Management’s Discussion & Analysis

For the Period Ended
July 31, 2016

(Expressed in U.S. Dollar)

INTRODUCTION

Date Prepared: September 27, 2016

This Management Discussion and Analysis (ñMDAò) covers the operations of Canaf Group Inc. (ñCanafò or the ñCorporationò) for the period ended July 31, 2016 and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2015 and the consolidated interim unaudited financial statements for the nine months ended July 31, 2016. 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, 2015. 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 USA 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 Corporationôs website at canafgroup.com.

DESCRIPTION OF BUSINESS

Canaf is incorporated in the Province of Alberta and wholly owns a company 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.

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 African leaders in steel and ferromanganese production. Quantum has an operation near Newcastle, KwaZulu Natal, where its three kilns operate; the majority of Quantumôs feedstock anthracite is supplied from the neighbouring Springlake Colliery.

Quantum, through its wholly owned subsidiary Southern Coal has been profitably carrying on this business since 2004.

OVERALL PERFORMANCE AND OUTLOOK

The financial results for the last quarter ended 31 July 2016 reflect the Corporation returning to a profitable position for the period. Sales increased 49% to $1,126,582 and a net income of $19,945 was recorded, in comparison to a loss of $41,382 the previous quarter.

During the quarter, Quantum experienced a 52% increase in tonnes of product sold, in comparison to the previous quarter, primarily due to the return of demand from a main customer who had been on a shutdown since October 2015. The fourth quarter for the year will see a further increase of sales.

During the quarter, the new efficient processing facility continued to operate successfully and produce saleable product, with significantly reduced operating costs.

The long-term outlook and profitability of the Corporation remains dependent on the demand of its calcine product. Whilst the Corporation is confident that demand will not return to the low levels of the first three quarters of this current fiscal year, it will continue to demonstrate caution until more certainty returns.

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 Corporationœs interim financial statements for the nine-month ended July 31, 2016, with a comparison in Canadian Dollar.

	9-month end July 31,		9-month end July 31,	
	2016	2015	2016	2015
	US$	US$	CDN$	CDN$
Conversion 1.00 US Dollar Rate			1.304	1.298
Revenue from Sales	2,907,198	8,162,896	3,789,940	10,594,600
Cost of Sales	2,898,329	7,361,595	3,778,380	9,554,610
Gross Profit (Loss)	8,869	801,301	11,560	1,039,990
Expenses	(313,869)	(409,774)	(409,172)	(531,846)
Income Tax Expenses	(10,919)	(183,469)	(14,234)	(238,124)
Net Income (Loss) for the period	(315,919)	208,058	(411,846)	270,020
Adjusted EBITDA*	5,650	688,524	7,365	893,634
Total Assets	2,722,863	3,838,055	3,549,630	4,981,410
Bank Loan	750,046	1,116,919	977,790	1,449,650
Total Equity	1,277,635	1,831,738	1,665,580	2,377,410

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

	3-month end July 31,	
	2016	2015
(in South African Rand)	ZAR	ZAR
Sales	16,855,011	25,394,649
Cost of sales	(15,330,454)	(23,786,424)
Gross Profit	1,524,557	1,608,225
Expenses	(1,680,830)	(1,036,341)
Income tax expense	326,382	(542,037)
Net income (loss) for the period	170,109	29,847

The table above clearly illustrates the effect of the new efficient calcining facility has had on the Corporationœs profitability. Quantumœs revenue for the period ended July 31, 2016, decreased by 34% in comparison to the same quarter, the previous year, however gross margin increased from 6.3% to 9.0%. The decrease of revenue was due to one of the Corporationœs major customers continuing its shutdown from Q3 2015, as well as reduced demand from another. This customer returned to the Quantumœs order book from June 2016, albeit at reduced levels.

(Expressed in U.S. Dollar)

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 Corporationøs 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*

	9-month end July 31,		9-month end July 31,	
	2016	2015	2016	2015
	US$	US	CDN$	CDN$
Conversion 1.00 US Dollar Rate			1.304	1.202
Net Income (Loss)	(315,919)	208,058	(411,845)	270,038
Financial cost	55,661	52,692	72,562	68,389
Depreciation	254,989	244,305	332,414	317,083
Taxes	10,919	183,469	14,234	238,124
Adjusted EBITDA	5,650	688,524	7,365	893,634

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, (õKMLö). 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 Corporationøs appointed Ugandan Advocates have notified the board that the Arbitrator has stepped down for personal reasons. The Corporationøs Uganda Advocates and the Governmentøs 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.

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

The Corporation has received no new information since 2014, and the Corporation 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 the 24th January 2007.

(Expressed in U.S. Dollar)

RESULTS OF OPERATIONS

Results of Operations for the Six Months Ended July 31, 2016

The Corporation reported net loss of $315,919 compared to net income of $208,058 for the previous year. The decrease in net income was directly related to a decrease in sales during the period.

	2016 $	July 31, 2015 $
Sales	2,907,198	8,162,896
Cost of sales	(2,898,329)	(7,361,595)
Gross Profit (Loss)	8,869	801,301
Expenses	(313,869)	(409,774)
Income tax expense	(10,919)	(183,469)
Net income (loss) for the period	(315,919)	208,058

Sales

Revenue decreased 64% to $2,907,198 from $8,162,896 the same period last year. The decrease in Sales was due to the global economic slowdown, and subsequent reduction of consumption of commodities related to Quantum's markets.

Expenses

Expenses decreased by 23%; the main reason for this is due to the decrease in general and administrative expenses. Differences in expenses incurred are as follows:

	2016 $	July 31, 2015 $
General and Administrative	263,129	363,680
Interest on Bank Loan	55,661	52,692
Interest Income	(4,921)	(6,598)
	313,869	409,774

(Expressed in U.S. Dollar)

General and administrative expenses

	2016 $	July 31, 2015 $
Bank Charges and Interest	2,171	4,177
Consulting Fees	51,677	54,163
Management Fees	74,415	98,567
Office, Insurance and Sundry	34,521	71,946
Professional Fees	58,022	75,164
Promotion	665	448
Telephone	11,025	11,682
Transfer Agent and Filing Fees	6,752	9,771
Travel	23,881	37,762
	263,129	363,680

- Directors and officers of Quantum, a subsidiary of the Corporation in South Africa, billed the Corporation $74,415 (2015-$98,567) for management services.

- The Corporation incurred $51,677 (2015-$54,163) 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 $58,022 (2015-$74,164).

- Transfer agent and filing fees of $6,752 (2015-$9,771) consisted of fees paid to regulatory bodies in Canada in connection with routine filings and TSX sustaining fee for the year.

- The Corporation incurred $23,881 (2015-$37,762) in travel costs.

Interest Income

- The Corporationôs interest income for $4,921 (2015-$6,598) for the period ended July 31, 2016 for interest earned on cash on hand and interest charges on accounts receivable. The interest income decreased due to less cash on hand to invest in interest bearing financial assets and decreased interest in accounts receivable.

Finance Cost

- The bank loan is subject to interest at 9.25% per annum compounded monthly, with $55,661 (2015-$52,692) of interest expense for the period.

Income Taxes

The Corporation reported income taxes of $10,919**,** which reflects 94% decrease compared to the period ended July 31, 2015.

A majority of the future income tax assets originating in Canada include tax-loss carry forwards for which a valuation allowance has been recorded. The deferred tax liability included in the balance sheet of $131,668 (October 31, 2015-$120,258) was recorded to reflect the temporary difference originated on the value assigned to plant and equipment in South Africa.

(Expressed in U.S. Dollar)

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 loss on foreign exchange in the amount of $37,485 (2015-$292,577) mostly as a result of the translation of foreign-currency denominated balances from the functional currency to the reporting currency. As at July 31, 2016, the Corporation has accumulated other comprehensive loss of $1,416,059 (October 31, 2015 - $1,378,574). The Corporation does not hedge net asset translation movements, but where necessary and appropriate hedge currency risk for trading items.

Results of Operations for the Three Months Ended July 31, 2016

For the three-month period ended July 31, 2016 the Corporation reported a net income of $19,945 increased from net loss of $45,901 for the same quarter the previous year. Despite recording reduced levels of sales, the Corporation improved its gross margin due to the commissioning of Quantumćs new efficient calcining facility.

	2016 $	July 31, 2015 $
Sales	1,126,582	2,075,219
Cost of sales	(1,027,616)	(1,946,994)
Gross Profit	98,966	128,225
Expenses	(100,892)	(129,769)
Income tax expense	21,871	(44,357)
Net income for the period	19,945	(45,901)

Sales

Revenue decreased 46% to $1,126,582 from $2,075,219 the same period last year. The decrease in Sales was due to the global economic slowdown and subsequent reduction of consumption of commodities, which caused one of the Quantumćs main customers to shutdown operations; this customer has since returned back to production, albeit at reduced levels.

Expenses

Expenses decreased by 22%; the main reason for this is due to the decrease in general and administrative expenses, as well as. Differences in expenses incurred are as follows:

	2016 $	July 31, 2015 $
General and Administrative	86,452	106,270
Interest on Bank Loan	17,288	26,421
Interest Income	(2,848)	(2,922)
	100,892	129,769

(Expressed in U.S. Dollar)

General and administrative expenses

	2016 $	July 31, 2015 $
Bank Charges and Interest	688	1,004
Consulting Fees	17,046	17,944
Management Fees	23,319	28,479
Office, Insurance and Sundry	11,425	16,471
Professional Fees	21,262	21,609
Promotion	340	99
Telephone	3,942	3,354
Transfer Agent and Filing Fees	724	3,673
Travel	7,706	13,637
	86,452	106,270

- Directors and officers of Quantum, a subsidiary of the Corporation in South Africa, billed the Corporation $23,319 (2015-$28,479) for management services.
- The Corporation incurred $17,046 (2015-$17,944) 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 $21,262 (2015-$21,609).
- Transfer agent and filing fees of $724 (2015-$3,673) consisted of fees paid to regulatory bodies in Canada in connection with routine filings.
- The Corporation incurred $7,706 (2015-$13,637) in travel costs.

Interest Income

- The Corporationõs interest income for $2,848 (2015-$2,093) for the 3-months period was for cash on hand invested in interest bearing financial assets and interest in accounts receivable.

Finance Cost

- The bank loan is subject to interest at 9.25% per annum compounded monthly, with $17,288 (2015-$26,421) of interest expense for the period.

Income Taxes

The Corporation reported income taxes of $21,871, which reflects 126% decrease compared to the period ended July 31, 2015.

(Expressed in U.S. Dollar)

SUMMARY OF QUARTERLY REPORTS

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

	Three Months Ended			
	July 31, 2016 $	April 30, 2016 $	January 31, 2016 $	October 31, 2015 $
Sales	1,126,582	757,843	1,022,773	994,031
Gross Profit (Loss)	98,966	39,113	(129,210)	(10,257)
Net Income (Loss)	19,945	(41,382)	(294,482)	(79,616)
Basic and diluted (loss) per share	(0.00)	(0.00)	(0.01)	(0.00)

	Three Months Ended			
	July 31, 2015 $	April 30, 2015 $	January 31, 2015 $	October 31, 2014 $
Sales	2,075,219	3,408,800	2,678,877	4,081,917
Gross Profit	128,225	441,205	231,871	379,049
Net Income(Loss)	(45,901)	207,407	46,552	82,111
Basic and diluted loss per share	0.00	0.00	0.00	0.00

As expected, the Corporation has recorded an increase in Sales for the last quarter, which saw the return of demand from a main customer; subsequently the Corporation recorded a profitable quarter after 4 consecutive quarters of losses. The Corporation expects to record at least a further 40% increase in Sales on the current quarter, for the 3-month period end October 31, 2016.

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.

The Corporation earned $2,848 (2015-$2,922) of interest income during the 3-months period ended July 31, 2016 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 $2,722,863 of total assets as at July 31, 2016 are $1,237,226 property, plant and equipment, $772,784 in cash, $513,819 in accounts receivable and $167,974 in inventories, comprising mostly of stock on hand.

(Expressed in U.S. Dollar)

LIQUIDITY AND CAPITAL RESOURCES

At July 31, 2016, the Corporation had cash of $772,784 and working capital of $836,892. All cash and cash equivalents are deposited in interest accruing accounts.

	July 31, 2016 $	October 31, 2015 $
Current assets	1,485,636	2,137,111
Plant and Equipment	1,237,226	1,375,113
Intangible Assets	1	1
Total Assets	2,722,863	3,512,225
Current Liabilities	648,744	1,152,069
Bank Loan	664,816	608,859
Deferred Tax Liability	131,668	120,258
Total Liabilities	1,445,228	1,881,186
Shareholdersô Equity	1,277,635	1,631,039
Working Capital	836,892	985,042

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.

	2016 $	July 31, 2015 $
Cash used in operating activities	246,140	979,118
Cash used in investing activities	(117,102)	(1,266,065)
Cash provided by financing activities	(200,091)	1,116,919
Change in cash	(71,053)	829,972

Operations generated $246,140 in cash compared to $979,118 during the period ended July 31, 2016. The decrease in cash generated from operations in 2016 as compared to 2015 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 Corporationøs management is not aware of any other trends or other expected fluctuations in its liquidity that would create any deficiencies. The Corporationøs management believes that its cash balances will be sufficient to meet the Corporationøs short-term and long-term requirements for ongoing operations and planned growth.

ECONOMIC DEPENDENCE

Sales from the Corporationøs South African coal processing business are substantially derived from two customers and as a result, the Corporation is economically dependent on these customers. The Corporationøs exposure to credit risk is limited to the carrying value of its accounts receivable. As at July 31, 2016, trade receivables of $513,819 were due from these customers and were collected subsequent to period-end.

(Expressed in U.S. Dollar)

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

	July 31, 2016 $	October 31, 2015 $
Bank Loan	750,046	950,137
Less: Current Portion	(85,230)	(341,278)
	664,816	608,859

The bank loan is subject to interest at 9.25% per annum, repayable over 42 months in blended monthly payments of Rand 393,235 ($28,440 translated at year-end exchange rate), and is secured by an instalment sale agreement on the Corporationôs new furnace acquired with the proceeds from the loan. During the period ended July 31, 2016, the Corporation incurred interest expense totaling $55,661, (October 31, 2015 ï 78,045).

TRANSACTIONS WITH RELATED PARTIES

At the report date, key management consists of Christopher Way (CEO, President and a Director of the Corporation), Zeny Manalo (CEO 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 July 31, 2016 and 2015 were as follows:

Services	Party	2016 $	July 31, 2015 $
Consulting Fees	Charges by the President, CEO and director of the Corporation	51,677	54,163
Professional Fees	Charges by the CFO and director of the Corporation	30,434	34,182
Management Fees	Charges by the President and a director of the Corporation in relation with coal processing business in South Africa	46,480	78,172

Other related party:

Management Fee of $27,935 (2015-$20,395) charges by a P. Cronje (Director) of Quantum, through its wholly owned subsidiary, Southern Coal (Pty) Ltd.

(Expressed in U.S. Dollar)

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has no off-balance sheet arrangements

CHANGE IN ACCOUNTING POLICIES

In preparing these interim financial statements as at July 31, 2016, the significant judgments made by management in applying the Corporationôs 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, 2015.

RISKS AND UNCERTAINTIES

There are no significant changes relating to the risk factors since the filing of the annual MD&A of October 31, 2015.

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 Corporationôs 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 Corporationôs projections or expectations.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In connection with National Instrument (ñNIò) 52-109 (Certification of Disclosure in Issuerôs 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 Managementôs 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.

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