



Management Discussion & Analysis

For the six months ended 30th April 2021

(Expressed in U.S. dollars)
(Unaudited – Prepared by Management)

CANAF INVESTMENTS INC.

Management Discussion and Analysis for the 6-month period ended April 30, 2021

Expressed in U.S Dollars

INTRODUCTION

Date Prepared: 21st June 2021.

This Management Discussion and Analysis, (“MDA”) covers the operations of Canaf Investments Inc. (“Canaf” or the “Corporation”) for the six months ended April 30, 2021 and should be read in conjunction with the unaudited consolidated Financial Statements for the six months ended April 30, 2021 and audited consolidated Financial Statements for the year ended October 31 2020 and related notes. The Financial Statements are presented in accordance with International Financial Reporting Standards (“IFRS”). Canaf’s accounting policies are described in Note 2 of the unaudited Financial Statements for the six months ended April 30, 2021. 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. The Corporation’s listing on the TSX-V however, is quoted in Canadian Dollars. Additional information relating to the Corporation is available on SEDAR at www.sedar.com. or at Corporation’s website at www.canafinvestments.com.

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DESCRIPTION OF BUSINESS

Canaf is incorporated in the Province of Alberta with two wholly owned subsidiaries in South Africa, Quantum Screening and Crushing (Pty) Limited (“Quantum”), and Canaf Investments (Pty) Ltd, (“Canaf Ltd”).

Quantum, through its 70% owned subsidiary, Southern Coal (Pty) Ltd. (“Southern Coal”), processes anthracite coal into de-volatilised anthracite (calcined anthracite) for sale mostly to steel and ferromanganese manufacturers as a substitute product for coke.

Canaf Investments (Pty) Ltd, incorporated in 2019, acts as Canaf’s South African holding company with the intention of creating a diverse Corporation focused on sustainable and long-term growth sectors within South Africa. Canaf Investments (Pty) Ltd owns 100% of Canaf Estate Holdings (Pty) Ltd., (“CEH”).

Southern Coal – Calcined Anthracite, South Africa

Southern Coal produces calcined anthracite, which is primarily sold as a substitute to coke in sintering processes, by feeding anthracite coal through its rotary kilns, at temperatures between 900 and 1100 degrees centigrade; the volatiles are driven off and the effective carbon content increased.

Southern Coal’s clients are world leaders in steel and ferromanganese production. Southern Coal’s three kilns operate near Newcastle, KwaZulu Natal.

Canaf Estate Holdings – Property Investments, South Africa

CEH is a property investment company focused on acquiring, redeveloping and renting properties primarily within the suburbs of the old Johannesburg CBD. CEH made its first property acquisition in August 2019.

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OVERALL PERFORMANCE AND OUTLOOK

The Corporation reports a strong six months with Sales of US\$6,292,558, a 15% improvement compared to the previous six months ended April 30, 2020 (US\$5,490,982), and net income of US\$440,206 (2020: US\$285,684) or CAN\$560,326 (2020: CAN\$384,519). Gross margins continue to hold strong and currently sit at 11.8% for the six months.

Revenue is expected to further increase for Q3 as demand for Southern Coal's products remain strong.

As announced on 21 June 2021, management are pleased to confirm that Quantum has secured further land tenure, within close proximity to its existing premises in South Africa. The signing of the lease forms part of management's ambitions to improve security to its South African anthracite beneficiation business, as well as providing opportunities for future growth and diversification. The agreement allows for a due diligence until 31 July 2021, and the term of the lease is for five years, with an option to extend for a further four years and nine months.

The new premises will enable Quantum and its operating business Southern Coal (Pty) Ltd, to handle greater quantities of material as well as relocate some of its product sizing operations to the site. Furthermore, the site brings added capacity for growth and diversification which the management team is actively pursuing.

Canaf is also pleased to announce the launch of its new website, www.canafinvestments.com. Management are keen that the new site becomes a platform to continue to increase awareness of the Canaf operations and will be further developing the site and content over the coming months.

Covid-19

Whilst Covid-19 remains a constant concern, the board has taken steps to minimise the impact of the pandemic on the business of the company. The board believes that the company is well positioned in the market and is pleased to confirm that the pandemic thus far has not had a negative effect on the financial performance of the Company.

As of 30 April 2021, Canaf shareholder equity stood at US\$5.084 million (CAN\$6.354 million).

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Selected Financial Information

Due to the Corporation being listed on the TSX-V and its share price being quoted in Canadian Dollars, the Corporation has converted some key financial information included in this report to Canadian Dollars. The following financial information is derived from the Corporation's un-audited financial statements for the quarter ended April 30, 2021, with a comparison in Canadian Dollars.

	6 Months Ended		6 Months Ended	
	Apr 30		Apr 30	
	2021	2020	2021	2020
	US\$	US\$	CAN\$	CAN\$
Conversion 1.00 US (av. 6 months)			1.273	1.346
Revenue from Sales	6,292,558	5,490,982	8,009,636	7,390,650
Cost of Sales	(5,552,670)	(4,921,993)	(7,067,852)	(6,624,812)
Gross Profit	739,888	568,990	941,784	765,838
Expenses	(246,954)	(259,904)	(314,342)	(349,821)
Interest Income	82,095	76,817	104,497	103,393
Other Income	24,081	9,528	30,652	12,825
Gain from Sale of Vehicle	0	0	0	0
Net Income for the year (before tax)	599,110	395,431	762,591	532,235
Income Tax Recovery (Expense)	(158,904)	(109,747)	(202,265)	(147,716)
Net Income for the year	440,206	285,684	560,326	384,519
Attributable to the Shareholders	357,373	216,019	454,891	290,754
Attributable to the Non-Controlling Interest	82,833	69,664	105,436	93,765
Adjusted EBITDA	602,572	433,085	766,998	582,916
Conversion 1.00 US (closing position Apr 2021)	2021	2020	1.250	1.273
Total Assets	6,614,317	5,580,049	8,267,678	7,103,230
Total Equity	5,313,654	4,353,015	6,641,892	5,101,399

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 Corporation's 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

	6 Months Ended		6 Months Ended	
	Apr 30		Apr 30	
	2021	2020	2021	2020
	US\$	US\$	CAN\$	CAN\$
Conversion 1.00 US Dollar Rate			1.273	1.346
Net Income for the year	440,206	285,684	560,326	384,519
Interest Paid	0	0	0	0
Interest Received	(82,095)	(76,817)	(104,497)	(103,393)
Foreign Exchange Gain/ (Losses)	(7,229)	8,414	(9,202)	11,326
Depreciation	92,786	106,057	118,106	142,748
Income Taxes	158,904	109,747	202,265	147,716
Adjusted EBITDA	602,572	433,085	766,998	582,916

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

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BROAD-BASED BLACK ECONOMIC EMPOWERMENT TRANSACTION (B-BBEE)

As part of Southern Coal's B-BBEE transformation program, Amandla Amakhulu (Pty) Ltd, ("AAM"), a 100% black, privately owned, and ringfenced, company incorporated in South Africa, acquired 30% of the issued shares of Southern Coal, from Canaf's wholly owned subsidiary, Quantum, for the value of 18 million Rand. The financial effective date for the transaction is 01 August 2018.

Quantum in return received cumulative, redeemable preference shares in AAM in the amount of the purchase price. These preference shares shall provide preferential dividends, until redeemed by AAM. These dividends will be secured by an irrevocable direction from AAM to Southern Coal to pay Quantum such dividends from any distribution to AAM. Dividends paid to date are US\$323,050 (as at 30 Apr 2021).

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 Company has been involved in a legal dispute with Kilembe Mines Limited, ("KML"), wherein the Corporation seeks general damages, special damages and costs of the Arbitration from KML for breach of contract. In January 2013, the high court of Uganda referred the case back to arbitration for determination.

On May 29, 2013, a preliminary meeting was held between the Company, KML and the then arbitrator. After the filing of the Statements of Claim and Defence had been concluded, the Corporation's appointed Ugandan Advocates (MMAKS Advocates) notified the board that the Arbitrator had decided to step down for personal reasons.

MMAKS Advocates and the Government's Solicitor General then agreed to a new Arbitrator, Retired Justice James Ogoola. The parties held a preliminary meeting with the Arbitrator who requested them to provide their fee estimate for the conduct of the Arbitration. The fee was later agreed between the parties and the Arbitrator with MMAKS Advocates disbursing the Corporation's portion of the fee on account. MMAKS Advocates applied for and was granted leave by the Arbitrator to file an Amended Statement of Claim on the Corporation's behalf. The parties now await for the matter to be set down for scheduling and hearing by the Arbitrator.

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RESULTS OF OPERATIONS

SIX MONTHS ENDED APRIL 30, 2021

The Corporation reported net income for the six months ended April 30, 2021 of US\$440,206 (2020: US\$285,684), an increase of US\$154,522 (54%) on revenues to date of US\$6,292,558 (2020: US\$5,490,982).

The growth in revenues compared to last year is primarily due to a new customer ramping up its own production, which subsequently increased demand of Southern Coal's material.

	3 Months Ended April 30, 2021				6 Months Ended Apr 30, 2021			
	2021 US\$	2021 US\$	Variance		2021 US\$	2020 US\$	Variance	
			US\$	%			US\$	%
Sales	3,109,892	2,824,252	285,640	10%	6,292,558	5,490,982	801,575	15%
Cost of Sales	(2,702,205)	(2,554,949)	(147,256)	6%	(5,552,670)	(4,921,993)	(630,677)	13%
Gross Profit (Loss)	407,687	269,303	138,384	51%	739,888	568,990	170,898	30%
Expenses								
General and Administrative	(125,976)	(113,180)	(12,797)	11%	(254,184)	(251,490)	(2,694)	1%
Interest on Bank Loan	-	-	-	-	-	-	-	-
Foreign Exchange Gain	2,635	(4,367)	7,002	-160%	7,229	(8,414)	15,644	-
Total expenses	(123,341)	(117,546)	(5,795)	5%	(246,954)	(259,904)	12,950	-5%
Interest Income	41,464	37,862	3,602	10%	82,095	76,817	5,278	7%
Other Income	22,711	2,014	20,696	1027%	24,081	9,528	14,552	153%
Income (Loss) Before Income Taxes	348,521	191,633	156,887	82%	599,110	395,431	203,679	52%
Income Tax (Expense) Recovery	(93,437)	(55,388)	(38,049)	69%	(158,904)	(109,747)	(49,156)	45%
Net Income (Loss) for the period	255,084	136,246	118,838	87%	440,206	285,684	154,522	54%

Sales

Revenue for the quarter is US\$3,109,892 (2020: US\$2,824,252), a 10% increase due to the ramping up of production and subsequent demand of product from a major customer, taking the six months sales to US\$6,292,558, a 15% increase compared to the prior year (2020: US\$5,490,982).

CEH generated rental incomes to date of US\$16,162.49. The Corporation continues to assess new opportunities to acquire further property in Johannesburg.

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Cost of Sales

Cost of sales are 6% higher than the same 3-month period last year (2021: US\$2,702,205, 2020: US\$2,554,949), and 13% higher for the six month period to date (2021: US\$5,552,670, 2020: US\$4,921,992). Sales margins have grown for the six months to 11.8% compared to 10.4% for the previous year.

	3 Months Ended		6 Months Ended	
	Apr 30		Apr 30	
	2021	2020	2021	2020
	US\$	US\$	US\$	US\$
Inventories, Beginning of the Year	507,883	597,071	417,400	649,498
Analysis Fees	0	662	74	2,804
Depreciation	46,048	45,063	91,280	104,611
Electricity	21,229	17,056	43,768	29,900
Fuel, Oil and Lubricants	26,831	14,804	51,583	32,113
Professional and Project Management Fee	5,246	3,240	12,863	9,314
Medical Expenses	3,528	1,701	5,618	3,579
Product Purchases	2,248,426	2,035,789	4,834,449	3,987,522
Protective Clothing	3,075	2,014	6,957	3,227
Provident Fund	5,706	3,863	11,144	8,240
Machinery Rental	16,123	31,389	30,929	55,737
Repairs and Maintenance	68,784	45,970	154,807	96,825
Salaries and Benefits	90,242	82,840	185,012	164,742
Transportation	39,378	111,736	87,080	212,129
Inventories, End of the Quarter	(380,294)	(438,249)	(380,294)	(438,249)
	<u>2,702,205</u>	<u>2,554,949</u>	<u>5,552,670</u>	<u>4,921,992</u>

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General and Administrative Expenses:

	3 Months Ended April 30				6 Months Ended April 30			
	2021 US\$	2020 US\$	Variance US\$	%	2021 US\$	2020 US\$	Variance US\$	%
Bank Charges and Interest	1,592	7,155	5,563	78%	3,152	13,611	10,459	77%
Consulting Fees	20,555	30,817	10,263	33%	49,285	49,784	499	1%
Management Fees	13,709	12,732	(977)	(8%)	30,090	44,975	14,885	33%
Directors Incentives	10,692	8,367	(2,325)		20,407	8,367	(12,039)	
Office, Insurance and Sundry	15,890	12,762	(3,127)	(25%)	32,351	27,904	(4,447)	(16%)
Professional Fees	23,256	24,565	1,309	5%	52,441	57,692	5,251	9%
Promotion	986	366	(620)	(170%)	1,157	521	(636)	(122%)
Telephone	2,138	1,964	(174)	(9%)	4,934	4,270	(664)	(16%)
Transfer Agent and Filing Fees	7,762	3,958	(3,804)	(96%)	8,500	6,970	(1,529)	(22%)
Travel	3,709	4,334	625	14%	12,624	15,666	3,042	19%
Bad Debt	-	-	-		-	1,202	1,202	
Broad-Based Black Economic Empowerment	25,688	6,159	(19,530)	(317%)	39,243	20,526	(18,716)	(91%)
	125,976	113,180	(12,797)	(11%)	254,184	251,490	(2,694)	(1%)
Foreign Exchange gain	(2,635)	4,367	7,002	160%	(7,229)	8,414	15,644	186%
Finance Costs	-	-	-		-	-	-	
Expenses	123,341	117,546	(5,795)	(5%)	246,954	259,904	12,950	5%
Interest Income	(41,464)	(37,862)	3,602	(10%)	(82,095)	(76,817)	5,278	(7%)
Other Income	(22,711)	(2,014)	20,696	(1027%)	(24,081)	(9,528)	14,552	(153%)
	59,167	77,670	18,503	24%	140,778	173,559	32,781	19%

Expenses

Expenses for the quarter were US\$123,341 (2020: US\$117,546), an increase of US\$5,795 (5%) relating to charges relating to Broad-Based Black Economic Empowerment (BBBEE). Six month to date expenses are US\$246,954 and 5% better than the prior year, largely as a result of reduced banking charges.

Interest Income

Interest income earned on the loan to AAM, and for cash in hand for the six-month period was US\$82,095.

Share Holders Equity and Comprehensive Income

	Apr 30, 2021 US\$	Oct 31, 2020 US\$	Apr 30, 2021 CAN\$	Oct 31, 2020 CAN\$
SHAREHOLDERS' EQUITY			1.250	1.320
Share Capital	8,079,463	8,079,463	10,099,062	10,666,766
Additional Paid in Capital	1,342,549	1,342,549	1,678,142	1,772,476
Accumulated Other Comprehensive Loss				
Foreign Currency Translation Reserve	(1,646,661)	(2,149,469)	(2,058,272)	(2,837,798)
Deficit	(2,691,827)	(3,049,200)	(3,364,694)	(4,025,651)
Equity Attributable to Canaf Investments Inc. Shareholder	5,083,524	4,223,343	6,354,238	5,575,793
Non-Controlling Interest	230,130	129,672	287,655	171,197
	5,313,654	4,353,015	6,641,893	5,746,990

Foreign Currency Translation Reserve

The Corporation is not subject to currency fluctuations within its core business in South Africa 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 the translation into USD, the reporting currency of the Corporation.

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The 6 months comprehensive gain on foreign exchange amounts to US\$520,433 compared to the same time period last year of a loss of US\$732,288 and is primarily as a result of the translation into US\$ the reporting currency. As of April 30, 2021, the Corporation has accumulated foreign currency other comprehensive loss of US\$1,646,661, (October 31, 2020: US\$2,149,469).

The Corporation does not hedge net asset translation movements.

Deficit

During the six months ending April 30, 2021 the deficit has reduced by US\$357,373, from US\$3,049,200 at the 31st October 2020, to US\$2,691,827.

SUMMARY OF QUARTERLY RESULTS

The following financial data is derived from the Corporation's financial statements for the past 8 quarters.

The current quarter is in line with management expectations and is an improvement on the previous year's quarter; EPS for the past quarter is US\$0.005/share. Total EPS for the past 4 quarters is US\$0.022/share.

Management expects this fiscal year to continue to have a level of uncertainty related to the markets that it supplies as well as the continuing prevalence of the Covid-19 virus.

	Three Months Ended			
	Apr 30	Jan 31	Oct 31	Jul 31
	2021	2021	2020	2020
	US\$	US\$	US\$	US\$
Sale	3,109,892	3,182,665	4,142,354	3,908,330
Gross Profit	407,687	332,200	565,507	475,638
Net Income (Loss)	255,084	185,122	360,954	250,775
Net Comprehensive Income (Loss) for the period	473,980	486,660	531,967	537,288
Basic and diluted earnings (loss) per share	0.005	0.004	0.008	0.005
	Three Months Ended			
	Apr 30	Jan 31	Oct 31	July 31
	2020	2020	2019	2019
	US\$	US\$	US\$	US\$
Sale	2,824,252	2,666,730	4,070,037	3,422,222
Gross Profit	269,303	299,687	228,432	384,581
Net Income (Loss)	136,246	149,438	125,368	222,208
Net Comprehensive Income (Loss) for the period	(620,497)	173,893	(113,826)	267,206
Basic and diluted earnings (loss) per share	0.003	0.003	0.003	0.005

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SELECTED ANNUAL INFORMATION

The following financial data is derived from the Corporation's audited financial statements for the years ended October 31, 2015 through to year ending October 31, 2020.

	2020	2019	2018	2017	2016	2015
	US\$	US\$	US\$	US\$	US\$	US\$
Sales	13,541,667	11,750,350	14,673,658	10,699,117	4,703,528	9,156,927
Cost of Sales	(11,931,532)	(10,729,419)	(13,502,330)	(9,476,007)	(4,600,463)	(8,365,883)
Gross Profit	1,610,134	1,020,931	1,171,328	1,223,110	103,065	791,044
Income Before Income Taxes	1,248,503	730,337	697,267	736,284	(312,218)	296,631
Income Tax (Expense) Recovery	(351,091)	(191,683)	(73,383)	(194,476)	133,063	(168,189)
Net Income (Loss) for the year	897,413	538,654	623,884	541,808	(179,155)	128,442
Interest Income	151,798	173,085	101,284	17,962	29,280	42,384
Bank Loan, Including Current Portion	-	-	78,412	416,882	702,230	950,137
Total Assets	5,580,049	5,254,018	4,774,437	3,315,232	2,729,318	3,512,225
Basic and Diluted Earnings (Loss) Per Share (USD)	0.019	0.011	0.013	0.014	(0.004)	0.010
Basic and Diluted Earnings (Loss) Per Share (CANS)	0.025	0.015	0.017	0.018	(0.005)	0.012

The main components making up the total assets balance as at October, 2020 of US\$5,580,049 (2019: US\$5,254,018) are: US\$1,055,996 (2019: US\$1,146,260) of non-controlling interest borrowings; US\$740,404 (2019: US\$643,860) property, plant and equipment; US\$2,047,774 (2019: US\$390,916) in cash; US\$1,296,617 (2019: US\$2,358,108) in accounts receivable, with the reduction in balance between years reflecting the reduction in payment terms associated with a key customer; and US\$417,400 (2019: US\$649,498) in inventories, comprising mostly of stock on hand.

LIQUIDITY AND CAPITAL RESOURCES

At April 30, 2021, the Corporation had cash of US\$2,760,929 (October 31, 2020: US\$2,047,774) and working capital of US\$3,351,221 (Oct 31, 2020 - US\$2,556,615). Surplus cash and cash equivalents are deposited in interest accruing accounts.

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, and income tax payable.

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

	6 Months Ended Apr 30, 2021	Year Ended Oct 31, 2020
	US\$	US\$
Cash provided by (used) in operating activities	391,982	2,366,657
Cash used in investing activities	(2,676)	(334,391)
Cash provided by (used) in financing activities	-	-
Increase (Decrease) in cash	389,306	2,032,266

Operations provided US\$391,982 in cash during the six months ended April 30, 2021 (October 31, 2020 provided US\$2,366,657) largely due to timing of supplier payments and tightening of payment terms with customers.

The Covid-19 pandemic has created challenging business conditions all over the globe. Canaf's management have assessed the cash position, as well as running operational contingency plans and feel the group is in a very strong position for 2021.

Except as described above, the Corporation's management is not aware of any other trends or other expected fluctuations in its liquidity that would create any deficiencies. The Corporation's management believes that its cash balances will be sufficient to meet the Corporation's short-term and long-term requirements for ongoing operations and planned growth. The Corporation does occasionally utilize cash reserves to offer suppliers earlier payment terms in return for more favorable rates.

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ECONOMIC DEPENDENCE

Sales from the Corporation's South African coal processing business are substantially derived from a very few number of customers and as a result, the Corporation is economically dependent on these customers. The Corporation's exposure to credit risk is limited to the carrying value of its accounts receivable. As at April 30, 2021, Southern Coal had trade receivables of US\$1,488,509.83 (October 31, 2020: US\$1,296,617) due from these customers and were collected subsequent to the quarter-end.

REVENUE RECOGNITION

Revenue from the sale of calcined anthracite is recognized upon transfer of title, which is completed when the physical product is delivered to customers and collection is reasonably assured. Interest and other income are recognized when earned and collection is reasonably assured.

COMMITMENT

The Corporation has an agreement to lease premises for its coal processing plant in South Africa for a term of ten years, which expired on December 31, 2020, with a monthly rent of Rand 35,000 (US\$2,310). The Corporation remains in negotiations and is assessing its options to extend its terms for the lease or security of tenure for its premises. Until new terms are formalised, the Corporation will continue to operate under the same terms of the existing lease with an effective notice period of 2 months for both lessee and lessor.

In June 2021 the Corporation secured a further land tenure for Quantum. The agreement allows for a due diligence period seven weeks until 31 July 2021 and the term of the lease is for five years, with an option to extend for a further four years and nine months.

TRANSACTIONS WITH RELATED PARTIES

At the report date, key management consists of Christopher Way (CEO, President and a Director of the Corporation), Rebecca Williams (CFO and Director), Peter Wassenaar (Chairman and Director), who has taken over the role of Chairman from the late David Way as at 1st December 2020

Fees incurred for services by key management personnel during the six months ended April 30, 2021 and 2020:

Services	Party	6 Months Ended	
		Apr 30 2021	Apr 30 2020
		US\$	US\$
CFO and Director	Professional fees for financial administration and management services	12,773	11,719
Chairman and Director President, CEO and Director	Consulting fees for financial administration and management services	4,077	2,909
Company Secretary	President, CEO and director of the Corporation	40,173	37,308
Directors	Professional fees for administration and management services	2,673	-
Director	Directors fees for administration and management services in relation to the Company's coal processing business in South Africa	35,509	45,619
	Consulting fees	9,112	12,476
		95,204	97,555

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has no off-balance sheet arrangements

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ACCOUNTING STANDARDS ISSUED

A number of new accounting standards, amendments to standards, and interpretations have been issued for this reporting period:

IFRS 16 – Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases. The standard includes two recognition exemptions for lessees: leases of 'low-value' assets; and short-term leases. For those assets determined to meet the definition of a lease, at the commencement date, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. IFRS 16 also requires lessees to make more extensive disclosures than under IAS 17.

In transitioning to IFRS 16, which is effective for annual periods beginning on or after January 1, 2019, a lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Company will apply IFRS 16 on November 1, 2019 using the modified retrospective approach, which means the cumulative impact of adoption will be recognized as at November 1, 2019 and the comparatives will not be restated. The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Company has completed its impact assessment of IFRS 16 and based on the Company's evaluation, IFRS 16 is not expected to have a material effect on the consolidated financial statements as the Company has elected to use the exemption proposed for lease terms that end within 12 months of the date of initial application. Any new leases will be assessed and accounted for in line with IFRS16 guidelines.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The details of Canaf's accounting policies are presented in Note 2 of the un-audited Financial Statements for the six months ended April 30, 2021. These policies are considered by management to be essential to understanding the processes and reasoning that go into the preparation of the Corporation's financial statements and the uncertainties that could have a bearing on its financial results.

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MANAGEMENT OF FINANCIAL RISKS

The Corporation is exposed to various risks in relation to financial instruments. The Corporation's financial assets and liabilities by category are summarized in Note 2(o) of the consolidated financial statements. The Corporation's risk management is coordinated by the board of directors and focuses on actively securing the Corporation's short to medium-term cash flows and raising finances for the Corporation's capital expenditure program. The Corporation does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Corporation is exposed are described below.

Foreign Currency Risk

Foreign exchange risk arises because of fluctuations in exchange rates. The Corporation conducts a significant portion of its business activities in foreign currencies. The Corporation's subsidiaries, principally located in South Africa, routinely transact in the local currency, exposing the Corporation 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 Corporation does not currently use financial instruments to mitigate this risk.

Credit Risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Corporation limits its exposure to credit loss for cash by placing its cash with high quality financial institutions and for trade receivable by performing standard credit checks. The credit risk for cash and trade receivables is considered negligible since the counterparties are reputable banks with high quality external credit ratings and customers with no history of default.

The Corporation has a credit risk exposure related to its economic dependence on a very few customers for its calcine sales. The Corporation has assessed its exposure to credit risk and has determined that no significant risk exists from these concentrations of credit.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations when they become due. The Corporation ensures, as far as reasonably possible, that it will have sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Corporation's holdings of cash. The Corporation has a working capital of US\$3,351,221 as at April 30, 2021. There can be no assurance that the Corporation will be successful with generating and maintaining profitable operations or will be able to secure future debt or equity financing for its working capital and expansion activities.

Commodity Price Risk

The Corporation's revenues, earnings and cash flows are directly related to the volume and price of calcine sold and are sensitive to changes in market prices over which it has little or no control. The Corporation has the ability to address its price-related exposures through the use of sales contracts.

Fair Value

The Corporation uses the following hierarchy for determining fair value measurements:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that is not based on observable market data.

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The Corporation's financial assets measured at fair value through profit or loss use Level 1 valuation techniques during the six months ended April 30, 2021. The carrying values of the Corporation's financial assets and liabilities approximate their fair values as at April 30, 2021.

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CAPITAL RISK MANAGEMENT

The Corporation'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 Corporation manages its share capital as capital, which as of April 30, 2021 totaled US\$8,079,463 (October 31, 2020: US\$8,079,463).

The Corporation manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured through the sale of calcine 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 Corporation will be able to obtain debt or equity capital in the case of operating cash deficits.

The Corporation 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 Corporation 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 Corporation 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 Corporation's approach to capital management during the quarter ended April 30, 2021.

RISKS AND UNCERTAINTIES

The Corporation 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 Corporation 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 Corporation's assets are of indeterminate value. For further particulars see the financial statements filed on www.sedar.com.

Covid-19 Pandemic

The emerging pandemic scene globally could have negative consequences for all operations. Sickness as a result of the virus could impact sales, ability to service sales, rent collection, and general management. The board has put contingency plans in place to support with continuing the Southern Coal (South African) operations and manage any care and maintenance measures that need to be implemented.

The operations of the board, senior management and administration, given its already remote working structure, should not be adversely affected by necessary measures to minimise the risks and effects of the virus; we do not see any reason why the corporate side of the business cannot function as usual. International travel of senior management will however be suspended until it is recommended safe by the respective Governments of the United Kingdom and South Africa.

Exploration and Development

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

Operating Hazards and Risks

Operations in which the Corporation 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 Corporation 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 Corporation might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event the Corporation 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 Corporation 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 Corporation's future prospects cannot accurately be predicted.

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Political Risk

Quantum and Canaf Investments is located in South Africa and consequently the Corporation 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 Corporation 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 Corporation'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 Corporation 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 Corporation 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 Corporation may undertake.

Cash Flows and Additional Funding Requirements

The Corporation has significant revenues from operations and produces positive cashflow. The Corporation intends to expand organically using available cash and local debt financing, when required.

Should the Corporation decide to develop or acquire a relatively large asset or opportunity, the majority of sources of funds will in large portion be derived from the issuance of equity or project finance debt. Although the Corporation 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 Corporation.

Enforcement of Civil Liabilities

Substantially all of the assets of the Corporation will be located outside of Canada, with the directors and officers of the Corporation being resident outside of Canada also. As a result, it may be difficult or impossible to enforce judgments granted by a court in Canada against the assets of the Corporation or the directors and officers of the Corporation residing outside of Canada.

Management

The Corporation is dependent on a relatively small number of key employees, the loss of any of whom could have an adverse effect on the Corporation.

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CAUTIONARY STATEMENTS ON FORWARD-LOOKING INFORMATION

This MD&A together with the Corporation's consolidated financial statements for the six months ended April 30, 2021 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 Corporation 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 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 those in the forward-looking statements.

Inherent in forward-looking statements are risks and uncertainties beyond the Corporation's ability to predict or control, including risks that may affect the Corporation'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 Corporation'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 Corporation'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 Corporation receives regulatory and governmental approvals as are necessary on a timely basis; that the Corporation is able to obtain financing as necessary on reasonable terms; that there is no unforeseen deterioration in the Corporation's activity costs; that the Corporation is able to continue to secure adequate transportation as necessary for its exploration activities; that the Corporation 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 Corporation'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 Corporation'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 Corporation 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 Corporation's actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. The Corporation 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.

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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 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 Consolidated financial statements and respective accompanying Management's Discussion and Analysis.

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

OUTSTANDING SHARES

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