Management's Discussion & Analysis

For the Period Ended
January 31, 2017

(Expressed in U.S. Dollar)

INTRODUCTION

Date Prepared: March 18, 2017

This Management Discussion and Analysis (ñMDAò) covers the operations of Canaf Group Inc. (ñCanafò or the ñCorporationò) for the period ended January 31, 2017 and should be read in conjunction with the audited consolidated Financial Statements for the year ended October 31, 2016 and related notes and the consolidated interim unaudited financial statements for the three months ended January 31, 2017. The Financial Statements are presented in accordance with International Financial Reporting Standards (ñIFRSò). Canafôs accounting policies are described in Note 2 of the Annual Financial Statements for the year ended October 31, 2016. The Financial Statements together with this MDA are intended to provide investors with a reasonable basis for assessing the financial performance of the Corporation.

All dollar amounts are expressed in US dollars, the functional currency of the Corporation, unless otherwise stated. Additional information relating to the Corporation is available on SEDAR at www.sedar.com, or at the Corporationôs website at canafgroup.com.

DESCRIPTION OF BUSINESS

Canaf is incorporated in the Province of Alberta and wholly owns a Corporation in South Africa, Quantum Screening and Crushing (Proprietary) Limited (ñQuantumò). Quantum, through its wholly owned subsidiary, Southern Coal (Pty) Ltd. (ñSouthern Coalò), processes anthracite coal into de-volatised (calcined) anthracite for sale mostly to steel and ferromanganese manufacturers as a substitute product for coke; the process is known as ñcalciningò.

Quantum – Calcined Anthracite, South Africa

Quantum produces calcined anthracite, a product used primarily as a substitute to coke in sintering processes. Calcined anthracite is produced by feeding anthracite coal through a rotary kiln, at temperatures between 900 and 1100 degrees centigrade; the volatiles are driven off and the effective carbon content increased.

Quantumôs two largest clients are world leaders in steel and ferromanganese production. Quantum has an operation near Newcastle, KwaZulu-Natal, where its three kilns operate. Quantum, through its wholly owned subsidiary Southern Coal, has been profitably carrying on this business since 2004.

OVERALL PERFORMANCE AND OUTLOOK

The Corporation is very pleased to confirm strong results for the 3-month period end January 31, 2017, as forecasted. The results demonstrate the continued strong turnaround of the Corporationôs South African business, Quantum.

Revenue for the 3-month period increased to $2,991,706; an increase of 193% in comparison to the same quarter last fiscal year, and up 67% from the previous quarter ended January 31, 2017. The Company expects sustained levels of revenue during Q2 2017, as demand for Quantumôs product remains strong in South Africa.

During the quarter, the Corporation recorded a net income of $197,691 (C$259,579), in comparison to a net loss of $294,482 for the same quarter the previous year. Adjusted EBITDA rose to $569,300 (C$747,517) for the quarter.

The Corporation is currently in discussions with major customers to secure new long-term contracts for a period of 2 years, which will provide security of sales, and enable the business to further invest in cost saving modifications for the operation.

The recent results further confirm the Corporationôs strong position as a carbon reductant supplier in South Africa. Quantum is one of a few suppliers of a low volatile reductant, a situation, which has allowed the entity to emerge as a key player in the country.

The outlook and profitability for the coming year remains dependent on demand for the Corporationôs calcine product, which the Corporation believes looks far more promising than the previous fiscal year-end 2016. The Corporation intends to continue to generate positive free cash flow during the fiscal year-end 2017 and will focus on increasing shareholdersô value, as well as investment to improve the efficiency of its older facilities, or investment into related business opportunities in South Africa.

Selected Financial Information

Due to the fact that the Corporation is listed on the TSX-V and is quoted in Canadian Dollars, the Corporation has prepared some key financial information. The following financial information is derived from the Corporationôs interim financial statements for the 3-month ended January 31, 2017, with a comparison in Canadian Dollar.

	3-month end January 31,		3-month end January 31,	
	2017	2016	2017	2016
	US$	US$	CDN$	CDN$
Conversion 1.00 US Dollar Rate			1.313	**1.397**
Revenue from Sales	2,991,706	1,022,773	3,928,230	1,428,870
Cost of Sales	2,605,825	1,151,983	3,421,550	1609,380
Gross Profit (Loss)	385,881	(129,210)	506,680	(180,510)
Expenses	(114,926)	(111,455)	(150,902)	(155,708)
Income Tax Expenses	(73,264)	(53,817)	(96,199)	(75,185)
Net Income (Loss) for the period	197,691	(294,482)	259,579	(411,403)
Adjusted EBITDA*	569,300	(137,254)	747,517	(191,748)
Total Assets	3,519,269	2,521,207	3,519,269	3,522,250
Bank Loan	628,884	771,104	825,750	1,077,270
Total Equity	1,667,195	1,139,721	2,189,090	1,592,250

South African Business Performance – Quantum Screening and Crushing (Pty) Ltd

	3-month end January 31,	
	2017	2016
(in South African Rand)	ZAR	ZAR
Sales	41,329,757	15,490,059
Cost of sales	(35,934,019)	(17,417,388)
Gross Profit	5,395,738	(1,927,329)
Expenses	(1,795,019)	(1,874,087)
Income tax expense	(1,010,441)	(813,919)
Net income (loss) for the period	2,590,278	(4,615,335)

The table above clearly shows the turnaround of Quantum from a loss making position last year to a profitable one this fiscal year. The Corporation expects sales tons for the coming quarter, end April 30, 2017, to reflect a slight increase of approximately 10%. The Corporation continues to work on allocating all of its production for the rest of the fiscal period, by securing long-term contracts with key customers.

Non- GAAP Performance Measures

The Corporation has included additional financial performance measures in this MD&A, such as adjusted EBITDA. The Corporation believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors use this information to evaluate the Corporationœs underlying performance of its core operations and its ability to generate cash flow. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

**Reconciliation of Adjusted EBITDA and Profit*

	3-month end January 31,		3-month end January 31,	
	2017	2016	2017	2016
	US$	US	CDN$	CDN$
Conversion 1.00 US Dollar Rate			1.313	**1.397**
Net Income (Loss)	385,881	(294,482)	506,680	(411,403)
Financial cost	15,322	19,640	20,118	27,438
Depreciation	94,833	83,771	124,520	117,032
Taxes	73,264	53,817	96,199	75,185
Adjusted EBITDA	569,300	(137,254)	747,517	(191,748)

Adjusted EBITDA represents earnings before interest, taxes, depreciation, amortization, foreign exchange gain (loss) and other revenues (expenses) as historically calculated by the Corporation.

Update on Ugandan Case against Kilembe Mines Limited

In August 2006, Canaf, then known as Uganda Gold Mining, announced the termination of any further investment into its Kilembe Copper-Cobalt Project in Uganda. Since 2007, the Corporation has been involved in a legal dispute with Kilembe Mines Limited, (ñKMLò). In January 2013, the High Court of Uganda referred the case back to arbitration for settlement.

On May 29, 2013, a preliminary meeting was held between the Corporation, KML and the arbitrator. The Corporation can confirm that further meetings were scheduled for August 2013, after filings of amended statements of defence and claims had been submitted. Since the initial meeting however the Government has awarded a deal to a Chinese Consortium to manage and operate KML. The Corporationôs appointed Ugandan Advocates have notified the board that the Arbitrator has stepped down for personal reasons. The Companyôs Uganda Advocates and the Governmentôs Solicitor General have agreed to a new Arbitrator, Retired Justice James Ogoola. The parties held a preliminary meeting with the Arbitrator who requested them to provide him with their fee estimate for the conduct of the Arbitration. The estimate has since been provided to the Arbitrator who is yet to confirm whether or not he is agreeable to it.

(Expressed in U.S. Dollar)

In the meantime the Company appointed SRK Consultants to prepare a brief document to quantify the ôlost opportunityô value of the termination of the Kilembe Project. During the current financial year the Company will utilize this document to assist in the submission of a revised claim against KML.

The Company has received no new information since 2014, and the Company remains unable to give an indication of either the quantum or any likely date by which a settlement will or will not be reached. The original claim, before costs, is for a money sum of US$10,370,368 as at January 24, 2007.

RESULTS OF OPERATIONS

Three Month Period Ending January 31, 2017

For the period ended January 31, 2016, the Corporation reported a net gain of $197,691 compared to a net loss of $294,482 for the previous year. The increase in net income was directly related to an increase in sales during the period, as well as improved profit margins generated from efficiencies generated from Quantumôs new calcining facility.

	January 31, 2017	2016
Sales	$ 2,991,706	$ 1,022,773
Cost of sales	(2,605,825)	(1,151,983)
Gross Profit (Loss)	385,881	(129,210)
Expenses	(114,926)	(111,455)
Income tax expense	(73,264)	(53,817)
Net income (loss) for the period	197,691	$ (294,482)

Sales

Revenue increased 193% to $2,991,706, from $1,022,773, for the same quarter last year. The significant increase in sales is due to a combination of unusually low sales during last fiscal period, being compared to a strong demand during the current period, also at increased prices per sales unit. The Corporation expects demand to remain strong as alternative reductant sources remain difficult to secure in South Africa.

(Expressed in U.S. Dollar)

Expenses

Expenses decreased by 3%; the main reason for this is due to the decrease in general and administrative expenses. Differences in expenses incurred are as follows:

	January 31, 2017	2016
	$	$
General and Administrative	104,578	93,250
Interest on Bank Loan	15,322	19,640
Interest Income	(4,974)	(1,435)
	114,926	111,455

General and administrative expenses

	Three Months Ended January 31, 2017	2016
	$	$
Bank Charges and Interest	735	797
Consulting Fees	16,573	17,743
Management Fees	35,202	28,300
Office, Insurance and Sundry	17,366	13,763
Professional Fees	23,687	20,200
Promotion	164	146
Telephone	4,111	3,181
Transfer Agent and Filing Fees	291	511
Travel	6,449	8,609
	104,578	93,250

- Directors and officers of Quantum, a subsidiary of the Corporation in South Africa, billed the Corporation $35,202 (2016-$28,300) for management services.

- The Corporation incurred $16,573 (2016-$17,743) in consulting fees relating to consulting and management services by the President of the Corporation. The President works full-time for the Corporation.

- Professional fees included audit, tax, accounting fee and legal of $23,687 (2016-$20,200).

- Transfer agent and filing fees of $291 (2016-$511) consisted of fees paid to regulatory bodies in Canada in connection with routine filings for period.

- The Corporation incurred $4,111 (2016-$3,181) in travel costs.

Interest Income

- The Corporationôs interest income of $4,974 (2016-$1,435) for the period ended January 31, 2017 was generated from interest earned on cash on hand and interest charges on accounts receivable. The interest income increased due to more cash on hand to invest in interest bearing financial assets and increased interest in accounts receivable.

Finance Cost

- The bank loan is subject to interest at 9.25% per annum compounded monthly, with $15,322 (2016-$19,640) of interest expense for the period.

Income Taxes

The Corporation reported income taxes of $73,264**,** which reflects 36% increase compared to the period ended January 31, 2016.

A majority of the future income tax assets originating in Canada include tax losses carried forward for which a valuation allowance has been recorded. The deferred tax liability included in the balance sheet of $91,918 (October 31, 2016-$17,108) was recorded to reflect the temporary difference originated on the value assigned to plant and equipment in South Africa.

Comprehensive Income

The Corporation is not subject to currency fluctuations in its core activities however the Corporation 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 Corporation. The current period comprehensive gain on foreign exchange in the amount of $530 (2016 Loss - $196,836) mostly as a result of the translation of foreign-currency denominated balances from the functional currency to the reporting currency. As at January 31, 2017, the Corporation has accumulated other comprehensive loss of $1,360,954 (October 31, 2016 - $1,361,484). The Corporation does not hedge net asset translation movements, but where necessary and appropriate hedge currency risk for trading items.

(Expressed in U.S. Dollar)

SUMMARY OF QUARTERLY REPORTS

The following financial data is derived from the Corporationøs financial statements for the past 8 quarters.

	Three Months Ended			
	January 31, 2017 $	October 31, 2016 $	July 31, 2016 $	April 30, 2016 $
Sales	2,991,706	1,796,330	1,126,582	757,843
Gross Profit	385,881	94,196	98,966	39,113
Net Income (Loss)	197,691	136,764	19,945	(41,382)
Basic and diluted loss per share	0.00	0.00	0.00	0.00

	Three Months Ended			
	January 31, 2016 $	October 31, 2015 $	July 31, 2015 $	April 30, 2015 $
Sales	1,022,773	994,031	2,075,219	3,408,800
Gross Profit	(129,210)	(10,257)	128,225	441,205
Net Income (Loss)	(294,482)	(79,616)	(45,901)	207,407
Basic and diluted loss per share	0.00	0.00	0.00	0.00

The summary above demonstrates a return of the Corporation to three consecutive quarters of increasing revenue and net profit. The increase in sales has been generated by an increase in Quantumøs product demand, which has been caused by not only a reduction of availability of coke, and coke related products within South Africa, but also due to a slight return to confidence in the local steel and manganese markets. Despite the Corporation feeling that there remains room for more confidence to return to these markets, the outlook for the remainder of the year remains relatively strong.

Financial position

Revenue from the sale of calcine and coal has historically been derived from two customers and as a result the Corporation is dependent on these customers for its revenue. Quantum however has been actively working on increasing its customer base and has goals to be supplying at least three different facilities by the end of the current fiscal year. Should the Corporation not be successful in increasing its customer base it will continue to solidify and build on its current supply relationships by engaging in secure, long-term supply contracts.

The Corporation earned $4,974 (2016-$1,435) of interest income during the period ended January 31, 2017 on its long-term investment, accounts receivables on sales and cash held in Canadian and South African banking institutions.

The main components making up the balance of $3,519,269 of total assets as at January 31, 2017 are $1,197,093 property, plant and equipment, $595,806 in cash, $1,298,566 in accounts receivable and $393,373 in inventories, comprising mostly of stock on hand.

(Expressed in U.S. Dollar)

LIQUIDITY AND CAPITAL RESOURCES

At January 31, 2017, the Corporation had cash of $595,806 and working capital of $965,145. All cash and cash equivalents are deposited in interest accruing accounts.

	January 31, 2017 $	October 31, 2016 $
Current assets	2,322,175	1,472,626
Plant and Equipment	1,197,093	1,256,691
Intangible Assets	1	1
Total Assets	3,519,269	2,729,318
Current Liabilities	1,357,030	839,250
Bank Loan	403,126	403,986
Deferred Tax Liability	91,918	17,108
Total Liabilities	1,852,074	1,260,344
Shareholdersô Equity	1,667,195	1,468,974
Working Capital	965,145	633,376

Significant working capital components include cash in current or interest bearing accounts, trade and other receivables, sales tax receivable, inventories and prepaid expenses and deposits, trade and other payables, sales tax payable, income tax payable, and current portion of long-term debt.

Trade receivables and trade payables are expected to increase or decrease as sales volumes change.

	January 31, 2017 $	2016 $
Cash used in operating activities	323,295	11,439
Cash used in investing activities	(35,235)	154,467
Cash provided by financing activities	(73,346)	(179,033)
Change in cash	214,714	(13,127)

Operations generated $323,295 in cash compared to $11,439 generated during the period ended January 31, 2017. The increase in cash generated from operations in 2017 as compared to 2016 is mainly due to a fluctuation in trade receivables and trade payables due to the purchase of equipment and inventories in our subsidiaries in South Africa.

Except as described above, the Corporationôs management is not aware of any other trends or other expected fluctuations in its liquidity that would create any deficiencies. The Corporationôs management believes that its cash balances will be sufficient to meet the Corporationôs short-term and long-term requirements for ongoing operations and planned growth.

(Expressed in U.S. Dollar)

ECONOMIC DEPENDENCE

Sales from the Corporationôs South African coal processing business are substantially derived from two customers and as a result, the Corporation is economically dependent on these customers. The Corporationôs exposure to credit risk is limited to the carrying value of its accounts receivable. As at January 31, 2017, trade receivables of $1,298,566 were due from these customers and were collected subsequent to period-end.

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.

COMMITMENT

The Corporation has an agreement to lease premises for its coal processing plant in South Africa for a term of ten years, expiring on December 31, 2020. The agreement offers the Corporation, in lieu of rent, feedstock coal to be delivered to its adjacent premises, which it purchases at market price. Should the Corporation decide to purchase feedstock coal from an alternative supplier which the lessor is otherwise able to provide, then a monthly rent of Rand 200,000 ($14,465) is payable. To date, the Corporation has not been required to pay any rent for the premises as it has continued to purchase feedstock coal from the landlord.

CONTRACTUAL OBLIGATIONS

	January 31, 2017 $	October 31, 2016 $
Bank Loan	628,884	702,230
Less: Current Portion	(225,758)	(298,244)
	403,126	403,986

The bank loan bears interest at 9.25% per annum, matures on January 7, 2019, and is secured by the Corporationôs furnace acquired with the proceeds from the loan. The bank loan is repayable over 42 months in blended monthly payments of Rand 393,779 ($29,230 translated at October 31, 2016 exchange rate). During the period ended January 31, 2017, the Company incurred interest expense totaling $15,322 (October 31, 2017 ï $71,721).

(Expressed in U.S. Dollar)

TRANSACTIONS WITH RELATED PARTIES

At the report date, key management consists of Christopher Way (CEO, President and a Director of the Corporation), Zeny Manalo (CFO and a Director of the Corporation); David Way (Chairman of the Board and Director of the Corporation) and Kevin Corrigan (Independent Director of the Corporation).

Fees incurred for services by key management personnel during the period ended October 31, 2016 and 2015 were as follows:

Services	Party	2017 $	January 31, 2016 $
Consulting Fees	Charges by the President, CEO and director of the Corporation	16,573	17,743
Professional Fees	Charges by the CFO and director of the Corporation	10,084	10,228
Management Fees	Charges by the President and a director of the Corporation in relation with coal processing business in South Africa	35,202	28,300

Other related party:

Management Fee of $6,961 (2016-$12,596) charges by a P. Cronje (Director) of Quantum, through its wholly owned subsidiary, Southern Coal (Pty) Ltd.

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has no off-balance sheet arrangements

CHANGE IN ACCOUNTING POLICIES

In preparing these interim financial statements as at January 31, 2017, the significant judgments made by management in applying the Corporationós accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended October 31, 2016.

RISKS AND UNCERTAINTIES

There are no significant changes relating to the risk factors since the filing of the annual MD&A of October 31, 2016.

FORWARD-LOOKING STATEMENTS

Information contained in this MDA that is not historical fact may be considered ñforward looking statementsò. These forward looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Corporationós objectives, goals or plans are forward looking statements. Since forward looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors, including such variables as new information regarding changes in demand for and commodity prices, legislative, environmental and other regulatory or political changes, competition in areas where the Corporation operates, and other factors discussed herein. Although the Corporation 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 Corporationós projections or expectations.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In connection with National Instrument (ñNIò) 52-109 (Certification of Disclosure in Issuerös 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 Corporation 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 Managementös 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.

ADDITIONAL INFORMATION IN RELATION TO THE CORPORATION

Additional information relating to the Company is available:

(a) On SEDAR at www.sedar.com
(b) On the Companyös website at www.canafgroup.com
(c) In the Companyös annual audited financial statements for the year ended October 30, 2016.

OUSTANDING SHARES

Authorized:	Unlimited number of common shares without par value.
Common shares outstanding:	47,426,195
Options:	Nil
Warrants:	Nil
Fully Diluted:	47,426,195