounts due from and to related parties approximate their fair value as at the balance sheet date.

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 economic dependence on two customers for its calcine sales. 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, debentures and amount due to a related party is based on fixed rates. The Company has not entered into any derivative agreements to mitigate the interest rate 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, 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 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 exposures through the use of sales contracts.

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.

Current global financial conditions

The volatility in global equities, commodities, foreign exchange, precious metals and a lack of market liquidity, may adversely affect the Company's development. The Group's sales and profitability is sensitive to the global demand for steel and the derived demand for coking coal. Major downward movements in steel manufacturing adversely affect the demand for the company's product.

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 and Mineral Prices

Factors beyond the control of the Company affect the price and marketability of gold and other metals and minerals. Metal and mineral 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 any future acquisition and development projects will in large portion be derived from the issuance of equity or project finance debt. 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.

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

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 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

OUTLOOK

Despite the last 12 months lacking consistency, the Company has continued to invest in its business in South Africa, Quantum, and is confident that the year-end 2012 will reflect an increase in sales and profitability.

In July 2011, the Company invested approximately \$235,000 by purchasing a new crushing and screening plant, which enabled Quantum to process a larger sized feedstock material and increase the range of product sizes. The reason for the acquisition is due to the fact that the Company determined that an increase in size of the feedstock material caused a significant increase in the plant efficiency.

More recently, the Company has further committed to invest approximately \$150,000 in a larger and more sophisticated screening plant, which is capable to screen down to small sizes, without blockages (a common problem when screening out fines). The Company believes that this new acquisition will further reduce maintenance costs, increase the range of product sizes further and increase profitability.

Since December 2011 the Company has been working closely with BHP Billiton in providing a high-quality, specific sized reductant product and has successfully achieved a 3-month trial contract during the

months on March, April and May 2012. Subject to the results and performance of the material at one of BHP Billiton's plants in South Africa, the company will have the opportunity to enter into a long-term supply contract as a preferred supplier. ArcelorMittal continues to take the Company's product since the un-scheduled shutdown at the end of 2010.

Over the past few years, high-quality anthracites have gained more interest as a replacement to the more expensive reductant, coke, in the sintering and smelting industries. In the current environment, industries are looking to save on their feedstock costs by blending in anthracite and calcined anthracite into their feedstocks. The Company is optimistic that as long as coking coal remains around and above the \$200/metric tonne level, then there will be a strong market for replacement materials, such as the Company's product, calcined anthracite.

Furthermore, the company recognises that there is an opportunity to sell the product for export as world demand for smokeless and environmentally friendly reductants (such as calcined anthracite) increases, not to mention the forecasted increase in price of coking coal. Opportunities to expand the operations and investigate selling for the export market are ongoing.

The Company continues to focus on generating positive free cash flow and addressing the outstanding debt owed by the Company. The Company is not actively looking at any high risk ventures in the immediate future but anticipates that alternative mining related ventures will be considered during the next financial year.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In February 2008, the CICA confirmed that publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 01, 2011 with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company's reporting no later than in the first quarter ended January 31, 2012 and the first annual IFRS financial statements will be for the year ended October 31, 2012 with restatement of comparative information presented for both interim and year end financial statements.

The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as foreign currency activities, certain contractual arrangements, capital requirements and compensation arrangements.

The Company has completed a preliminary assessment of how each IFRS standard impacts the financial statements. It believes it will be able to manage the transition to IFRS from Canadian GAAP using internal resources with limited external assistance.

One of the more significant impacts identified to date of adopting IFRS is the expanded presentation and disclosure requirements. Disclosure requirements under IFRS generally contain more breadth and depth than those required under Canadian GAAP and, therefore, will result in more extensive note references.

Possible major impact that management expects IFRS will have on the Company's financial position are as follows:

IFRS 1, First-time Adoption of IFRS

IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective applications of IFRS. The purpose of the options is to provide relief to companies and simplify the conversion process by not requiring them to recreate information that may not exist or may not have been collected at the inception of the transaction. We have analyzed the various exemptions available and are working towards implementing those most appropriate in our circumstances.

IAS 16 - Property, Plant and Equipment

Under IFRS, Property, Plant and Equipment ("PP&E") can be measured at fair value or at cost while under Canadian GAAP, the Company has to carry PP&E on a cost basis and the revaluation is prohibited.

Upon adoption of IFRS, the Company has to determine whether to elect a cost model or revaluation model. Management has yet to decide on which model to adopt. Currently, the Company only has equipment capitalized as property, plant and equipment and as a result there will be not significant impact on the adoption of either IFRS model on the Company's financial statements.

In accordance with IAS 16 "Property, Plant and Equipment", upon acquisition of significant assets, the Company will need to allocate an amount initially recognized in respect of an asset to its component parts and accounts for each component separately when the components have different useful lives or the components provide benefits to the entity in a different pattern.

IFRS 6 - Mineral Properties and Exploration Costs

Under the Company's current accounting policy, acquisition costs of mineral properties, together with direct exploration and development expenses incurred thereon are capitalized.

Upon adoption of IFRS, the Company has to determine the accounting policy for exploration and evaluation assets. The Company can decide to apply the International Accounting Standards Board ("IASB") Framework which requires exploration expenditures to be expensed and capitalization of expenditures only after the completion of a feasibility study, or choose to and keep the existing Company's policy if relevant and reliable.

There should be no difference as the Company will continue to capitalize all acquisition, exploration and evaluation costs.

IAS 36 - Impairment of Mineral Properties

Canadian GAAP provides for a two step test with no impairment being required if the undiscounted future expected cash flows relating to an asset are higher than the carrying value of that asset. Under IFRS, the undiscounted cash flows are not considered and an impairment is recorded when the recoverable amount (defined as the higher of 'value in use' and 'fair value less costs to sell') is below the asset's carrying value.

The Company will be required to adopt the discounted future cash flow approach with respect to impairment analysis of its mineral properties. Impairment under this approach may generate a greater likelihood of write-down in future.

Write down to net realizable value can be reversed under IFRS if the conditions of impairment ceased to exist. This difference in approach between Canadian GAAP and IFRS could result in potentially significant volatility in earnings.

IFRS 2 - Stock - Based Compensation

IFRS and Canadian GAAP largely converge on the accounting treatment for stock - based compensation with only a few differences.

Canadian GAAP allows either accelerated or straight-line method of amortization for the fair value of stock options under graded vesting.

Under IFRS, the estimate for forfeitures must be made when determining the number of equity instruments expected to vest, while under Canadian GAAP forfeitures can be recognized as they occur.

The Company is currently using the estimate of forfeitures when determining the number of equity instruments expected to vest.

Upon adoption of IFRS 2, the Company will change both the method of amortization, which would give rise to an accelerated compensation expense, and the method of forfeiture recognition. The change is not expected to have a material impact on the Company's financial statements.

IAS 12 - Income taxes

Under Canadian GAAP, future income taxes are recognized at the time of acquisition for all assets (not just those acquired in a business combination) as an adjustment to the cost of the asset. Consequently, the carrying amount of the asset represents the minimum future cash flows necessary to recover the investment in the asset, including any associated tax consequences. Future income taxes are classified as current and non-current based on classification of the underlying assets or liabilities.

Under IFRS, the recognition of deferred tax in respect of temporary differences is required where an asset or liability results from a transaction that affects taxable or accounting profit or a business combination. The recognition of deferred tax on the initial recognition of an asset or liability in any other circumstances is prohibited. Deferred tax is classified as non-current.

The Corporation is in the process of assessing the IFRS conversion adjustments for income taxes

IAS 21- The Effects of Changes in Foreign Exchange Rates

Under Canadian GAAP, there are various indicators to be considered in determining the appropriate functional currency of a foreign operation and such indicators are similar to those under IFRS.

The standard requires that the functional currency of each entity in the consolidated group be determined using the currency of the primary economic environment in which the entity operates. Currently, the Company's functional currency is the Canadian dollar for head office operations in Canada, the U.S. dollar for exploration activities in Sierra Leone, and the South African Rand for its coal processing operations in South Africa. The Company reports its consolidated financial statements in U.S. dollars.

Subsequent Disclosures

Further disclosures of the IFRS transition process are expected as follows:

The Company's MD&A for the 2012 interim periods and the year ended October 31, 2012, will include updates on the progress of the transition plan, and to the extent known, further information regarding the impact of adopting IFRS on key line items in the annual consolidated financial statements.

The Company's first financial statements prepared in accordance with IFRS will be the interim consolidated financial statements for the three months ending January 31, 2012, which will include notes disclosing transitional information and disclosure of new accounting policies under IFRS. The interim consolidated financial statements for the three months ending January 31, 2012, will also include 2011 consolidated financial statements for the comparative period, adjusted to comply with IFRS, and the Company's transition date IFRS statement of financial position at November 1, 2011.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In connection with National Instrument ("NI") 52-109 (Certification of Disclosure in Issuer's Annual and Interim Filings) adopted in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis.

The Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

OUTSTANDING SHARES

Authorized:

Unlimited number of common and preferred shares without par value.

As at February 28, 2011, the Company had the following securities issued and outstanding:

Common shares outstanding: 47,426,195

DIRECTORS AND OFFICERS

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

"Christopher Way"
Christopher Way
Chief Executive Officer

"Zeny Manalo"
Zeny Manalo
Chief Financial Officer