

# Canaf Group Inc.

## Management Discussion & Analysis

For the Period Ended  
January 31, 2013

(Expressed in U.S. Dollar)

### INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") is intended to assist the reader to assess material changes in financial condition and results of operations of Canaf Group Inc. ("the Corporation") as at January 31, 2013 and for the three month period then ended in comparison to the same period in 2012.

This MD&A should be read in conjunction with the consolidated financial statements for the year ended October 31, 2012 and supporting notes. These consolidated financial statements have been prepared using accounting policies consistent with IFRS and in accordance with International Accounting Standard 34 ("IAS 34") - Interim Financial Reporting.

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

The effective date of this MD&A is March 22, 2013.

### DESCRIPTION OF BUSINESS

Canaf Group Inc., (the "Company") is incorporated in the Province of Alberta and wholly owns a company in South Africa, Quantum Screening and Crushing (Proprietary) Limited ("Quantum"). Quantum processes anthracite coal into de-volatised (calcined) anthracite for sale to steel and ferromanganese manufacturers as a substitute product for coke.

#### 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 ferromanganese production, namely ArcelorMittal and BHP Billiton respectively. Quantum has an operation near Newcastle, KwaZulu Natal, where its two kilns operate, de-volatising the raw material anthracite, known as calcining. The majority of Quantum's feedstock anthracite is supplied by the neighbouring Springlake Colliery, which has reserves in excess of 20 years.

Calcining is a process whereby anthracite coal is fed through a rotary kiln, at temperatures between 850 and 1100 degrees centigrade; the volatiles are burnt off and the effective carbon content increased. The final product, referred to as 'calcined anthracite' is used as a coke substitute with a high carbon content of between 80% and 85%. Calcined anthracite 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.

## OVERALL PERFORMANCE AND OUTLOOK

The promising financials results for the last quarter ended January 31, 2013 reflect a significant increase in sales and net income, due to an increase in tonnes sold to customers.

Sales increased 26% and net profit for the period increased from \$107,483 to \$171,910, compared to the same quarter last year.

During the quarter the Company continued to make progress on its debt reduction plans, reducing related party debt by \$56,098; as at 31 January 2013 related party debt was \$254,206. The Company's total assets amounted to \$3,408,701 with cash of \$271,328 and inventories of \$1,088,357, comprised of processed and raw materials.

The company invested approx \$15,000 by purchasing a mini front-end loader to assist with the screening requirements.

For the immediate and long-term outlook, the Company remains confident that orders for its product of calcined anthracite will now remain strong, and the Company continues to receive strong interest in its product. Calcined anthracite is considered as a more secure source reductant as industries in South Africa become concerned at the future availability of coke for the manufacture of steel in ferromanganese. The Company is currently looking at opportunities to grow its sales.

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 continues to focus on generating positive free cash flow and addressing the outstanding debt owed by the Company. The Company continues to not actively look at any high-risk ventures in the immediate future but anticipates that alternative mining related ventures will be considered during the next financial year, as the Company continues to solidify its core business and continues to accumulate cash reserves as management plans its investments for the coming year.

## Update on Ugandan Case against Kilembe Mines Limited

In August 2006, the Company announced the termination of any further investment into its Kilembe Copper-Cobalt Project in Uganda, due to a land ownership dispute with Kilembe Mines Limited. Since 2007, the Company has been involved in a legal dispute with Kilembe Mines Limited.

The Matter was referred to the high court, which in January 2013, referred it back to arbitration. Discussions between the parties are at an advanced stage with an arbitrator, and Canaf is hopeful that a financial settlement will be agreed, or otherwise the arbitrator will make an award, during the fiscal year end 31 October 2013. It is not possible at this stage to give an indication of either the quantum or any likely date by which a settlement will be reached, notwithstanding that Canaf hopes that the eventual outcome will be a positive one for its shareholders.

## RESULTS OF OPERATIONS

### Three Month Period Ending January 31, 2013

For the period ended January 31, 2013, sales were up 26% compared to the same quarter the previous year. The increase in sales is directly related to an increase in tones of product sold and an increase of sales prices.

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, and the company further invested approximately \$15,000 into the business by means of purchasing a small front-end loader to assist with increased screening requirements.

For the period ended January 31, 2013, the Company reported an income after tax of \$171,910 (2012-\$107,483).

	<u>January 2013</u>	<u>January 2012</u>
Sales	\$ 3,031,276	\$ 2,401,314
Cost of sales	(2,623,585)	(2,073,949)
Gross Profit	407,691	327,365
Expenses	(135,946)	(139,079)
Income tax expense	(99,835)	(80,803)
Net income for the year	\$ <u>171,910</u>	\$ <u>107,483</u>

### Sales

For the period ended January 31, 2013 sales increased 26% to \$3,031,276 from \$2,401,314 the previous year. The increase in sales is due not only to a 15% increase in product tones sold, but also due to increased sales prices. The sales figures were even more promising given that they were negatively affected by the depreciation of the South African Rand.

### Expenses

Expenses for the period ended January 31, 2013 decreased by 2% due to decrease in interest paid. Differences in expenses incurred are as follows:

#### *General and administrative expenses*

- Directors and officers of Quantum, a Company's subsidiaries in South Africa billed the Company of \$42,859 (2012-\$52,736) for management services as incentives for their performance as directors and

officer of Quantum. Management portion of their time to the Company and portion of their time as and officer and directors of the Company.

- The Company incurred \$17,429 (2012-\$12,119) in consulting fee relating to consulting and management services by the President of the Company. The President works full-time for the Company.
- Professional fees included audit, tax, accounting fee and legal of \$37,791 (2012-\$26,301).
- Transfer agent and filing fees of \$829 (2012-\$722) consisted of fees paid to regulatory bodies in Canada in connection with routine filings.
- The Company incurred \$18,413 (2012-\$18,371) in travel costs.

#### *Interest Income*

- The Company's interest income has increased to \$5,074 (2012-\$2,897) for the period ended January 31, 2013 due to more cash on hand to invest in interest bearing financial assets.

#### *Finance Cost*

- The Company issued debentures totalling \$150,000, which bear interest of 8% per annum, with \$2,992 (2012-\$3,024) of interest expense for the period.
- Interest expenses of \$2,902 (2012-\$38,098) accrued to a company controlled by a director of the Company. The loan is unsecured and bears interest of 6% per annum.
- The Company paid interest of \$1,270 (2012-\$2,323) for a long-term debt. 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.

#### *Income Taxes*

Income tax expenses amounted to \$99,835 (2012-\$80,803). 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 \$46,001 (2012-\$41,863) 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 \$58,990 (2012 gain-\$268,199) mostly as a result of the translation of foreign-currency denominated balances from the functional currency to the reporting currency. As at January 31, 2013, the Company has accumulated other comprehensive loss of \$532,144 (October 31, 2012 - \$473,154). The Company does not hedge net asset translation movements, but where necessary and appropriate hedge currency risk for trading items.

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

	Three Months Ended	
	January 31, 2013 ZAR	January 31, 2012 ZAR
Sales	27,382,724	18,755,467
Cost of sales	(23,384,777)	(15,736,651)
Gross Profit	3,977,947	3,018,816
Expenses	(918,047)	(768,272)
Income tax expense	(901,852)	(630,155)
Net income for the period	2,178,048	1,620,389

The table above shows that revenue in South Africa increased by approximately 46%, and net income increased by 34%, for the period, in comparison to the same period the previous year. The difference in the growth between the South African revenue and the reported Canadian revenue is due to the devaluation of the South African currency between the periods.

**SUMMARY OF QUARTERLY REPORTS**

Results for the most recent quarters ending with the last quarter for the period ended January 31, 2013:

	Three Months Ended			
	January 31, 2013 \$	October 31, 2012 \$	July 31, 2012 \$	April 30, 2012 \$
Sales	3,031,276	2,610,979	3,242,393	2,627,388
Gross Profit	407,691	291,964	290,729	191,936
Net Income	171,910	61,850	54,466	104,009
Basic and diluted (loss) per share	0.00	0.00	0.01	0.00

	Three Months Ended			
	January 31, 2012 \$	October 31, 2011 \$	July 31, 2011 \$	April 30, 2011 \$
Sales	2,401,314	2,574,300	4,299,501	3,709,335
Gross Profit	327,365	429,569	672,551	383,521
Net Income(Loss)	107,483	259,931	277,196	85,868
Basic and diluted loss per share	0.00	0.00	0.01	0.00

During the last quarter, net income increased by \$61,850 to \$171,910, in comparison to the previous quarter end October 31, 2012. In fact the net income of the last quarter is larger than the combined net income of the previous two quarters. The Company has now been operating profitably for the last 8 quarters.

## LIQUIDITY AND CAPITAL RESOURCES

At January 31, 2013, the Company had cash and cash equivalents of \$27,328 and working capital of \$778,418. All cash and cash equivalents are deposited in interest accruing accounts.

	As At January 31, 2013 \$	As At January 31, 2012 \$
Current assets	2,832,088	3,148,263
Plant and Equipment	576,612	699,757
Intangible Assets	1	1
Total Assets	<u>3,408,701</u>	<u>3,848,021</u>
Current Liabilities	2,053,670	2,069,665
Deferred Tax Liability	46,001	155,846
Debentures	-	150,000
Long Term Debt	38,980	65,867
Total Liabilities	<u>2,138,651</u>	<u>2,441,378</u>
Shareholders' Equity	<u>1,270,050</u>	<u>1,406,643</u>
Working Capital	<u>778,418</u>	<u>3,848,021</u>

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

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

	As At January 31, 2013 \$	As At January 31, 2012 \$
Cash used in operating activities	(1,071,819)	633,541
Cash used in investing activities	(15,748)	(365,514)
Cash provided by financing activities	<u>(11,218)</u>	<u>(9,347)</u>
Change in cash	<u>(1,098,785)</u>	<u>258,680</u>

During the period ended January 31, 2013, operations utilized \$1,098,785 in cash compared to \$258,680 generated in operations during the period ended January 31, 2012. The increase in cash utilized from operations in the first quarter of year 2013 as compared to 2012 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 Company's management is not aware of any other trends or other expected fluctuations in its liquidity that would create any deficiencies. The Company's management believes that its cash balances will be sufficient to meet the Company's short-term and long-term requirements for ongoing operations and planned growth.

## 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, 2012, trade receivable of \$918,903 due from these customers was collected subsequent to year-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.

## CONTRACTUAL OBLIGATIONS

### *Long-Term Debt*

Bank loan	\$ 59,590
Less: Current Portion	<u>\$ 20,610</u>
	<u>\$ 38,980</u>

The bank loan bears interest at 8% per annum, matures on July 1, 2014, and is secured by the Company's crushing and screening plant acquired in June 2011. During the period ended January 31, 2013, the Company incurred interest expense totalling \$1,270 (2012 - \$2,323).

### *Debentures*

	As At January 31, 2013 \$	As At January 31, 2012 \$
Debenture-outstanding	152,992	153,024
Less: interest paid	<u>(2,992)</u>	<u>(3,024)</u>
Total	<u>150,000</u>	<u>150,000</u>

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 is May 1, 2013, at which date the debentures may be converted to common shares of the Company at \$0.25 per common share.

## TRANSACTIONS WITH RELATED PARTIES

All of the undernoted fees are in respect to the year ended October 31, 2012, unless otherwise indicated.

- Consulting fee of \$17,429 (2012-\$12,119) was paid to a director of the Company, in consideration of management consulting services. This director was owed \$Nil at January 31, 2013.
- Directors' management fees of \$42,859 (2012 - \$52,736) 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.
- Administrative and accounting fees of \$13,607 (2012 - \$13,020) were paid to a director of the Company for secretarial, general administrative and accounting services and overseeing regulatory

filings and requirements.

- d) 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. As at January 31, 2013, the outstanding amount of \$166,206 (2011-\$543,995) included accrued interest of \$45,581 (2012 - \$285,370).

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

The Company has no off-balance sheet arrangements

#### **COMMITMENTS**

The Company has an agreement to lease premises for its coal processing plant in South Africa for a term of five years expiring on January 1, 2016. The agreement offers the Company, in lieu of rent, feedstock coal to be delivered to its adjacent premises, which it purchases at market price. Should the Company decide to purchase feedstock materials from an alternative supplier which the lessor is otherwise able to provide, then a monthly rent of Rand 200,000 (\$23,000) is payable. To date, the Company has not been required to pay any rent for the premises as it has continued to purchase feedstock coal from the landlord.

#### **ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

A number of new accounting standards, amendments to standards, and interpretations are issued but not yet effective up the date of issuance of the Company's consolidated financial statements. The Company intends to adopt the following standards when they become effective. These standards are required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet determined the impact of these standards on its consolidated financial statements.

##### **a) IFRS 9 - Financial Instruments**

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income.

##### **b) IFRS 10 - Consolidated Financial Statements**

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in an entity's consolidated financial statements. IFRS 10 sets out three elements of control: a) power over the investee; b) exposure, or rights, to variable returns from involvement with the investee; and c) the ability to use power over the investee to affect the amount of the investors' return.

IFRS 10 sets out the requirements on how to apply the control principle. IFRS 10 supersedes IAS 27 "Consolidated and Separate Financial Statements" and Standing Interpretations Committee ("SIC") 12 "Consolidation - Special Purpose Entities".

##### **c) IFRS 11 - Joint Arrangements**

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or



equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, "Interests in joint ventures", and SIC-13, "Jointly controlled entities – non-monetary contributions by venturers".

**d) IFRS 12 – Disclosure of Interest in Other Entities**

IFRS 12 combines the disclosure requirements for an entity’s interests in subsidiaries, joint arrangements, associates, and structured entities into one comprehensive disclosure standard. The objective of IFRS 12 is for an entity to disclose information that helps users of its financial statements evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance, and cash flows. IFRS 12 also requires that an entity disclose the significant judgments and assumptions it has made.

**e) IFRS 13 – Fair Value Measurement**

IFRS 13 establishes a single source of guidance under IFRS for fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The details of Canaf’s accounting policies are presented in Note 2 of the consolidated interim financial statements ended October 31, 2012. These policies are considered by management to be essential to understanding the processes and reasoning that go into the preparation of the Company’s financial statements and the uncertainties that could have a bearing on its financial results.

**MANAGEMENT FINANCIAL RISKS**

The fair value of the Company’s financial assets and liabilities approximates the carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- a. Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities
- b. Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- c. Level 3 – inputs that are not based on observable market data.

	Financial assets at fair value			January 31, 2013
	Level 1	Level 2	Level 3	
Held-for-trading financial asset				
Cash and cash equivalents	271,328			271,328
<b>Total financial assets at fair value</b>	<b>271,328</b>			<b>271,328</b>

	Financial assets at fair value			October 31, 2012
	Level 1	Level 2	Level 3	
Held-for-trading financial asset				
Cash and cash equivalents	1,429,103			1,429,103
<b>Total financial assets at fair value</b>	<b>1,429,103</b>			<b>1,429,103</b>

The Company is exposed to varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes, inclusive of counterparty limits, controlling and reporting structures.

The type of risk exposure and the way in which such exposure is managed is provided as follows:

#### *Fair Values*

The carrying values of cash, trade receivable, trade and other payable, bank loan, 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 bank loan, 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 calcined anthracite 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.

## **CAPITAL RISK MANAGEMENT**

The Company's objectives in managing its capital are to ensure adequate resources are available to fund its coal processing business in South Africa, to seek out and acquire new projects of merit, and to safeguard its ability to continue as a going concern. The Company manages its share capital as capital, which at January 31, 2013 totalled \$8,079,463 (2012- \$8,079,463).

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured through the sale of calcined anthracite in South Africa and, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of operating cash deficits.

The Company may, from time to time, invest capital that is surplus to immediate operational needs in short-term, liquid, and highly rated financial instruments held with major financial institutions, or in marketable securities. The Company may also, from time to time, enter into forward foreign exchange and commodity price contracts to hedge a portion of its exposure to movements in foreign exchange and commodity prices.

The Company has no externally imposed capital requirements, and has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future. There were no changes in the Company's approach to capital management during the period ended January 31, 2013.

## **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.

## **RISKS AND UNCERTAINTIES**

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

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

### *Exploration and Development*

The Company is not currently engaged in any exploration or development projects.

### *Operating Hazards and Risks*

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.

### **CAUTIONARY STATEMENTS ON FORWARD-LOOKING INFORMATION**

This MD&A together with the Company's consolidated financial statements for the period ended January 31, 2013 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.

#### **OUTSTANDING SHARES**

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

**OTHER REQUIREMENTS**

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

On Behalf of the Board,

**Canaf Group Inc.**

"Christopher Way"

Christopher Way  
*Chief Executive Officer*

"Zeny Manalo"

Zeny Manalo  
*Chief Financial Officer*