Canaf Group Inc.

Management Discussion & Analysis
FORM 51-102F

For the Period Ended
July 31, 2010

September 24, 2010

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Company's Management's Discussion and Analysis of Operating Results, the unaudited interim consolidated financial statements and the accompanying notes for the nine month period ended July 31, 2010 and the audited consolidated financial statements for the year ended October 31, 2009.

Additional information relating to the Company is available on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A together with the Company's consolidated financial statements for the period ended July 31, 2010 contain certain statements that may be deemed "forward-looking statements". All statements in this MD&A, other than statements of historical fact, that address exploration drilling, exploitation activities and events or developments that the Company expects to occur, are forward looking statements. Forward looking statements in this document are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential" and similar expressions, or that events or conditions "will", "would", "may", "could" or "should" occur. Information inferred from the interpretation of drilling results and information concerning resource estimates may also be deemed to be forward looking statements, as it constitutes a prediction of what might be found to be present when and if a project is actually developed. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results may differ materially from those in the forward-looking statements.

Inherent in forward-looking statements are risks and uncertainties beyond the Company's ability to predict or control, including risks that may affect the Company's operating or capital plans, including risks generally encountered in the exploration and development of natural resource properties, such as unusual or unexpected geological formations, unanticipated metallurgical difficulties, ground control problems, process upsets and equipment malfunctions; risks associated with labour and unavailability of skilled labour; fluctuations in the market prices of the Company's principal products, which are cyclical and subject to substantial price fluctuations; risks created through competition for natural resource properties; risks associated with lack of access to markets; risks associated with mineral and resource estimates, including the risk of errors in assumptions or methodologies; risks posed by fluctuations in exchange rates and interest rates, as well as general economic conditions; risks associated with environmental compliance and permitting, including those created by changes in environmental legislation and regulation; risks associated with the Company's dependence on third parties in the provision of transportation and other critical services; risks associated with aboriginal title claims and other title risks; social and political risks associated with operations in foreign countries; and risks associated with legal proceedings.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, the following assumptions: that there is no material deterioration in general business and economic conditions; that there is no unanticipated fluctuation of interest rates and foreign exchange rates; that the supply and demand for, deliveries of, and the level and volatility of commodity prices develop as expected; that the Company receives regulatory and governmental approvals as are necessary on a timely basis; that the Company is able to obtain financing as necessary on reasonable terms; that there is no unforeseen deterioration in the Company's activity costs; that the Company is able to continue to secure adequate transportation as necessary for its exploration activities; that the Company is able to procure equipment and supplies, as necessary, in sufficient quantities and on a timely basis; that exploration activity timetables and capital costs for the Company's planned projects are not incorrectly estimated or affected by unforeseen circumstances; that costs of closure of various operations are accurately estimated; that there are no unanticipated changes to market competition; that the Company's estimates in relation to its natural resource interests are within reasonable bounds of accuracy (including with respect to size, grade and recoverability of mineral projects) and that the geological, operational and price assumptions on which these are based are reasonable; that no environmental and other proceedings or disputes arise; and that the Company maintains its ongoing relations with its employees, consultants and advisors.

Readers are cautioned that the foregoing list of important factors and assumptions is not exhaustive. Forward-looking statements are not guarantees of future performance. Events or circumstances could cause the Company's actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of factors, whether as a result of new information or future events or otherwise, except as may be required under applicable laws.

OVERALL PERFORMANCE

Canaf Group Inc., (the "Company") is incorporated in the Province of Alberta and wholly owns a business in South Africa processing anthracite coal into carbon for sale to steel manufactures as a substitute product for coking coal.

The Company has also explored mineral properties in Canada, Uganda and Sierra Leone.

The Company has a 100% shareholding in Quantum Screening and Crushing (Proprietary) Limited ("Quantum") and a 51% shareholding in Canaf (SL) Ltd, ("Canaf (SL)").

Canaf (SL) - Gendema Property, Sierra Leone

Canaf (SL) holds a small scale mining lease covering an area of 25 acres, expiring on October 31, 2011, and renewable upon application.

In June 2009 Canaf signed an agreement with Milestone Trading Limited, a subsidiary of Target Resources Plc., whereby Milestone agreed to assist Canaf (SL) in providing necessary equipment to extract gravel from the Sewa River. All direct mining costs and profits were shared on a 50% each basis.

Since starting operations in Sierra Leone, Canaf (SL) Ltd. has recovered a total of 689.24 carats. The board of Canaf have decided that the concessions at Gendema no longer warrant further exploitation, and a net loss of US$344,000 (including set-up costs) will be written off in the October quarter to retained earnings.

Quantum - Carbon, South Africa

The company produces calcined coke, a product used as a substitute to coking coal in the manufacturing process of steel and manganese. The company's two largest clients are world leaders in steel and manganese production. Quantum has a plant in Newcastle, KwaZulu Natal, where its two kilns operate calcining the raw material anthracite. The majority of Quantum's feedstock anthracite is supplied by the neighbouring Springlake Colliery, which has reserves in excess of 30 years .

Calcining is a process whereby anthracite coal is fed through a rotary kiln (at temperatures between 900 and 1200 degrees centigrade) and devolatilisation takes place; sulphur content is lowered and gases such as nitrogen are burnt off. The final product is calcine which is a coke substitute with a high carbon content of between 82% and 85%. The final product is used as a reductant in the manufacture of steel and manganese. Quantum, through its wholly owned subsidiary Southern Coal (Proprietary) Limited, ("Southern Coal") has been profitably carrying on this business for the last 6 years.

The last year has been a difficult one due to the worldwide recession with intermittent orders from the company's two primary customers. The board have made sure that costs are contained as far as possible and feel that it is essential to retain the facility as it appears that the recession is near its end and recovery is in sight. Orders are presently regular and the kilns are operating at around 75% utilisation.

REVENUE RECOGNITION

Revenue from the sale of carbon and diamonds is recognized upon transfer of title which is completed when the physical product is delivered to customers and collection is reasonably assured. The sale of diamonds recovered from exploration activities are offset against capitalized exploration costs. Interest and other income are recognized when earned and collection is reasonably assured.

SELECTED ANNUAL INFORMATION

The following financial data, which has been prepared in accordance with Canadian generally accepted accounting principles, is derived from the Company's audited consolidated financial statements for the years ended October 31, 2009, 2008 and 2007.

	2009 $	2008 $	2007 $
Sales	4,561,417	9,038,397	6,193,884
Cost of Sales	(4,630,882)	(8,207,714)	(5,455,041)
Gross Profit	(69,465)	830,683	738,843
Loss before income taxes	(574,327)	(3,273,168)	(684,465)
Income tax expenses	34,718	667,436	(37,000)
Net loss for the year	(539,609)	(2,605,732)	(721,465)
Interest Income	9,405	13,042	16,558
Long-term debt	Nil	521,858	797,216
Total Assets	3,270,899	3,134,842	7,203,120
Basic and diluted per shares	(0.01)	(0.06)	(0.02)

Financial position

Revenue from the sale of calcine and coal is derived substantially from two customers and as a result the company is dependent on these customers for its revenue. The quarter ended 31 July 2010 saw a considerable improvement in the forward order book and sales throughout the period with sales 183% higher than the corresponding period last year at $8.8 million compared to $3.1 million.

The Company earned $9,405 of interest income during the year on its cash held in Canadian and South Africa banking institutions. The decrease is due to less cash on hand to invest in interest bearing financial assets and the reduction in interest rates.

The main components making up the balance of $3,270,899 of total assets as at October 31, 2009 are $895,849 property, plant and equipment, $581,487 in cash and cash equivalents, $669,403 in current portion of long-term investment and $555,000 in accounts receivable. The total assets have increased due to increase~~s~~ in long term investment and cash on hand.

Long term debt of $666,470 represents the current portion of a balance of $666,470 in debt existing as at October 31, 2009. The debt is held in South Africa and secured with a long term investment at Liberty Life.

The Company's loss has decreased significantly in 2009 due mainly to the write-offs of the following: mineral properties costs of $146,208, deposits on acquisition of subsidiary of $661,567 and intangible assets of $1,876,458 in fiscal 2008.

RESULTS OF OPERATIONS

Nine Month Period Ending July 31, 2010

For the nine month period ended July 31, 2010, the Company reported a profit of $879,049 (2009 loss – ($383,573)). The Company's net profit per share was $0.02 (2009 loss – ($0.00)). The gain is due to increase in revenue.

		July 2010		July 2009	%Change
Sales	$	8,824,222	$	3,115,862	183
Cost of sales		(7,106,926)		(3,116,705)	128
Administrative expenses		(489,858)		(362,342)	35
Other items		217,474		8,654	2413
Income taxes recovery		(565,863)		(18,926)	2890
Total profit (loss) for the period	$	879,049	$	(373,457)	335

Sales

All of the sales during the nine months have been generated by Quantum Screening and Crushing.

During the period ended July 31, 2010 sales have increased by 183% due to a full order book and the plant operating at full capacity. Production costs increased by only 128% due to the containing of costs and general efficiency and improved operating efficiency of the plant.

Expenses

Differences in general administrative expenses and other items incurred during the nine months ended July 31, 2010, relative to the corresponding period ending July 31, 2009 are as follows:

- Management fees of $120,531 (2009-$84,254) were paid to directors for administration and management services in relation to the Company's coal processing business in South Africa.

- The Company paid interest of $105,195 (2009-$55,360) for a long term debt~~s~~ with the standard bank which bears interest of 10.5% per annum.

- Interest expenses of $41,410 (2009-$37,201) accrued to a company controlled by a director of the Company. The loan is unsecured and bears interest of 7% per annum.

- Consulting fees of $31,569 (2009-$27,491) were paid and accrued in consideration of management consulting services.

Other Items

- The Company's investment income has increased to $217,474 (2009-$8,654) in the period ended July 31, 2010 due to more cash on hand to invest in interest bearing financial assets and the increase of interest rates.

The Company is not subject to currency fluctuations in its core activities however the Company is subject to transactions in various currencies and the volatility in international currency markets does have an impact on some costs and translation into the reporting currency of the Company. The current period gain on foreign exchange in the amount of $53,119 mostly as a result of the settlement of foreign-currency denominated operational transactions and intercompany balances.

The Company incurred a current comprehensive gain of $932,168 for the period ended July 31, 2010, as a result of the change in the fair value, as measured in US Dollar, of the Company's assets and liabilities denominated in South African Rand. The Company does not hedge net asset translation movements, but where necessary and appropriate hedge currency risk for trading items.

Three Month Period Ending July 31, 2010

For the period ended July 31, 2010, the Company reported a profit of $285,207 (2009 loss – ($101,449)). The Company's profit per share was $0.01 (2009 loss – ($0.00)). The gain is due to increase in revenue.

		July 2010		July 2009
Sales	$	3,008,368	$	1,051,084
Cost of sales		(2,440,354)		(983,854)
Administrative expenses		(215,960)		(146,006)
Other items		129,506		1,146
Income taxes recovery		(196,353)		(23,819)
Total profit (loss) for the period	$	285,207	$	(101,449)

Sales

All of the sales during the six months have been generated by Quantum Screening and Crushing.

During the period ended July 31, 2010 sales have increased to $3,008,368 from $1,051,084 due to a full order book and the plant operating at full capacity. Production costs also increased to $2,440,354 from $983,854 due to the containing of costs and general efficiency and reduction in plant breakdowns.

Expenses

Differences in general administrative expenses and other items incurred during the three months ended July 31, 2010, relative to the corresponding period ending July 31, 2009 are as follows:

- Management fees of $32,241 (2009-$32,904) were paid to directors for administration and management services in relation to the Company's coal processing business in South Africa.

- The Company paid interest of $74,441 (2009-$21,271) for a long term deb~~s~~ with the standard bank which bears interest of 10.5% per annum.

- Interest expenses of $13,509 (2009-$18,042) accrued to a company controlled by a director of the Company. The loan are unsecured and bears interest of 7% per annum.

- Consulting fees of $11,974 (2009-$9,584) were paid and accrued in consideration of management consulting services.

Other Items

- The Company's investment income has increased to $129,506 (2009-$1,146) in the period ended July 31, 2010 due to more cash on hand to invest in interest bearing financial assets and the increase of interest rates.

The Company is not subject to currency fluctuations in its core activities however the Company is subject to transactions in various currencies and the volatility in international currency markets does have an impact on some costs and translation into the reporting currency of the Company. The current period comprehensive gain on foreign exchange in the amount of $28,225 mostly as a result of the settlement of foreign-currency denominated operational transactions and intercompany balances. In addition, the Company incurred a current comprehensive gain of $313,432 as a result of the change in the fair value, as measured in US Dollar, of the Company's assets and liabilities denominated in South African Rand. The Company does not hedge net asset translation movements, but where necessary and appropriate hedge currency risk for trading items.

SUMMARY OF QUARTERLY REPORTS

The following selected financial data has been prepared in accordance with Canadian GAAP and should be read in conjunction with the Company's yearly and interim financial statements.

	Three Months Ended			
	July 31, 2010 $	April 30, 2010 $	January 31, 2010 $	October 31, 2009 $
Gross Profit (Loss)	568,014	766,211	383,071	(68,632)
Net Profit (loss)	285,207	453,995	139,847	(166,152)
Basic and diluted per shares	0.01	0.01	0.00	(0.00)

	Three Months Ended			
	July 31, 2009 $	April 30, 2009 $	January 31, 2009 $	October 31, 2008 $
Gross Profit	67,230	(60,186)	(7,877)	489,880
Net Profit (loss)	(101,449)	(168,577)	(103,431)	(1,604,381)
Basic and diluted per shares	(0.01)	(0.01)	(0.00)	(0.04)

Over the last eight quarters, expenditures have been consistent reflecting operational activities. Losses and earnings varied from quarter to quarter. In the fourth quarter of fiscal 2008, the Company recorded a loss of $2,605,732 (restated). During that quarter, the company wrote down the following: advanced deposits totalling $661,567 for the acquisition of New Stone Mining, mineral property and deferred cost of $146,208 and intangible assets of $1,876,458.

During the third quarter of fiscal 2010, the Company recorded a profit of $285,207 compared to the $453,995 profit incurred during the first quarter of fiscal 2010. The profit in the third quarter of fiscal 2010 was primarily due to the decrease in revenue from the sale of calcined anthracite and coal. Revenue decreased to $568,014 from $766,211 in the second quarter of fiscal 2010, due to reduced orders of one of the Company's major customers.

During the second quarter of fiscal 2010, the Company recorded a profit of $453,995 compared to the $139,847 profit incurred during the first quarter of fiscal 2010. The profit in the second quarter of fiscal 2010 was primarily due to the increase in revenue from the sale of calcined anthracite and coal. Revenue increased to 766,211 from 383,071 in the first quarter of fiscal 2010, due to Quantum's order book being full and the plant operating at near full capacity.

During the first quarter of fiscal 2010, the Company recorded a profit of $139,847 compared to the $166,152 loss incurred during the fourth quarter of fiscal 2009. The profit in the first quarter of fiscal 2010 was primarily due to the increase in revenue from the sale of calcined anthracite and coal. Revenue increased to $383,071 from ($68,632) in the first quarter of fiscal 2010, due to Quantum's order book being full and the plant operating at full capacity on a 24/7 basis.

Revenue in fiscal 2009 was significantly lower than the previous year. In fact, Quantum experienced extremely difficult conditions during the last financial year; inconsistent power supply, a scheduled overhaul of Arcelor Mittal's plant in Newcastle and the reduction in orders from both customers; with all this in mind, the Company has managed to survive the recession and is now operating profitably again. The board does expect the coming months and quarters to be similarly profitable.

During the year, Canaf (SL) generated revenue of approximately $28,000 from sale of diamonds, ten percent of which was paid directly to the local community for development. All diamonds recovered during March and April 2010 will contribute to a parcel which is anticipated to be sold during the second half of 2010.

LIQUIDITY AND CAPITAL RESOURCES

At the end of July 31, 2010, the Company had cash and cash equivalents amounting to $741,994 (October 31, 2009- $581,487) and working capital of $363,854 (October 31, 2009- working deficiency of $732,906).

Non-cash items accounted for $282,351 of the operating costs in 2010 (2009-$277,888) in amortization.

During the period, under review, another $940,204 in funds arose from the net change in current non-cash working capital during the period. The major factors in the change in non cash operating items were the use of accounts payable and accrued liabilities of $317,187, accounts receivable of $728,410, inventories of $808,367 and amounts due to related parties of $186,167.

CONTRACTUAL OBLIGATIONS

The Company has secured debt of $666,000 which bears interest at 10.5% per annum. During the period ended July 31, 2010 the loan was paid in full.

TRANSACTIONS WITH RELATED PARTIES

All of the undernoted fees are in respect to the current period ended July 31, 2010, unless otherwise indicated.

a) Consulting fees of $68,663 (2009-$30,994) were paid and accrued to a former director of the Company, in consideration of management consulting services and overseeing the Company's exploration activities and management in Sierra Leone properties. This former director was owed $37,653 at July 31, 2010 (2009-nil).

b) Director's management fees of $120,531 (2009 – $84,254), were paid to directors and officers of the Company for management compensation in the normal course of operation of the Company's subsidiaries in South Africa.

c) Administrative and accounting fees of $42,340 (2009 - $36,950) were paid to a director of the Company for secretarial, general administrative and accounting services and overseeing regulatory filings and requirements.

d) The loan payable of $799,569 as at July 31, 2010 from a company controlled by the President and director of the Company. The loan bears interest at 7% per annum, unsecured, with no fixed terms of repayment. Included under amount due to related parties was $41,410 (2009 - $37,201) for loan interest accrued for the period.

ECONOMIC DEPENDENCE

Sales of the Company realized from its South African coal processing business are substantially derived from two customers, and as a result is economically dependent on these two customers. The Company's exposure to credit risk is limited to the carrying value of its accounts receivable. As at July 31, 2010, accounts receivable included $1,279,148 due from these two customers and were subsequently collected.

FINANCIAL INSTRUMENTS

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash, receivables, due to related parties and accounts payable and accrued liabilities.

Cash and cash equivalent is designated as held-for-trading and therefore carried at fair value, with the unrealized gains or losses recognized in net income. Receivables are classified as loans and receivables, which are measured at amortized cost, if assets is derecognized or impaired, recognized in net income. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost, if liability is derecognized, recognized in net income.

RISKS AND UNCERTAINTIES

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

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

Exploration and Development

The Company's properties are in exploration stage and pre-development stage only and although they contain historic resources of gold and other metals, the Company has yet to determine whether its properties are economically viable. At this stage, it is not known if there is commercial ore. Development of the properties will only follow upon obtaining satisfactory results. Exploration and development of natural resources involve a high degree of risk and few properties which are explored are ultimately developed into producing properties. There is no assurance that the Company's exploration and development activities will result in any discoveries of commercial bodies of ore. The long term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors. Substantial expenditures are required to establish reserves through drilling, to develop processes to extract the resources and, in the case of new properties, to develop the extraction and processing facilities and infrastructure at any site chosen for extraction. Although substantial benefits may be derived from the discovery of a major deposit, no assurance can be given that resources will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.

Operating Hazards and Risks

Exploration for natural resources involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of resources, any of which could result in work stoppages, damage to persons or property and possible environmental damage. Although the Company has or will obtain liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

Metal and Mineral Prices

Factors beyond the control of the Company affect the price and marketability of gold and other metals and minerals. Metal and mineral prices have fluctuated widely, particularly in recent years and are affected by numerous factors including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels. The effect of these factors on the Company's future prospects cannot accurately be predicted.

Political Risk

Quantum is located in South Africa and consequently the Company will be subject to certain risks, including currency fluctuations, electricity outages and possible political or economic instability, and exploration and production activities may be affected in varying degrees by political stability and government regulations relating to the industry. Any changes in regulations or shifts in political attitudes are beyond the control of the Company and may adversely affect its business. Exploration may be affected in varying degrees by government regulations with respect to restrictions on future exploitation and production, price controls, export controls, foreign exchange controls, income taxes, expropriation of property, environmental legislation and site safety.

Environmental Factors

All phases of the Company's operations will be subject to environmental regulation in South Africa.

Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. The exploration, development and production activities of the Company will require certain permits and licenses from various governmental authorities and such operations are and will be governed by laws and regulations governing exploration, development and production, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety and other matters. Companies engaged in exploration activities generally experience increased costs and delays as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that all licenses and permits which the Company may require to carry out exploration and development of its projects will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project that the Company may undertake.

Cash Flows and Additional Funding Requirements

Although since the acquisition of Quantum, the Company has significant revenues from operations, the majority of sources of funds currently available to the Company for its acquisition and development projects are in large portion derived from the issuance of equity. Although the Company presently has sufficient financial resources and has been successful in the past in obtaining equity and debt financing to undertake its currently planned exploration and development programs, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is dependent upon on the availability of credit from its supplier and its ability to generate sufficient fund from equity financing or from third parties to meet current and future obligations. There can be no assurances that such financing will be available on terms acceptable to the Company.

Credit Risk

Credit risk on financial instruments arises from the potential for counterparties to default on their obligations to the Company. Current credit exposure is on the loss that would be incurred if the Company's counterparties were to default at the same time.

The Company has a credit risk exposure related to its counterparties under its calcine and coke sales as disclosed in Notes 16 to the consolidated financial statements. The Company has assessed its exposure to credit risk and has determined that no significant risks exist from these concentrations of credit.

Interest Rate Risk

Interest on the Company's long-term debt is based on both fixed and variable rates and exposes the Company to interest rate risk. The Company has not entered into any derivative agreements to mitigate this risk.

Foreign Currency Risk

Foreign exchange risk arises because of fluctuations in exchange rates. The Company conducts a significant portion of its business activities in foreign currencies. The Company's subsidiaries, principally located in South Africa, routinely transact in the local currency rather than the United States dollar, for both revenues and costs and therefore is internally hedged in its trading activities. However the Company does not hedge its expected dividend receivables or the translation of net assets of its subsidiaries.

The assets, liabilities, revenue and expenses that are denominated in foreign currencies will be affected by changes in the exchange rate between the United States dollar and these foreign currencies. The Company has outstanding debt obligations that are payable in Canadian dollars and has issued securities convertible or exercisable into common shares at values expressed in Canadian dollars.

Commodity Price Risk

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

Fair Value Risk

Due to the short term nature of cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued liabilities, their carrying values approximate their fair values.

Title to Assets

Although the Company has or will receive title options for any concessions in which it has or will acquire a material interest, there is no guarantee that title to such concessions will be not challenged or impugned. In some countries, the system for recording title to the rights to explore, develop and mine natural resources is such that a title opinion provides only minimal comfort that the holder has title. Also, in many countries, claims have been made and new claims are being made by aboriginal peoples that call into question the rights granted by the governments of those countries.

Enforcement of Civil Liabilities

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

Management

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

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements

ADOPTION OF NEW ACCOUNTING POLICY

Going Concern

The CICA Handbook Section 1400 “General Standards of Financial Statement Presentation” requires management to assess an entity’s ability to continue as a going concern. Management has disclosed the material uncertainties related to events or conditions that may cast doubt on the Company’s ability to continue as a going concern in Note 1 of the consolidated financial statements.

FUTURE ACCOUNTING CHANGE

International Financial Reporting Standards (“IFRS”)

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 01, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company’s reporting for the first quarter ending March 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

OUTLOOK

Quantum experienced difficult trading conditions during the last quarter however year to date performance is encouraging, particularly in the light of the current order book. The board expects the coming months and quarters to show a continued profitable performance.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

In February 2008, the CICA confirmed that publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 01, 2011 with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company’s reporting no later than in the first quarter ended January 31, 2012 and the first annual IFRS financial statements will be for the year ended October 31, 2012 with restatement of comparative information presented for both interim and year end financial statements.

The conversion to IFRS will impact the Company’s accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as foreign currency activities, certain contractual arrangements, capital requirements and compensation arrangements.

The Company has completed a preliminary assessment of how each IFRS standard impacts the financial statements. It believes it will be able to manage the transition to IFRS from Canadian GAAP using internal resources with limited external assistance.

One of the more significant impacts identified to date of adopting IFRS is the expanded presentation and disclosure requirements. Disclosure requirements under IFRS generally contain more breadth and depth than those required under Canadian GAAP and, therefore, will result in more extensive note references.

Possible major impact that management expects IFRS will have on the Company's financial position are as follows:

IFRS 1, First-time Adoption of IFRS

IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective applications of IFRS. The purpose of the options is to provide relief to companies and simplify the conversion process by not requiring them to recreate information that may not exist or may not have been collected at the inception of the transaction. We have analyzed the various exemptions available and are working towards implementing those most appropriate in our circumstances.

Property, Plant and Equipment

Under IFRS, Property, Plant and Equipment ("PP&E") can be measured at fair value or at cost while under Canadian GAAP, the Company has to carry PP&E on a cost basis and the revaluation is prohibited.

Upon adoption of IFRS, the Company has to determine whether to elect a cost model or revaluation model. Management has yet to decide on which model to adopt. Currently, the Company only has equipment capitalized as property, plant and equipment and as a result there will be not significant impact on the adoption of either IFRS model on the Company's financial statements.

In accordance with IAS 16 "Property, Plant and Equipment", upon acquisition of significant assets, the Company will need to allocate an amount initially recognized in respect of an asset to its component parts and accounts for each component separately when the components have different useful lives or the components provide benefits to the entity in a different pattern.

Mineral Properties and Exploration Costs

Under the Company's current accounting policy, acquisition costs of mineral properties, together with direct exploration and development expenses incurred thereon are capitalized.

Upon adoption of IFRS, the Company has to determine the accounting policy for exploration and evaluation assets. The Company can decide to apply the International Accounting Standards Board ("IASB") Framework which requires exploration expenditures to be expensed and capitalization of expenditures only after the completion of a feasibility study, or choose to and keep the existing Company's policy if relevant and reliable.

There should be no difference as the Company will continue to capitalize all acquisition, exploration and evaluation costs.

Impairment of Mineral Properties

Canadian GAAP provides for a two step test with no impairment being required if the undiscounted future expected cash flows relating to an asset are higher than the carrying value of that asset. Under IFRS, the undiscounted cash flows are not considered and an impairment is recorded when the recoverable amount (defined as the higher of ‘value in use’ and ‘fair value less costs to sell’) is below the asset’s carrying value.

The Company will be required to adopt the discounted future cash flow approach with respect to impairment analysis of its mineral properties. Impairment under this approach may generate a greater likelihood of write-down in future.

Write down to net realizable value can be reversed under IFRS if the conditions of impairment ceased to exist. This difference in approach between Canadian GAAP and IFRS could result in potentially significant volatility in earnings.

Stock - Based Compensation

IFRS and Canadian GAAP largely converge on the accounting treatment for stock – based compensation with only a few differences.

Canadian GAAP allows either accelerated or straight-line method of amortization for the fair value of stock options under graded vesting.

Under IFRS, the estimate for forfeitures must be made when determining the number of equity instruments expected to vest, while under Canadian GAAP forfeitures can be recognized as they occur. The Company is currently using the estimate of forfeitures when determining the number of equity instruments expected to vest.

Upon adoption of IFRS 2, the Company will change both the method of amortization, which would give rise to an accelerated compensation expense, and the method of forfeiture recognition. The change is not expected to have a material impact on the Company’s financial statements.

OUSTANDING SHARES

Authorized

Unlimited number of common and preferred shares without par value.

As at September 24, 2010, the Company had the following securities issued and outstanding:

Common shares outstanding: 47,426,195

Type	Number Outstanding	Exercise Price (CDN)	Expiry Date
Options	1,100,000	$0.10	November 26, 2011
Option	200,000	$0.28	June 14, 2012

DIRECTORS AND OFFICERS

David Way	*Director, Chief Executive Officer*
Brian Copsey	*Director, Chief Financial Officer*
Kevin Corrigan	*Director*
Zeny Manalo	*Director*

OTHER REQUIREMENTS

Additional disclosure of the Company's technical reports, material change reports, news release and other information can be obtained on SEDAR at www.sedar.com and the Company's website.

On Behalf of the Board,

Canaf Group Inc.

"David Way"	"Brian Copsey"
David Way	Brian Copsey
Chief Executive Officer	*Chief Financial Officer*