



## **Management Discussion & Analysis**

For the nine months ended 31<sup>st</sup> July 2021

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

## **CANAF INVESTMENTS INC.**

Management Discussion and Analysis for the 9-month period ended July 31, 2021

Expressed in U.S Dollars

---

### **INTRODUCTION**

Date Prepared: 24<sup>th</sup> September 2021

This Management Discussion and Analysis, (“MDA”) covers the operations of Canaf Investments Inc. (“Canaf” or the “Corporation”) for the nine months ended July 31, 2021 and should be read in conjunction with the unaudited consolidated Financial Statements for the nine months ended July 31, 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 nine months ended July 31. 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](http://www.sedar.com). or at Corporation’s website at [www.canafinvestments.com](http://www.canafinvestments.com).

## **CANAF INVESTMENTS INC.**

Management Discussion and Analysis for the 9 month period ended July 31, 2021

Expressed in U.S Dollars

---

### **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-volatised 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.

## **CANAF INVESTMENTS INC.**

Management Discussion and Analysis for the 9 month period ended July 31, 2021

Expressed in U.S Dollars

---

### **OVERALL PERFORMANCE AND OUTLOOK**

The Corporation reports a strong nine months with Sales of US\$10,834,358, a 15% improvement compared to the previous nine months ended July 31, 2020 (US\$9,399,313), and net income of US\$813,883 (2020: US\$536,459) or CAN\$1,024,102 (2020: CAN\$726,042). Gross margins continue to hold strong and currently sit at 12.4% for the nine months.

The next quarter, Q4 2021, is expected to reflect a reduction in sales, back to levels similar to Q1 and Q2 this year. This reduction in sales in comparison to Q3 2021 is due to a main customer of Southern Coal having to reduce demand seen in Q3, after a major breakdown being experienced during the period. The Corporation however is expecting Q1 2022, to reflect an increase in comparison to Q4 2021.

During the quarter Canaf announced an update relating to a short period of civil unrest in South Africa. Management can confirm that the civil unrest lasted no longer than a week and no direct harm or damage was experienced to staff or plant and equipment, nor has there been any signs of civil unrest since.

Further to the announcement in June 2021 regarding the securing of further land tenure for Quantum, management can confirm that it is now in the process of applying for environmental authorisations which would allow for the construction of further calcining facilities which would provide opportunities for future growth and diversification. The overall application process could only be completed and outcome determined by September 2022.

#### 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 Corporation. The board believes that the Corporation 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 Corporation.

As of 31 July 2021, Canaf shareholder equity stood at US\$5.33 million (CAN\$6.67 million).

## CANAF INVESTMENTS INC.

Management Discussion and Analysis for the 9 month period ended July 31, 2021

Expressed in U.S Dollars

### 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 July 31, 2021, with a comparison in Canadian Dollars.

	9 Months Ended		9 Months Ended	
	2021	Jul 31 2020	2021	Jul 31 2020
	US\$	US\$	CAN\$	CAN\$
<b>Conversion 1.00 US (av. 12 months)</b>			<b>1.258</b>	<b>1.353</b>
Revenue from Sales	10,834,358	9,399,313	13,632,778	12,720,999
Cost of Sales	(9,486,399)	(8,354,685)	(11,936,653)	(11,307,203)
<b>Gross Profit</b>	<b>1,347,959</b>	<b>1,044,627</b>	<b>1,696,125</b>	<b>1,413,795</b>
Expenses	(375,060)	(355,139)	(471,935)	(480,644)
Interest Income	106,821	115,445	134,412	156,243
Other Income	32,267	14,242	40,601	19,275
Gain from Sale of Vehicle	0	0	0	0
<b>Net Income for the year (before tax)</b>	<b>1,111,987</b>	<b>819,175</b>	<b>1,399,203</b>	<b>1,108,669</b>
Income Tax Recovery (Expense)	(298,103)	(282,716)	(375,101)	(382,627)
<b>Net Income for the year</b>	<b>813,883</b>	<b>536,459</b>	<b>1,024,102</b>	<b>726,042</b>
Attributable to the Shareholders	646,812	389,294	813,878	526,870
Attributable to the Non-Controlling Interest	167,071	147,165	210,224	199,172
<b>Adjusted EBITDA</b>	<b>1,140,423</b>	<b>859,255</b>	<b>1,434,984</b>	<b>1,162,913</b>
<b>Conversion 1.00 US (Closing position Oct 2020)</b>	<b>2021</b>	<b>2020</b>	<b>1.251</b>	<b>1.320</b>
<b>Total Assets</b>	<b>7,302,906</b>	<b>5,580,049</b>	<b>9,138,031</b>	<b>7,366,960</b>
<b>Total Equity</b>	<b>5,639,867</b>	<b>4,353,015</b>	<b>7,057,092</b>	<b>5,101,399</b>

### 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

	9 Months Ended		9 Months Ended	
	2021	Jul 31 2020	2021	Jul 31 2020
	US\$	US\$	CAN\$	CAN\$
Conversion 1.00 US Dollar Rate			<b>1.258</b>	<b>1.353</b>
Net Income for the year	813,883	536,459	1,024,102	726,042
Interest Paid	0	0	0	0
Interest Received	(106,821)	(115,445)	(134,412)	(156,243)
Foreign Exchange Gain/ (Losses)	(6,762)	3,544	(8,508)	4,796
Depreciation	142,019	151,981	178,701	205,690
Income Taxes	298,103	282,716	375,101	382,627
<b>Adjusted EBITDA</b>	<b>1,140,423</b>	<b>859,255</b>	<b>1,434,984</b>	<b>1,162,913</b>

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

## **CANAF INVESTMENTS INC.**

Management Discussion and Analysis for the 9 month period ended July 31, 2021

Expressed in U.S Dollars

---

### **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 31 Jul 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 Corporation 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 Corporation, 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.

## CANAF INVESTMENTS INC.

Management Discussion and Analysis for the 9 month period ended July 31, 2021

Expressed in U.S Dollars

### RESULTS OF OPERATIONS

#### NINE MONTHS ENDED JULY 31, 2021

The Corporation reported net income for the nine months ended July 31 2021 of US\$813,883 (2020: US\$536,459), and an increase of US\$1,435,045 (15%) on revenues to date of US\$10,834,358 (2020: US\$9,399,313).

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 July 31, 2021				9 Months Ended Jul 31, 2021			
	2021 US\$	2020 US\$	Variance US\$	%	2021 US\$	2020 US\$	Variance US\$	%
Sales	4,541,800	3,908,330	633,470	16%	10,834,358	9,399,313	1,435,045	15%
Cost of Sales	(3,933,729)	(3,432,693)	(501,037)	15%	(9,486,399)	(8,354,685)	(1,131,714)	14%
Gross Profit (Loss)	608,071	475,638	132,433	28%	1,347,959	1,044,627	303,331	29%
Expenses								
General and Administrative	(127,638)	(100,106)	(27,533)	28%	(381,822)	(351,595)	(30,226)	9%
Interest on Bank Loan	-	-	-	-	-	-	-	-
Foreign Exchange Gain	(468)	4,870	(5,338)	-110%	6,762	(3,544)	10,306	-
Total expenses	(128,106)	(95,235)	(32,871)	35%	(375,060)	(355,139)	(19,921)	6%
Interest Income	24,726	38,628	(13,902)	-36%	106,821	115,445	(8,624)	-7%
Other Income	8,186	4,714	3,472	74%	32,267	14,242	18,024	127%
Income (Loss) Before Income Taxes	512,877	423,744	89,133	21%	1,111,987	819,175	292,812	36%
Income Tax (Expense) Recovery	(139,200)	(172,969)	33,769	-20%	(298,103)	(282,716)	(15,387)	5%
Net Income (Loss) for the period	373,677	250,775	122,902	49%	813,883	536,459	277,424	52%

#### Sales

Revenue for the quarter is US\$4,541,800 (2020: US\$3,908,330), a 16% increase due to the ramping up of production and subsequent demand of product from a major customer, taking the nine months sales to US\$10,834,358, a 15% increase compared to the prior year (2020: US\$9,399,313).

CEH generated rental incomes to date of US\$24,695. The Corporation continues to assess new opportunities to acquire further property in Johannesburg and can confirm has committed to acquire another property worth R850,000 during Q4.

## CANAF INVESTMENTS INC.

Management Discussion and Analysis for the 9 month period ended July 31, 2021

Expressed in U.S Dollars

---

### Cost of Sales

Cost of sales are 15% higher than the same 3-month period last year (2021: US\$3,933,729, 2020: US\$3,432,693), and 14% higher for the nine-month period to date (2021: US\$9,486,399, 2020: US\$8,354,685). Sales margins have increased for the nine months to 12.4% compared to 11.1% for the previous year.

	3 Months Ended		9 Months Ended	
	2021	Jul 31	2021	Jul 31
	US\$	US\$	US\$	US\$
Inventories, Beginning of the Year	380,294	438,249	417,400	649,498
Analysis Fees	0	0	74	2,804
Depreciation	48,447	45,275	139,727	149,886
Electricity	48,606	19,329	92,374	49,229
Fuel, Oil and Lubricants	33,396	18,963	84,979	51,076
Professional and Project Management Fee		5,209	12,863	14,523
Medical Expenses	2,243	1,675	7,861	5,254
Product Purchases	3,389,973	3,251,951	8,224,422	7,239,473
Protective Clothing	4,544	5,003	11,501	8,230
Provident Fund	5,799	3,736	16,943	11,976
Machinery Rental	33,545	30,929	64,474	86,666
Repairs and Maintenance	89,689	63,192	244,496	160,017
Salaries and Benefits	113,126	86,577	298,138	251,319
Transportation	79,315	55,345	166,395	267,474
Inventories, End of the Quarter	(295,248)	(592,740)	(295,248)	(592,740)
	<u>3,933,729</u>	<u>3,432,693</u>	<u>9,486,399</u>	<u>8,354,685</u>

## CANAF INVESTMENTS INC.

Management Discussion and Analysis for the 9 month period ended July 31, 2021

Expressed in U.S Dollars

### General and Administrative Expenses:

	3 Months Ended				9 Months Ended			
	July 31				July 31			
	2021	2020	Variance		2021	2020	Variance	
	US\$	US\$	US\$	%	US\$	US\$	US\$	%
Bank Charges and Interest	1,621	1,878	257	14%	4,773	15,489	10,716	69%
Consulting Fees	20,985	30,686	9,701	32%	70,270	80,470	10,200	13%
Management Fees	16,465	12,254	(4,211)	(34%)	46,556	57,229	10,673	19%
Directors Incentives	10,172	8,407	(1,765)	(21%)	30,579	16,775	(13,805)	(82%)
Office, Insurance and Sundry	22,752	15,025	(7,727)	(51%)	55,102	42,929	(12,173)	(28%)
Professional Fees	23,022	19,750	(3,272)	(17%)	75,463	77,442	1,979	3%
Promotion	3,577	163	(3,414)	(2097%)	4,735	684	(4,050)	(592%)
Telephone	2,130	1,942	(188)	(10%)	7,064	6,212	(852)	(14%)
Transfer Agent and Filing Fees	850	2,193	1,343	61%	9,350	9,163	(186)	(2%)
Travel	6,030	2,470	(3,560)	(144%)	18,654	18,135	(518)	(3%)
Bad Debt	-	-	-		-	1,202	1,202	
Broad-Based Black Economic Empowerment	20,033	5,338	(14,695)	(275%)	59,276	25,864	(33,412)	(129%)
	127,638	100,106	(27,533)	(28%)	381,822	351,595	(30,226)	(9%)
Foreign Exchange gain	468	(4,870)	(5,338)	110%	(6,762)	3,544	10,306	291%
Finance Costs	-	-	-		-	-	-	-
<b>Expenses</b>	128,106	95,235	(32,871)	(35%)	375,060	355,139	(19,921)	(6%)
Interest Income	(24,726)	(38,628)	(13,902)	36%	(106,821)	(115,445)	(8,624)	7%
Other Income	(8,186)	(4,714)	3,472	(74%)	(32,267)	(14,242)	18,024	(127%)
	95,194	51,894	(43,301)	(83%)	235,972	225,452	(10,520)	(5%)

### Expenses

Expenses for the quarter were US\$128,106 (2020: US\$95,235), an increase of US\$32,871 (35%) relating to charges relating to Broad-Based Black Economic Empowerment (B-BBEE) as the Corporation seeks to improve its current rating. Nine months to date expenses are US\$375,060 and 6% higher than the prior year.

### Interest Income

Interest income earned on the loan to AAM, and for cash in hand for the nine-month period was US\$106,821.

### Share Holders Equity and Comprehensive Income

	Jul 31, 2021	Oct 31, 2020	Jul 31, 2021	Oct 31, 2020
SHAREHOLDERS' EQUITY	US\$	US\$	CANS	CANS
			1.251	1.320
Share Capital	8,079,463	8,079,463	10,109,727	10,666,766
Additional Paid in Capital	1,342,549	1,342,549	1,679,914	1,772,476
Accumulated Other Comprehensive Loss –				
Foreign Currency Translation Reserve	(1,690,719)	(2,149,469)	(2,115,575)	(2,837,798)
Deficit	(2,402,387)	(3,049,200)	(3,006,076)	(4,025,651)
Equity Attributable to Canaf Investments Inc. Shareholder	5,328,906	4,223,343	6,667,990	5,575,793
Non-Controlling Interest	310,961	129,672	389,101	171,197
	5,639,867	4,353,015	7,057,091	5,746,990

## CANAF INVESTMENTS INC.

Management Discussion and Analysis for the 9 month period ended July 31, 2021

Expressed in U.S Dollars

### 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.

The 9 months comprehensive gain on foreign exchange amounts to US\$472,969 compared to the same time period last year of a loss of US\$445,755 and is primarily as a result of the translation into US\$ the reporting currency. As of July 31, 2021, the Corporation has accumulated foreign currency other comprehensive loss of US\$1,690,719, (October 31, 2020: US\$2,149,469).

The Corporation does not hedge net asset translation movements.

### Deficit

During the nine months ended July 31, 2021 the deficit has reduced by US\$646,812, from US\$3,049,200 at the 31<sup>st</sup> October 2020, to US\$2,402,387.

## **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\$0.008/share. Total EPS for the past 12 months is US\$0.025/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			
	Jul 31	Apr 30	Jan 31	Oct 31
	2021	2021	2021	2020
	US\$	US\$	US\$	US\$
Sale	4,541,800	3,109,892	3,182,665	4,142,354
Gross Profit	608,071	407,687	332,200	565,507
Net Income (Loss)	373,677	255,084	185,122	360,954
Net Comprehensive Income (Loss) for the period	326,212	473,980	486,660	531,967
Basic and diluted earnings (loss) per share	0.008	0.005	0.004	0.008

  

	Three Months Ended			
	Jul 31	Apr 30	Jan 31	Oct 31
	2020	2020	2020	2019
	US\$	US\$	US\$	US\$
Sale	3,908,330	2,824,252	2,666,730	4,070,037
Gross Profit	475,638	269,303	299,687	228,432
Net Income (Loss)	250,775	136,246	149,438	125,368
Net Comprehensive Income (Loss) for the period	537,288	(620,497)	173,893	(113,826)
Basic and diluted earnings (loss) per share	0.005	0.003	0.003	0.003

## CANAF INVESTMENTS INC.

Management Discussion and Analysis for the 9 month period ended July 31, 2021

Expressed in U.S Dollars

### 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 July 31, 2021, the Corporation had cash of US\$ 3,316,563 (October 31, 2020: US\$2,047,774) and working capital of US\$3,659,969 (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.

	9 Months Ended Jul 31, 2021	Year Ended Oct 31, 2020
	US\$	US\$
Cash provided by (used) in operating activities	997,928	2,366,657
Cash used in investing activities	(83,192)	(334,391)
Cash provided by (used) in financing activities	-	-
Increase (Decrease) in cash	914,735	2,032,266

Operations provided US\$997,928 in cash during the nine months ended July 31, 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.

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.

## CANAF INVESTMENTS INC.

Management Discussion and Analysis for the 9 month period ended July 31, 2021

Expressed in U.S Dollars

---

### **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 July 31, 2021, Southern Coal had trade receivables of US\$1,691,072 (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\$2,412). 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 term of the lease is for five years, with a monthly rent of Rand 25,000 per month and with an option to extend for a further four years and nine months. Quantum is now in the process of applying for environmental authorisations which would allow for the construction of further calcining facilities; the overall application process could only be completed and outcome determined by September 2022.

### **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 took over the role of Chairman from the late David Way as at 1<sup>st</sup> December 2020

Fees incurred for services by key management personnel during the nine months ended July 31, 2021 and 2020:

Services	Party	9 Months Ended	
		Jul 31 2021 US\$	Jul 31 2020 US\$
CFO and Director	Professional fees for financial administration and management services	19,555	17,455
Chairman and Director	Consulting fees for financial administration and management services	6,790	4,189
President, CEO and Director	President, CEO and director of the Corporation	61,158	55,565
Company Secretary	Professional fees for administration and management services	4,137	
Directors	Directors fees for administration and management services in relation to the Company's coal processing business in South Africa	48,336	58,735
Former Chairman and Director	Consulting fees	9,112	24,905
		<hr/>	<hr/>
		139,976	160,849

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

The Corporation has no off-balance sheet arrangements

## **CANAF INVESTMENTS INC.**

Management Discussion and Analysis for the 9 month period ended July 31, 2021

Expressed in U.S Dollars

---

### **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 Corporation 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 Corporation 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 Corporation has completed its impact assessment of IFRS 16 and based on the Corporation's evaluation, IFRS 16 is not expected to have a material effect on the consolidated financial statements as the Corporation 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 nine months ended July 31, 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.

## **CANAF INVESTMENTS INC.**

Management Discussion and Analysis for the 9 month period ended July 31, 2021

Expressed in U.S Dollars

---

### **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\$3,659,969 as at July 31, 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 nine months ended July 31, 2021. The carrying values of the Corporation's financial assets and liabilities approximate their fair values as at July 31, 2021.

## **CANAF INVESTMENTS INC.**

Management Discussion and Analysis for the 9 month period ended July 31, 2021

Expressed in U.S Dollars

---

### **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 July 31, 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 July 31, 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](http://www.sedar.com).

#### *Covid-19 Pandemic*

The ongoing 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.

## **CANAF INVESTMENTS INC.**

Management Discussion and Analysis for the 9 month period ended July 31, 2021

Expressed in U.S Dollars

---

### *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.

## **CANAF INVESTMENTS INC.**

Management Discussion and Analysis for the 9 month period ended July 31, 2021

Expressed in U.S Dollars

---

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

This MD&A together with the Corporation's consolidated financial statements for the nine months ended July 31, 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.

## **CANAF INVESTMENTS INC.**

Management Discussion and Analysis for the 9 month period ended July 31, 2021

Expressed in U.S Dollars

---

### **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