Management’s Discussion & Analysis

For the Period Ended
July 31, 2017

(Expressed in U.S. Dollar)

INTRODUCTION

Date Prepared: September 25, 2017

This Management Discussion and Analysis (ñMDAò) covers the operations of Canaf Group Inc. (ñCanafò or the ñCorporationò) for the period ended July 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 nine months ended July 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.

Southern Coal – Calcined Anthracite, South Africa

Southern Coal, produces calcined anthracite, a product used primarily as a substitute to coke in sintering processes. Southern Coal produces its calcined anthracite 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.

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

OVERALL PERFORMANCE AND OUTLOOK

After an extremely positive and profitable first two quarters to the financial year, Q3 reflects an expected short-term period of depressed Sales, and subsequent reduction in earnings. Despite Sales reducing significantly for the period, the Corporation remained profitable, again demonstrating its resilience in difficult trading conditions. Sales are expected to increase slightly for Q4 and Q1, 2018.

Revenue for the 9-month period increased to $8,443,667 in comparison to $2,907,198 for the same period last fiscal year. The Corporation recorded a net income of $595,716 (C$741,080), in comparison to a net loss of $335,864 for the same period the previous year. Adjusted EBITDA rose to $881,885 (C$1,097,080) for the period.

The Corporation continues to understand that for Southern Coal to reach its full potential, its customer bases needs to increase so to reduce its reliability on key suppliers. Southern Coal is continuing to work with a new potential major customer to supply product in South Africa and remains hopeful for trial loads to be dispatched in Q1 or Q2 2018.

The board believes that it is in the interest of the Corporation, and its shareholders, that Southern Coal (Pty) Ltd., achieves a Broad-Based Black Economic Empowerment, (ñB-BBEE), Level 4 rating during the fiscal year 2018. During the quarter the Corporation can confirm that it has had discussions with its customers over the need for Southern Coal to improve its current B-BBEE rating so to remain compliant with its customers own supplier requirements. During the coming three months, the Corporation expects to announce the details of a deal that is currently being negotiated and finalized by specialists. All in all, the board is of the belief that the final deal that will be agreed will be one that will ensure sustainability and offer growth opportunity for the South African business.

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 9-month ended July 31, 2017, with a comparison in Canadian Dollars.

	9-Month end July 31,		9-Month end July 31,	
	2017	2016	2017	2016
	US$	US$	CDN$	CDN$
Conversion 1.00 US Dollar Rate			1.244	1.304
Revenue from Sales	8,443,667	2,907,198	10,504,100	3,789,940
Cost of Sales	7,554,442	2,898,329	9,397,890	3,778,380
Gross Profit (Loss)	889,225	8,869	1,106,210	11,560
Expenses	(343,072)	(313,869)	(426,787)	(409,172)
Income Tax Expenses	49,563	(10,919)	61,657	(14,234)
Net Income (Loss) for the period	595,716	(315,919)	741,080	(411,846)
Adjusted EBITDA*	881,885	5,650	1,097,080	7,365
Total Assets	3,353,998	2,722,863	4,172,430	3,549,630
Bank Loan	490,078	750,046	609,665	977,790
Total Equity	2,091,704	1,277,635	2,602,110	1,665,580

South African Business Performance – Southern Coal (Pty) Ltd.

(in South African Rand)	3-month end July 31, 2017 ZAR	2016 ZAR
Sales	25,697,782	16,855,011
Cost of sales	(22,973,706)	(15,330,454)
Gross Profit	2,724,076	1,524,557
Expenses	(1,688,820)	(1,680,830)
Income tax expense	1,003,581	326,382
Net income (loss) for the period	2,038,837	170,109

The Table above shows the performance of the South African business in its local currency, South African Rand (ZAR).

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 underlying performance of the Corporationôs 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, 2017 US$	2016 US	9-Month end July 31, 2017 CDN$	2016 CDN$
Conversion 1.00 US Dollar Rate			1.244	1.304
Net Income (Loss)	595,716	(315,919)	741,080	(411,845)
Financial cost	42,420	55,661	52,771	72,562
Depreciation	293,312	254,989	364,885	332,414
Taxes	(49,563)	10,919	(61,657)	14,234
Adjusted EBITDA	881,885	5,650	1,097,080	7,365

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

(Expressed in U.S. Dollar)

RESULTS OF OPERATIONS

Nine Month Period Ending July 31, 2017

For the 9-month period ended July 31, 2017, the Corporation reported a net income of $595,716 (C$741,080) compared to a net loss of $315,919 for same period 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, which only started fully operating in August 2016.

	2017	July 31, 2016
Sales	$ 8,443,667	$ 2,907,198
Cost of sales	(7,554,442)	(2,898,329)
Gross Profit (Loss)	889,225	8,869
Expenses	(343,072)	(313,869)
Income tax expense	49,563	(10,919)
Net income (loss) for the period	$ 595,716	$ (315,919)

Sales

Revenue increased to $8,443,667, in comparison to $2,907,198, for the same period last year. The significant increase in sales is due to a combination of unusually low sales during the last fiscal period combined with increased prices per sales unit. The Corporation expects to report a slight increase in Sales during Q4 and expects fiscal year end 2018 to reflect increased demand as the Corporation hopes to bring on a new customer.

Expenses

Expenses increased by 9% in comparison to the same period last year; the main reason for this is due to the inflationary increase in general and administrative expenses as well as currency fluctuations between the reported currency and the currency in which the expenses are recorded. Differences in expenses incurred are as follows:

	2017 $	July 31, 2016 $
General and Administrative	312,829	263,129
Interest on Bank Loan	42,420	55,661
Interest Income	(12,177)	(4,921)
	343,072	313,869

(Expressed in U.S. Dollar)

General and administrative expenses

	Nine Months Ended	July 31,
	2017	2016
	$	$
Bank Charges and Interest	2,655	2,171
Bad Debts	6,595	-
Consulting Fees	49,900	51,677
Management Fees	91,441	74,415
Office, Insurance and Sundry	52,289	34,521
Professional Fees	60,863	58,022
Promotion	675	665
Telephone	11,618	11,025
Transfer Agent and Filing Fees	7,077	6,752
Travel	29,716	23,881
	312,829	263,129

- Directors and officers of Quantum, a subsidiary of the Corporation in South Africa, billed the Corporation $91,441 (2016-$74,415) for management services.

- The Corporation incurred $49,900 (2016-$51,677) 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 and legal of $60,863 (2016-$58,022).

- Transfer agent and filing fees of $7,077 (2016-$6,752) consisted of fees paid to regulatory bodies in Canada in connection with routine filings for the period.

- The Corporation incurred $52,289 (2016 - $34,521) in office and administration costs during the period. These costs for both periods included office expenses, licenses and dues, shareholder costs and printing and insurance. These costs were lower for the year due to decreased in administration fees.

- The Corporation incurred $29,716 (2016-$23,881) in travel costs.

Interest Income

- The Corporationôs interest income of $12,177 (2016-$4,921) for the period ended July 31, 2017, was generated from interest earned on cash on hand and interest charges on accounts receivable. The interest income in accounts receivable increased.

Finance Cost

- The bank loan is subject to interest at 9.25% per annum compounded monthly, with $42,420 (2016-$55,661) of interest expense for the period.

Income Taxes

The Corporation reported income taxes of $49,563, in comparison to $(10,919) for same the period the previous year.

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 $Nil (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 $27,014 (2016 Loss - $37,485) is mostly a result of the translation of foreign-currency denominated balances from the functional currency to the reporting currency. As at July 31, 2017, the Corporation has accumulated other comprehensive loss of $1,334,470 (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)

RESULTS OF OPERATIONS

Three Month Period Ending July 31, 2017

For the 3-month period ended July 31, 2017, the Corporation reported a net income of $166,064 compared to a net income of $19,945 for the previous year. The increase in net income is reflective of Sales returning to normal levels in comparison to depressed Sales during the same period last year.

	July 31, 2017 $	July 31, 2016 $
Sales	1,961,208	1,126,582
Cost of sales	(1,756,888)	(1,027,616)
Gross Profit	204,320	98,966
Expenses	(114,965)	(100,892)
Income tax expense	76,709	21,871
Net income for the period	166,064	19,945

Sales

For the three-month period ended July 31, 2017, Sales increased 74% to $1,961,208 from $1,126,582 the same period last year. The increase in Sales is mostly due to the return of Sales to normal levels in comparison to unprecedented low levels last year.

Expenses

For the three-month period ended July 31, 2017, expenses increased by 14%; the main reason for this is due to the increase in general and administrative expenses as well as fluctuations in exchange rates. Differences in expenses incurred are as follows:

	2017 $	July 31, 2016 $
General and Administrative	105,199	86,452
Interest on Bank Loan	12,762	17,288
Interest Income	(2,996)	(2,848)
	114,965	100,892

(Expressed in U.S. Dollar)

General and administrative expenses

	Three Months Ended July 31, 2017	2016
	$	$
Bank Charges and Interest	1,216	688
Consulting Fees	16,916	17,046
Management Fees	28,778	23,319
Office, Insurance and Sundry	21,441	11,425
Professional Fees	19,809	21,262
Promotion	286	340
Telephone	3,512	3,942
Transfer Agent and Filing Fees	750	724
Travel	12,491	7,706
	105,199	86,452

- Directors and officers of Quantum and Southern Coal, a subsidiary of the Corporation in South Africa, billed the Corporation $28,778 (2016-$23,319) for management services.
- The Corporation incurred $16,916 (2016-$17,046) 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 $19,809 (2016-$21,262).
- Transfer agent and filing fees of $750 (2016-$724) consisted of fees paid to regulatory bodies in Canada in connection with routine filings.
- The Corporation incurred $12,491 (2016-$7,706) in travel costs.

Interest Income

- The Corporationês interest income increased to $2,996 (2016-$2,848) for the period ended July 31, 2017 due to increase in accounts receivable.

Finance Cost

- The bank loan was subject to interest at 9.25% per annum compounded monthly, with $12,762 (2016-$17,288) of interest expense for the period.

Income Taxes

For the period ended July 31, 2017, the Corporation reported income taxes of $76,709**,** compared to $19,945 for the same period the previous year.

(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			
	July 31, 2017 $	April 30, 2017 $	January 31, 2017 $	October 31, 2016 $
Sales	1,961,208	3,490,753	2,991,706	1,796,330
Gross Profit	204,320	299,024	385,881	94,196
Net Income (Loss)	166,064	231,961	197,691	136,764
Basic and diluted loss per share	0.00	0.00	0.00	0.00

	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	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	0.00	0.00

The summary of quarterly results above illustrates five consecutive quarters of profitability of the Corporation, which the board expects will continue for the coming quarter. There does remain a level of uncertainty in the South African steel market as global steel production is expected to remain above consumption however the Company expects to see its product will remain in demand as a cheaper alternative to coke products. The Corporation expects the manganese market to remain strong up until at least Q3 2018, as per a customer forecast. The Corporationøs goal remains to broaden its customer base so to reduce volatility of its Sales and ultimately increase overall profits.

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. Southern Coal 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 $12,177 (2016-$4,921) of interest income during the period ended July 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 $3,353,998 of total assets as at July 31, 2017 are $1,202,245 property, plant and equipment, $907,084 in accounts receivable and $504,600 in inventories, comprising mostly of stock on hand.

(Expressed in U.S. Dollar)

LIQUIDITY AND CAPITAL RESOURCES

At July 31, 2017, the Corporation had working capital of $1,300,946. All cash and cash equivalents are deposited in interest accruing accounts.

	July 31, 2017 $	October 31, 2016 $
Current assets	2,151,752	1,472,626
Plant and Equipment	1,202,245	1,256,691
Intangible Assets	1	1
Total Assets	3,353,998	2,729,318
Current Liabilities	850,806	839,250
Bank Loan	411,488	403,986
Deferred Tax Liability	-	17,108
Total Liabilities	1,262,294	1,260,344
Shareholdersô Equity	2,091,704	1,468,974
Working Capital	1,300,946	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.

	2017 $	July 31, 2016 $
Cash used in operating activities	714,809	246,140
Cash used in investing activities	(238,866)	(117,102)
Cash provided by financing activities	(212,152)	(200,091)
Change in cash	263,791	(71,053)

Operations generated $714,809 in cash compared to $71,053 utilized during the period ended July 31, 2017. The increased 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.

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 July 31, 2017, trade receivables of $907,084 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 ($14,846) 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, 2017 $	October 31, 2016 $
Bank Loan	490,078	702,230
Less: Current Portion	(78,590)	(298,244)
	411,488	403,986

The bank loan bears interest at 9.25% per annum, matures on January 7, 2019, and is secured by the Corporationçs 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 July 31, 2017, the Corporation incurred interest expense totaling $42,420 (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 6-month period ended July 31, 2017 and 2016 were as follows:

Services	Party	2017 $	July 31, 2016 $
Consulting Fees	Charges by the President, CEO and director of the Corporation	49,900	51,677
Professional Fees	Charges by the CFO and director of the Corporation	30,282	30,434
Management Fees	Charges by the President and a director of the Corporation in relation with coal processing business in South Africa	91,141	74,415

Other related party:

Management Fee of $19,081 (2016-$33,326) charged by P. Cronje, a Director of the Corporationõs South African subsidiary, Quantum.

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, 2017, the significant judgments made by management in applying the Corporationõs 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.

UPDATE ON UGANDAN CLAIM 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 Corporationõs appointed Ugandan Advocates have notified the board that the Arbitrator has stepped down for personal reasons. The Corporationõs Uganda Advocates and the Governmentõs 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 Corporation appointed SRK Consultants to prepare a brief document to quantify the ñlost opportunityô 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 January 24, 2007.

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 Corporationœs 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 Corporationœs projections or expectations.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In connection with National Instrument (ñNIò) 52-109 (Certification of Disclosure in Issuerœs 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 Managementœs 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 Corporation is available:

(a) On SEDAR at www.sedar.com
(b) On the Corporationœs website at www.canafgroup.com
(c) In the Corporationœs 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