



**CAZA GOLD CORP.**

**Third Quarter Report**

**Management Discussion and Analysis**

**(stated in Canadian dollars)**

**Three and Nine Months ended September 30, 2012**

# CAZA GOLD CORP.

(the “Company”)

## Third Quarter Report

### Management’s Discussion and Analysis For the Three and Nine Months ended September 30, 2012 (expressed in Canadian dollars)

#### **CAUTION – FORWARD LOOKING STATEMENTS**

Certain statements contained herein regarding the Company and its operations constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995 or “forward-looking information” under Canadian securities legislation. All statements that are not historical facts, including without limitation statements regarding future estimates, plans, objectives, assumptions or expectations of future performance, are “forward-looking statements or information”. We caution you that such “forward looking statements or information” involve known and unknown risks and uncertainties that could cause actual results and future events to differ materially from those anticipated in such statements. Such risks and uncertainties include fluctuations in precious metal prices, unpredictable results of exploration activities, uncertainties inherent in the estimation of mineral reserves and resources, fluctuations in the costs of goods and services, problems associated with exploration and mining operations, changes in legal, social or political conditions in the jurisdictions where the Company operates, lack of appropriate funding and other risk factors, as discussed in the Company’s filings with Canadian securities regulatory agencies. The Company expressly disclaims any obligation to update any forward-looking statements or information, except as may be required by law.

#### **1.0 Preliminary Information**

The following Management’s Discussion and Analysis (“MD&A”) of Caza Gold Corp. (the “Company”) should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2012 and the audited consolidated financial statements for the years ended December 31, 2011 and 2010, all of which are available at the SEDAR website at [www.sedar.com](http://www.sedar.com).

Financial information in this MD&A is prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* (“IAS 34”) based upon the principles of International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and all dollar amounts are expressed in Canadian dollars unless otherwise indicated.

All information contained in the MD&A is as of November 15, 2012 unless otherwise indicated.

#### **1.1 Background**

The Company was incorporated on November 15, 2007 under the laws of British Columbia and is engaged in the evaluation, acquisition, exploration, development and exploitation of precious metal properties in Latin America.

As the Company is focused on its mineral exploration activities, there is no mineral production, sales or inventory in the conventional sense. The recoverability of amounts capitalized for mineral property interests is dependent upon the ability of the Company to arrange appropriate financing as needed, the discovery of reserves in its mineral properties, the development of its properties, confirmation and maintenance of the Company’s interest in the underlying properties, the receipt of necessary permits and upon future profitable production or proceeds from the disposition thereof. Such exploration and development activities normally take years to complete and the amount of resulting income, if any, is difficult to determine with any certainty at this time. Many of the key factors are outside of the Company’s control. The sales value of any mineralization discovered and developed by the Company is largely dependent upon factors beyond the Company’s control such as the market prices of the metals produced. Item 1.17 provides details of risk factors.

## **CAZA GOLD CORP.**

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

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### **1.2 Overall Performance**

The Company currently owns or holds, directly or indirectly, interests in precious metal properties, known as Moris, Santiago Fraction, El Relampago, Oaxaca and Tecolote in Mexico, and Los Andes in Nicaragua.

#### *Moris, Santiago Fraction, El Relampago, Oaxaca and Tecolote properties*

In September 2009, the Company and its wholly-owned subsidiary, Minera Caza SA de CV ("Minera Caza") entered into a mineral properties sale and purchase agreement with Exmin Resources Inc. ("Exmin"). The Company and Minera Caza acquired a 100% interest in the Moris and Santiago Fraction properties from Exmin for 400,000 common shares of the Company which were issued with a value of \$0.25 per share in 2009. Exmin retains a 1% NSR which is capped at US\$1 million for the Moris properties and US\$0.5 million for the Santiago Fraction property.

Underlying the mineral properties sale and purchase agreement dated September 24, 2009 with Exmin are option to purchase agreements, as amended, for El Relampago, Oaxaca and Tecolote properties.

On November 17, 2009, the Company amended the option to purchase agreement for the El Relampago concession, in which the Company can earn a 100% interest by making cash payments of US\$105,000 over a 3 year period. Cash payments of US\$15,000 were paid in May 2012 and US\$15,000 in November 2012 (2011 - US\$30,000) in which the Company has earned a 100% interest in the property.

On November 17, 2009, the Company amended the option to purchase agreement for the Oaxaca property concessions, in which the Company can earn a 100% interest by making cash payments of US\$786,000 over a 5 year period. Cash payments of US\$9,000 were paid during the nine months ended September 30, 2012 (2011 - US\$12,000).

In 2010, the Company earned a 100% interest in the Tecolote property by making total cash option payments of US\$50,000.

The Balleza Zone is part of the much larger Balleza-Cienega project area on the Moris property (16,209 hectares) located about 25 km west of AuRico Gold's Ocampo mine. The property is about 230 km northwest of Chihuahua City in Chihuahua State, Mexico. Access is by paved and all-weather gravel roads. Infrastructure is very good with state power lines crossing the properties and labour, supplies and services are all available in the nearby towns of Moris, Ocampo and Cuauhtemoc. The mineralized dike and structural zone is over 7 kilometers long and hosts at least 14 small historic mine workings. More than 40 additional mineralized rock outcrops have been discovered to date.

The Company completed a detailed Phase 2 rock chip sampling program in the second quarter of fiscal 2011 and delineated a large bulk tonnage low grade gold target at the Balleza Zone. A total of 575 rock chip samples were collected by the Company in 2010 and 2011. Surface sampling has identified two types of gold mineralization at Balleza, a higher grade quartz stock-work zone and lower grade disseminated mineralization.

A Phase 1 drill program of 3,519 meters of core drilling in 12 holes was completed at the Balleza Zone in the third quarter of fiscal 2011. All 12 holes intersected broad widths of low grade gold mineralization. The mineralized zone is hosted in tuffaceous andesitic volcanic rock and a rhyolitic flow/sill unit. Drilling tested approximately 300 meters of strike length along the Balleza gold target, part of a 7 km long regional mineralized structure which hosts several high grade, narrow gold and silver veins and additional low grade, bulk mineable targets. The drilling indicates a flat lying mineralized body approximately 100 meters thick and 350 meters wide. Surface rock-chip sampling suggests the mineralized body is possibly 1,200 meters long.

## CAZA GOLD CORP.

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

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The 2012 exploration program at Balleza focused on mapping, sampling and possible property acquisitions along the 7 km long mineralized trend in order to define and prioritize additional drill targets.

### *Los Andes property*

In December 2010 as amended in January 2011, the Company entered into an option agreement to acquire a 100% interest in the Los Andes property by making US\$1.17 million in cash payments, issuing 1.5 million common shares and spending US\$2.97 million on exploration over a 4 year period. The Company also agreed to issue 150,000 common shares for the staking of additional properties to the vendors in January 2011, and thereafter the Company shall issue that number of common shares equal to 1.6 multiplied by the number of hectares staked in the area of mutual interest as defined. The vendor retains a 2% NSR, and the Company has the right to reduce the NSR to 1% by paying US\$1 million and to acquire the remaining 1% NSR by paying an additional US\$2 million. At December 31, 2010, the Company accrued US\$45,000 which was due to the vendor and which was subsequently paid in January 2011. In April 2011, 450,000 common shares at a value of \$0.61 per share were issued to the vendors. In December 2011, the Company paid US\$100,000, and at December 31, 2011 the Company recognized an obligation to issue 631,645 common shares, which were issuable for the Los Andes property and the staking of additional properties, at a value of \$0.24 per common share which were issued on January 17, 2012.

Two drill target areas, Cerro Quisaltepe and Pedregal, have been identified at the Los Andes property for testing by a Phase 1 drilling program. Drill targets have been defined based on rock chip geochemistry, alteration mineralogy, and fault structures which are associated with altered and mineralized breccia bodies. The drill program is for at least 5,000 meters and was mobilized in late May 2012. In August 2012, four holes have been drilled in the Pedregal target area for a total of about 1,100 meters of a planned 5,000 meter program. Drilling had progressed slowly due to difficult drilling conditions (hard siliceous zones, soft argillic zones and multiple faults) and none of the holes were able to reach the target depth of 350-400 meters. All four drill holes intersected strong silica and clay alteration and sulfide mineralization from top to bottom and all four holes had to be terminated between 250 to 300 meters deep.

Further regional mapping and sampling were carried out on several newly acquired properties covering additional high sulfidation epithermal alteration zones outside of the Los Andes property. Approximately 130,000 hectares have been acquired covering nine high-sulfidation systems similar to Los Andes. Property acquisition and reconnaissance work on the newly acquired gold properties in Nicaragua continue as well as soil and rock chip sampling.

### *Santiago property*

In May 2007, the Company's wholly owned subsidiary, Minera Canarc de Mexico SA de CV ("Minera Canarc"), entered into an option agreement to acquire a 100% interest in the Santiago gold property, which was then modified in May 2009 and then in April 2010 and April 2011 by Minera Caza.

A Phase 1 drill program of 1,194 meters of core drilling was completed at the Road Zone bulk tonnage target in the third quarter of fiscal 2011. Drilling tested a large alteration zone of iron stained and silicified andesitic volcanic rocks in contact with a granodiorite intrusion. Although extensive, weak porphyry style alteration was encountered in the Phase 1 drilling, no economic mineralization was intersected.

The Company wrote-off the Santiago property at December 31, 2011.

Other:

## **CAZA GOLD CORP.**

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

---

On January 17, 2012, the Company granted stock options to purchase 60,000 common shares at an exercise price of \$0.30 and an expiry date of January 17, 2017. These stock options are subject to vesting provisions in which 20% of the stock options vest immediately on the grant date and 20% vest every six months thereafter.

In April 2012, Mr. Bruce Korhonen joined the Company as the Director of Investor Relations. Mr. Korhonen was granted stock options to purchase 100,000 common shares, which have an exercise price of \$0.26 and an expiry date of April 10, 2015. These stock options are subject to vesting provisions in which 25% of the stock options vest three months from the grant date and 25% vest every three months thereafter.

On April 20, 2012, the Company's common shares were listed for trading on the OTCQX under the symbol "CZGDF".

In April 2012, Mr. Marco Montecinos was appointed Vice-President of Exploration.

On April 30, 2012, the Company granted stock options to purchase 972,500 common shares at an exercise price of \$0.26 and an expiry date of April 30, 2017. These stock options are subject to vesting provisions in which 20% of the stock options vest immediately on the grant date and 20% vest every six months thereafter.

At the Company's Annual General Meeting held on June 12, 2012, Messrs. Bradford Cooke, Anthony Hawkshaw, Greg Myers, Stewart Lockwood and Philip Yee were re-elected as Directors of the Company for the ensuing year. Shareholder approval was also provided for the Company's amended Stock Option Plan and shareholders' rights.

In November 2012, the Company announced a private placement for up to 5 million units at \$0.10 per unit for gross proceeds of up to \$500,000, with each unit comprised of one common share and one-half common share purchase warrant, subject to regulatory approval. Each full warrant is exercisable to acquire one common share at an exercise price of \$0.20 for a period of 2 years from the closing date. A finders' fee of up to 8% in cash and/or in finder's fee warrants may be applicable to portions of the private placement.

### **1.3 Selected Annual Information**

IFRS and IFRS 1 - *First-time Adoption of International Financial Reporting* ("IFRS 1") have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative financial information presented in the consolidated financial statements for the year ended December 31, 2010, and the opening balance sheet under IFRS as at January 1, 2010 which is the date of the Company's date of transition from Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS and at December 31, 2010.

Financial information for the year ended December 31, 2009 was prepared in accordance with Canadian GAAP.

## CAZA GOLD CORP.

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

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	Years Ended December 31,		
	2011	2010	2009 (1)
Total revenues	\$ -	\$ -	\$ -
Loss before discontinued operations and extraordinary items:			
(i) Total	\$ (3,795,757)	\$ (1,766,272)	\$ (531,450)
(ii) Basic per share	\$ (0.07)	\$ (0.06)	\$ (0.02)
(iii) Diluted per share	\$ (0.07)	\$ (0.06)	\$ (0.02)
Net loss:			
(i) Total	\$ (3,795,757)	\$ (1,766,272)	\$ (531,450)
(ii) Basic per share	\$ (0.07)	\$ (0.06)	\$ (0.02)
(iii) Diluted per share	\$ (0.07)	\$ (0.06)	\$ (0.02)
Total assets	\$ 8,824,100	\$ 2,547,211	\$ 739,623
Total long-term liabilities	\$ -	\$ -	\$ -
Dividends per share	\$ -	\$ -	\$ -

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(1) Financial information for the year ended December 31, 2009 has been prepared in accordance with Canadian GAAP.

### 1.4 Results of Operations

#### *Third Quarter of Fiscal 2012 – Nine months ended September 30, 2012 compared with September 30, 2011*

The Company incurred a net loss of approximately \$1.78 million for the nine months ended September 30, 2012, which is nominally higher than the net loss of \$1.62 million for the same period in fiscal 2011, resulting from the higher operating losses in the current period than in the prior period. This was attributable to the greater levels of corporate activities of the Company in the current period in relation to its mineral exploration projects and project generation as well as policies which were implemented in the mid-2011 which would impact the current period in 2012 but not the first half of fiscal 2011.

The Company has no sources of operating revenues. Operating losses continued to be incurred for ongoing activities of the Company to explore its mineral property interests and to pursue mineral properties of merit.

Additional exploration equipment was acquired to support exploration personnel in Mexico, resulting in higher amortization.

Employee remuneration was comparable for both periods in 2012 and 2011. Increases in executive management compensation were in effect in 2011 and 2012 to ensure key personnel retention which were determined to be competitive with comparable companies involved in mineral exploration in terms of relative size and status of projects. Employee remuneration directly related to mineral exploration projects were allocated to those specific projects rather than to operations as the Company continues with its exploration programs for the Moris and Los Andes projects in 2012, and such expenses were also allocated to property investigation and project generation efforts as warranted.

Higher operating expenses for office and sundry were attributable to ancillary support for more active operating and exploration activities of the Company in 2012. Office and sundry expenses include various insurance coverages to mitigate

## **CAZA GOLD CORP.**

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

---

exposure to liabilities and risks related to the Company's exploration projects and its senior personnel in foreign and reporting jurisdictions and corporate indemnification, all of which were effective in the second quarter of 2011 with twelve months terms which were renewed in mid-2012. These expenses also increased as the Company proceeds to advance its corporate presence in Nicaragua and to strengthen its reporting systems in Mexico.

Property investigation activities substantially increased in the first quarter of fiscal 2012 in comparison to the first quarter of 2011, as the Company implemented concerted project generation efforts in mainly Mexico and Nicaragua as well as in other Latin American jurisdictions to identify exploration projects and acquisition targets of merit. The employment of several senior personnel in Mexico in 2012 was to build the quality of the Company's portfolio of Mexican projects with the focus of advanced mineral projects to diversify its current grass-roots exploration projects. The Nicaraguan reconnaissance activities were focused on the acquisition and staking of additional strategic properties to complement the Los Andes project. Such expenses were primarily incurred for additional geological staff and expatriates. These efforts were reduced in the latter part of the second quarter of 2012 as greater focus was re-directed to the mobilization of the drilling program for the Los Andes project.

Higher regulatory expenses were incurred in 2012 for the listing of the Company's common shares on the OTCQX on April 20, 2012 along with commensurate fees thereto, and also for the Company's common shares to be DTC eligible which became effective in September 2012.

Following the closing of the offering and the listing of its common shares on the TSX-V in November 2010, the Company initiated and implemented its plans and activities to raise the profile of the Company and the status and progress of its Mexican projects, thereby contributing to its increased expenses incurred for shareholder relations in the fourth quarter of fiscal 2010 which continued into the first two quarters of 2011. Sequentially, the listing of its common shares on the Frankfurt Stock Exchange in December 2010 was also important for the Company to create greater exposure in Europe. These efforts continued into the first quarter of 2011 for shareholder relations activities but subsided in the second and then the third quarters but increased in the fourth quarter, part of which was to heighten shareholder awareness of the Company in the European market, as reflected in the incremental expense in the last quarter of 2011. Uncertainties in the capital markets precluded the Company from implementing marketing plans in the U.S. following its OTCQX listing. Shareholder relations activities were significantly lower for the nine months ended September 30, 2012 as the Company focused on its exploration programs and project generation.

Share-based payments are for the granting and vesting of stock options. Share-based payments were significantly lower in 2012 than in 2011. The forfeiture of unvested stock options partially reduced the share-based payments in 2012 as well as the granting of fewer stock options.

The foreign exchange loss is generally from the net effects of foreign currency translation from the Company's Mexican subsidiaries which operate in Mexican pesos and from US dollar stated accounts, as the Company's functional and presentation currency is the Canadian dollar.

Interest income is earned from the Company's investment in guaranteed investment certificate which bears interest at a 1.8% discount from the prime rate and is redeemable at any time.

Write-off of mineral property interest is attributable to transient expenses related to the Santiago property which was written off in 2011.

**CAZA GOLD CORP.**

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

As at September 30, 2012, the Company has mineral property interests which are comprised of the following:

	Nine Months ended September 30, 2012								Total
	Mexico					Nicaragua			
	Moris	Santiago Fraction	El Relampago	Oaxaca	Tecolote	Los Andes	Other		
<b>Acquisition Costs:</b>									
Balance, December 31, 2011	\$ 103,428	\$ 29,977	\$ 81,033	\$ 30,946	\$ 52,058	\$ 589,998	\$ -	\$ 887,440	
Option payment	-	-	15,695	8,842	-	-	-	24,537	
Balance, September 30, 2012	103,428	29,977	96,728	39,788	52,058	589,998	-	911,977	
<b>Deferred Exploration Expenditures:</b>									
Balance, December 31, 2011	1,361,570	15,527	2,903	23,126	6,985	1,413,809	-	2,823,920	
Advances	-	-	-	-	-	(27,872)	-	(27,872)	
Aerial photos and mapping	5,925	-	-	512	-	52,107	1,202	59,746	
Assays and surveys	-	-	-	-	-	179,977	35,619	215,596	
Camp and field supplies	13,188	380	379	380	380	491,273	-	505,980	
Community and social	-	-	-	-	-	129,902	-	129,902	
Equipment and systems	529	-	-	-	-	8,133	-	8,662	
Environmental	-	-	-	-	-	33,279	-	33,279	
Geology	15,264	-	-	-	-	270,188	-	285,452	
Local labour	32,424	-	-	-	-	-	-	32,424	
Roads and drill pads	-	-	-	-	-	37,768	-	37,768	
Salaries and remuneration	115,859	-	-	-	-	310,283	-	426,142	
Sundry	19,330	-	-	-	-	101,358	-	120,688	
Surface taxes	50,953	-	624	8,560	11,014	53,408	-	124,559	
Transportation and travel	32,419	-	-	-	-	238,048	-	270,467	
Balance, September 30, 2012	1,647,461	15,907	3,906	32,578	18,379	3,291,661	36,821	5,046,713	
<b>Mineral Property Interests:</b>									
December 31, 2011	\$ 1,464,998	\$ 45,504	\$ 83,936	\$ 54,072	\$ 59,043	\$ 2,003,807	\$ -	\$ 3,711,360	
September 30, 2012	1,750,889	45,884	100,634	72,366	70,437	3,881,659	36,821	5,958,690	



**CAZA GOLD CORP.**

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

As at September 30, 2012, to maintain the Company's interest and to fully exercise the options under various property agreements covering its mineral property interests, the Company must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionors as follows:

	Option Payments (US dollars)	Monthly Option Payments (US dollars)	Expenditure Commitments (US dollars)	Number of Shares
El Relampago:				
November 18, 2012 (paid)	\$ 15,000	\$ -	\$ -	-
Oaxaca:				
October 1, 2012 to June 2014	-	1,000	-	-
July 2014	726,000	-	-	-
Los Andes:				
December 15, 2012	125,000	-	-	300,000
December 15, 2013	300,000	-	-	300,000
December 15, 2014	600,000	-	392,917	300,000
	\$ 1,766,000	\$ 1,000	\$ 392,917	900,000

These amounts may be reduced in the future as the Company determines which properties to continue to explore and which to abandon.

**1.5 Summary of Quarterly Results (Unaudited)**

Quarterly financial information is prepared in accordance with IAS 34 and IFRS 1, as applicable, which are based on the principles of IFRS and all dollar amounts are expressed in Canadian dollars unless otherwise indicated.

The following table provides selected financial information of the Company for each of the last eight quarters ended at the most recently completed quarter, September 30, 2012:

**CAZA GOLD CORP.**

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

	2012				2011				2010
	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Loss before discontinued discontinued operations and extraordinary items:									
(i) Total	\$ (499,009)	\$ (618,573)	\$ (665,941)	\$ (2,173,983)	\$ (260,192)	\$ (803,244)	\$ (558,338)	\$ (824,295)	
(ii) Basic loss per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ -	\$ (0.02)	\$ (0.01)	\$ (0.02)	
(iii) Diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ -	\$ (0.02)	\$ (0.01)	\$ (0.02)	
Net loss:									
(i) Total	\$ (499,009)	\$ (618,573)	\$ (665,941)	\$ (2,173,983)	\$ (260,192)	\$ (803,244)	\$ (558,338)	\$ (824,295)	
(ii) Basic loss per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ -	\$ (0.02)	\$ (0.01)	\$ (0.02)	
(iii) Diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.04)	\$ -	\$ (0.02)	\$ (0.01)	\$ (0.02)	
Total assets	\$ 7,355,616	\$ 7,811,250	\$ 8,209,427	\$ 8,824,100	\$ 10,762,786	\$ 11,181,807	\$ 10,980,744	\$ 2,547,211	
Total long-term liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Dividends per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

The write-off of mineral property interests of \$1,291,915 for the Santiago property at December 31, 2011 resulted in higher net losses in the fourth quarter of fiscal 2011. Post-IPO expenses incurred in November 2010 and December 2010 resulted in higher net losses in the fourth quarter of fiscal 2010. Item 1.4 provides further details.

**1.6 Liquidity and Capital Resources**

The Company is in the exploration stage and has not yet determined whether its mineral property interests contain reserves. The recoverability of amounts capitalized for mineral property interests is dependent upon the existence of reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and upon future profitable production. The Company knows of no trends, demands, commitments, events or uncertainties that may result in the Company's liquidity either materially increasing or decreasing at the present time or in the foreseeable future. Material increases or decreases in the Company's liquidity are substantially determined by the success or failure of the Company's exploration programs and overall market conditions for smaller mineral exploration companies. Since its incorporation in 2007, the Company has endeavored to secure mineral property interests that in due course could be brought into production to provide the Company with cash flow which would be used to undertake work programs on other projects. To that end, the Company has expended its funds on mineral property interests that it believes have the potential to achieve cash flow within a reasonable time frame. As a result, the Company has incurred losses during each of its fiscal periods since incorporation. This result is typical of smaller exploration companies, and will continue until the Company generates revenues and positive cash flows.

The following table contains selected financial information of the Company's liquidity:

	September 30, 2012	December 31, 2011
Cash	\$ 963,331	\$ 4,747,814
Working capital	1,044,609	4,789,578

## **CAZA GOLD CORP.**

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

---

As at December 31, 2011 the Company recognized an obligation to issue 631,645 common shares, which were issuable for the Los Andes property and the staking of additional properties, at a value of \$0.24 per common share which were issued on January 17, 2012.

Operating and investing activities continue to reduce cash resources of the Company. Operating activities include employee remuneration, office and sundry, regulatory and shareholder relations as well as property investigation and project generation primarily in Mexico and Nicaragua. The Company incurred exploration expenditures of \$1.88 million for the Los Andes property and approximately \$285,900 for the Moris property for the nine months ended September 30, 2012.

The Company has no source of operating revenues.

In November 2012, the Company announced a private placement for up to 5 million units at \$0.10 per unit for gross proceeds of up to \$500,000, with each unit comprised of one common share and one-half common share purchase warrant, subject to regulatory approval. Each full warrant is exercisable to acquire one common share at an exercise price of \$0.20 for a period of 2 years from the closing date. A finders' fee of up to 8% in cash and/or in finder's fee warrants may be applicable to portions of the private placement.

On March 17, 2011, the Company closed a private placement for 16.3 million units at \$0.50 per unit for gross proceeds of \$8.15 million.

The Company has a number of option agreements for mineral property interests that involve payments in the form of cash and/or common shares of the Company as well as minimum exploration expenditure requirements. Under Item 1.4, further details of contractual obligations are provided as at September 30, 2012. The Company will continue to rely upon equity financing as its principal source of financing its projects.

### **1.7 Capital Resources**

Item 1.6 provides further details.

### **1.8 Off-Balance Sheet Arrangements**

There are no known off-balance sheet arrangements which have not been disclosed.

### **1.9 Transactions with Related Parties**

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services is disclosed in the table below.

Except as disclosed elsewhere in the MD&A, the Company had the following general and administrative costs with related parties during nine months ended September 30, 2012:

## CAZA GOLD CORP.

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

---

	September 30, 2012	Net balance receivable (payable) as at September 30, 2012
Key management compensation:		
Executive salaries and remuneration <sup>(1)</sup>	\$ 326,146	\$ -
Directors fees	10,000	(10,000)
Share-based payments	200,351	-
	<u>\$ 536,497</u>	<u>\$ (10,000)</u>
Legal fees incurred to a law firm in which a senior officer of the Company is a partner <sup>(2)</sup>	\$ 51,849	\$ -
Net office, sundry, rent and salary allocations recovered from (incurred to) company(s) sharing certain common director(s)	\$ (129,453)	\$ 12,017

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(1) Includes key management compensation which is included in mineral property interests and property investigation costs.

(2) Includes legal fees which are included in share issuance expenses.

Transactions with related parties are in the normal course of business and measured at the exchange amount, which is the amount agreed upon by the transacting parties and on terms and conditions similar to transactions with non-related parties. The Company shares common office facilities, employee and administrative support, and office sundry amongst companies with common director(s), and such allocations to the Company are on a full cost recovery basis.

### 1.10 Third Quarter

Items 1.2, 1.4, 1.5 and 1.6 provide further details for the third quarter of fiscal 2012.

### 1.11 Proposed Transactions

Other than those in the ordinary course and other than those already disclosed in this MD&A and other than those already disclosed in its regulatory and public filings, there are no proposed material asset or business acquisitions or dispositions before the board of directors for consideration.

### 1.12 Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements along with the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates and, as such, estimates and underlying

## **CAZA GOLD CORP.**

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

---

assumptions are reviewed on an on-going basis. Revisions are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates relate to determining the recoverability of mineral property interests; the determination of accrued liabilities; accrued site remediation; the variables used in the determination of the fair values of stock options granted, warrants issued and modified warrants; and the recoverability of deferred tax assets. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

Acquisition costs of mineral property interests and exploration and development expenditures incurred thereto are capitalized and deferred. The costs related to a property from which there is production will be amortized using the unit-of-production method. Capitalized costs are written down to their estimated recoverable amount if the property is subsequently determined to be uneconomic. The amounts shown for mineral property interests represent costs incurred to date, less recoveries and write-downs, and do not reflect present or future values.

### **1.13 Changes in Accounting Policies Including Initial Adoption**

The unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2012 include note disclosure in Note 2(f) which provides for any changes in accounting policies including initial adoption and recent accounting pronouncements.

### **1.14 Financial Instruments and Other Instruments**

The Company classifies its financial instruments as follows:

- cash as financial assets at fair value through profit or loss ("FVTPL"),
- receivables as loans and receivables, and
- accounts payable and accrued liabilities as other financial liabilities.

Management of financial risk:

The fair value hierarchy categorizes financial instruments measured at fair value at one of three levels according to the reliability of the inputs used to estimate fair values. The fair value of assets and liabilities included in level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in level 2 are valued using inputs other than quoted prices for which all significant inputs are based on observable market data. Level 3 valuations are based on inputs that are not based on observable market data.

The fair values of the Company's receivables and accounts payable and accrued liabilities approximate their carrying values due to the short terms to maturity. Cash is measured at fair value using level 1 inputs.

The Company is exposed in varying degrees to a variety of financial instrument related risks, including credit risk, liquidity risk, and market risk which includes foreign currency risk, interest rate risk and other price risk. The types of risk exposure and the way in which such exposure is managed are provided as follows.

- (a) Credit risk:

## CAZA GOLD CORP.

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

---

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

The Company's credit risk is primarily attributable to its liquid financial assets including cash. The Company limits exposure to credit risk through maintaining its cash with high-credit quality Canadian financial institutions. Non-contractual taxes receivables from government agencies are not considered financial instruments.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company attempts to ensure that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and its ability to raise equity financings. The Company continues to rely on additional funding to meet its short-term liabilities and administrative overhead costs, and to maintain its mineral property interests.

Accounts payable and accrued liabilities are due in accordance with normal terms of trade and are payable in 2012.

(c) Market risk:

The significant market risk exposure to which the Company is exposed is foreign currency risk, interest rate risk and other price risk.

(i) Foreign currency risk:

The Company's mineral property interests are in Mexico and Nicaragua, and a portion of its operations are in Mexico, resulting in expenditures subject to foreign currency fluctuations. Fluctuations in the Mexican peso would impact the earnings (losses) of the Company and the values of its assets and liabilities as the Company's reporting and functional currency is the Canadian dollar. The Canadian dollar fluctuates relative to the Mexican peso.

At September 30, 2012, the Company is exposed to currency risk for its Canadian dollar equivalent of financial assets and liabilities denominated in currencies other than Canadian dollars as follows:

	<u>Held in Mexican Pesos (stated in Canadian dollars)</u>
Cash	\$ 132,095
Receivables and prepaids	106,884
Accounts payable and accrued liabilities	<u>(146,348)</u>
Net financial assets	<u>\$ 92,631</u>

Based upon the above net exposure as at September 30, 2012 and assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar relative to the Mexican peso could result in a decrease/increase of \$9,263 in the Company's net losses.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

## CAZA GOLD CORP.

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

---

(ii) Interest rate risk:

In respect of financial assets, the Company's policy is to invest cash at floating rates of interest in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return. Fluctuations in interest rates impact on the value of cash equivalents.

At September 30, 2012, the Company had an investment of \$400,000 in a guaranteed investment certificate which bears interest at a 1.8% discount from the prime rate of 3% and which is redeemable at any time.

(iii) Other price risk:

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Company does not have any financial instruments which fluctuate with market prices.

### 1.15 Other MD&A Requirements

#### 1.15.1 Other MD&A Requirements

Additional information relating to the Company are as follows:

- (a) may be found on SEDAR at [www.sedar.com](http://www.sedar.com); and
- (b) is also provided in the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2012 and audited consolidated financial statements for the year ended December 31, 2011.

#### 1.15.2 Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of common shares without par value.

Changes in the Company's share capital for the nine months ended September 30, 2012 are as follows:

	Number of Shares	Amount
Balance at December 31, 2011	56,029,400	\$ 15,129,181
Issued:		
Property acquisitions	631,645	150,697
Balance at September 30, 2012	56,661,045	\$ 15,279,878

Pursuant to the escrow agreement dated October 19, 2010, 1,912,727 shares of the Company were held in escrow (the "Escrowed Shares") at that time. The Escrowed Shares were released under the following schedule:

**CAZA GOLD CORP.**

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

---

November 22, 2010	1/4 of the Escrow Shares
May 22, 2011	1/3 of the remaining Escrow Shares
November 22, 2011	1/2 of the remaining Escrow Shares
May 22, 2012	the remaining Escrow Shares

As at September 30, 2012, no common shares were held in escrow.

At November 15, 2012, there were 56,661,045 common shares issued and outstanding.

At September 30, 2012, the Company had outstanding stock options to purchase an aggregate of 5,300,400 common shares as follows:

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	Number of Shares	Weighted average exercise price
Outstanding balance, December 31, 2011	4,367,900	\$0.37
Granted	1,132,500	\$0.26
Expired	(80,000)	\$0.57
Forfeited	(120,000)	\$0.57
Outstanding balance, September 30, 2012	5,300,400	\$0.34
Exercise price range	\$0.26 - \$0.42	

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At September 30, 2012, 5,300,400 stock options are outstanding of which 3,258,820 stock options are exercisable.

On April 10, 2012, the Company granted stock options to purchase 100,000 common shares at an exercise price of \$0.26 and an expiry date of April 10, 2015. These stock options are subject to vesting provisions in which 25% of the stock options vest three months from the grant date and 25% vest every three months thereafter.

On April 30, 2012, the Company granted stock options to purchase 972,500 common shares at an exercise price of \$0.26 and an expiry date of April 30, 2017. These stock options are subject to vesting provisions in which 20% of the stock options vest immediately on the grant date and 20% vest every six months thereafter.

At November 15, 2012, stock options for 5,300,400 common shares remain outstanding.

At September 30, 2012, the Company had no outstanding warrants as follows:



## CAZA GOLD CORP.

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

---

Exercise Prices	Expiry Dates	Outstanding at December 31, 2011	Issued	Exercised	Expired	Outstanding at September 30, 2012
\$0.30	April 2, 2012	400,000	-	-	(400,000)	-
\$0.45	May 18, 2012	4,000,000	-	-	(4,000,000)	-
\$0.35	May 18, 2012	339,108	-	-	(339,108)	-
\$0.70	September 17, 2012	8,237,500	-	-	(8,237,500)	-
		12,976,608	-	-	(12,976,608)	-

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At November 15, 2012, there were no outstanding warrants.

### *Shareholder rights plan:*

On June 12, 2012, the shareholders of the Company approved a shareholder rights plan (the "Plan"). The Plan is intended to ensure that any entity seeking to acquire control of the Company makes an offer that represents fair value to all shareholders and provides the board of directors with sufficient time to assess and evaluate the offer, to permit competing bids to emerge, and, as appropriate, to explore and develop alternatives to maximize value for shareholders. Under the Plan, each shareholder at the time of the Plan's adoption was issued one Right for each common share of the Company held. Each Right entitles the registered holder thereof, except for certain "Acquiring Persons" (as defined in the Plan), to purchase from treasury one common share at a 50% discount to the prevailing market price, subject to certain adjustments intended to prevent dilution. The Rights are exercisable after the occurrence of specified events set out in the Plan generally related to when a person, together with affiliated or associated persons, acquires, or makes a take-over bid to acquire, beneficial ownership of 20% or more of the outstanding common shares of the Company. The Rights expire in three years.

### **1.16 Outlook**

The Company will continue to depend upon equity capital to finance its existing projects. There are no assurances that capital requirements will be met by this means of financing as inherent risks are attached therein including commodity prices, financial market conditions, and general economic factors. The Company does not expect to realize any operating revenues from its mineral property interests in the foreseeable future.

### **1.17 Risk Factors**

The following is a brief discussion of those distinctive or special characteristics of the Company's operations and industry that may have a material impact on, or constitute risk factors in respect of, the Company's future financial performance.

#### ***Exploration and Development Risks***

There is no assurance given by the Company that its exploration programs and mineral property interests will result in the discovery, development or production of a commercially viable ore body.

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development, if any, activities will result in any discoveries of bodies of commercial ore. The economics of developing gold and other mineral properties are affected by many factors including capital and operating costs, variations of the grades and tonnages of

## **CAZA GOLD CORP.**

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

---

ore mined, fluctuating mineral market prices, costs of mining and processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Substantial expenditures are required to establish reserves through drilling and other work, to develop metallurgical processes to extract metal from ore, and to develop the mining and processing facilities and infrastructure at any site chosen for mining. No assurance can be given that funds required for development can be obtained on a timely basis. The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be accurately foreseen or predicted, such as market fluctuations, the global marketing conditions for precious and base metals, the proximity and capacity of milling and smelting facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection. In order to commence exploitation of certain properties presently held under exploration concessions, it is necessary for the Company to apply for exploitation concessions. There can be no guarantee that such concessions will be granted.

### ***Financing Risks***

There is no assurance given by the Company that it will be able to secure the financing necessary to explore, develop and produce its mineral property interests.

The Company does not presently have sufficient financial resources or operating cash flow to undertake by itself all of its planned exploration and development, if any, programs. The development of the Company's mineral property interests may therefore depend on joint venture partnerships and on the Company's ability to obtain additional required financing. There is no assurance the Company will be successful in obtaining the required financing, the lack of which could result in the loss or substantial dilution of its interests (as existing or as proposed to be acquired) in its mineral property interests as disclosed herein. The Company's ability to continue as a going concern is dependent on the ability of the Company to raise equity capital financings, the attainment of profitable operations, external financings, and further share issuance to satisfy working capital and operating needs.

### ***Estimates of Mineral Deposits***

There is no assurance given by the Company that any estimates of mineral deposits herein will not change.

No assurance can be given that any identified mineralized deposit will ever become a commercially viable mineable ore body that can be legally and economically exploited. Estimates regarding mineralized deposits can also be affected by many factors such as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grades and tonnages of ore ultimately mined may differ from that indicated by drilling results and other work. There can be no assurance that gold recovered in small-scale laboratory tests will be duplicated in large-scale tests under on-site conditions. Material changes in mineralized tonnages, grades, dilution and stripping ratios or recovery rates may affect the economic viability of projects. The existence of mineralized deposits should not be interpreted as assurances of the future delineation of ore reserves or the profitability of future operations.

### ***Mineral Prices***

There is no assurance given by the Company that mineral prices will not change.

The mining industry is competitive and mineral prices fluctuate so that there is no assurance, even if commercial quantities of a mineral resource are discovered, that a profitable market will exist for the sale of same. Factors beyond the control of the Company may affect the marketability of any substances discovered. The prices of precious and base metals fluctuate on a daily basis, have experienced volatile and significant price movements over short periods of time, and are affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations (specifically, the U.S. dollar relative to other currencies), interest rates, central bank

## **CAZA GOLD CORP.**

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

---

transactions, world supply for precious and base metals, international investments, monetary systems, and global or regional consumption patterns (such as the development of gold coin programs), speculative activities and increased production due to improved mining and production methods. The supply of and demand for gold are affected by various factors, including political events, economic conditions and production costs in major gold producing regions, and governmental policies with respect to gold holdings by a nation or its citizens. The exact effect of these factors cannot be accurately predicted, and the combination of these factors may result in the Company not receiving adequate returns on invested capital or the investments retaining their respective values. There is no assurance that the prices of gold and other precious and base metals will be such that the Company's properties can be mined at a profit.

### ***Title Matters***

There is no assurance given by the Company that it owns legal title to certain of its mineral property interests.

The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to any of the Company's mining concessions may come under dispute. While the Company has diligently investigated title considerations to its mineral properties, in certain circumstances, the Company has only relied upon representations of property partners and government agencies. There is no guarantee of title to certain of the Company's mineral property interests. The properties may be subject to prior unregistered agreements or transfers, and title may be affected by unidentified and undetected defects. Native land claims or claims of aboriginal title may be asserted over areas in which the Company's mineral property interests are located.

### ***Conflicts of Interest***

There is no assurance given by the Company that its directors and officers will not have conflicts of interest from time to time.

The Company's directors and officers may serve as directors or officers of other public mineral exploration or mining companies or have significant shareholdings in other public mineral exploration or mining companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. The interests of these companies may differ from time to time. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against any resolution involving any such conflict. From time to time several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing for their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. In accordance with the laws of the Province of British Columbia, Canada, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in any particular exploration or mining project at any given time, the directors will primarily consider the upside potential for the project to be accretive to shareholders, the degree of risk to which the Company may be exposed and its financial position at that time.

### ***Uninsured Risks***

There is no assurance given by the Company that it is adequately insured against all risks.

The Company may become subject to liability for cave-ins, pollution or other hazards against which it cannot insure or against which it has elected not to insure because of high premium costs or other reasons. The payment of such liabilities would reduce the funds available for exploration and mining activities.

### ***Environmental and Other Regulatory Requirements***

## **CAZA GOLD CORP.**

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

---

There is no assurance given by the Company that it has met all environmental or regulatory requirements.

The current or future operations of the Company, including exploration or, if any, development activities or, if any, commencement of production on its mineral property interests, require permits from various foreign, federal, state and local governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, exploration, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and related facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that approvals and permits required in order for the Company to commence exploration or, if any, production on its various property interests will be obtained. Additional permits and studies, which may include environmental impact studies conducted before permits can be obtained, are necessary prior to operation of the other properties in which the Company has interests and there can be no assurance that the Company will be able to obtain or maintain all necessary permits that may be required to commence exploration, or construction, development or operation of mining facilities at these properties on terms which enable operations to be conducted at economically justifiable costs.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. New laws or regulations or amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation of current laws, regulations or permits, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

### ***Reclamation***

There is a risk that monies allotted for land reclamation may not be sufficient to cover all risks. Therefore additional funds, or reclamation bonds or other forms of financial assurance may be required over the tenure of the project to cover potential risks. These additional costs may have material adverse impact on the financial condition and results of the Company.

### ***Foreign Countries and Regulatory Requirements***

The Company's mineral property interests are located in countries outside of Canada, and mineral exploration and mining activities, if any, may be affected in varying degrees by political stability and government regulations relating to the mineral exploration and mining industry. Any changes in regulations or shifts in political attitudes may vary from country to country and are beyond the control of the Company and may adversely affect its business. Such changes have, in the past, included nationalization of foreign owned businesses and properties. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income and other taxes and duties, expropriation of property, environmental legislation and safety. These uncertainties may make it more difficult for the Company and its joint venture partners to obtain any required exploration and production, if any, financing for its mineral properties.

### ***Currency Fluctuation and Foreign Exchange Controls***

The Company maintains a portion of its funds in U.S. dollar and Mexican peso denominated accounts. Certain of the Company's property and related contracts are denominated in the U.S. dollar, Mexican peso and Nicaraguan cordoba. The Company's operations in countries other than Canada are normally carried out in the currency of that country and make the Company subject to foreign currency fluctuations and such fluctuations may materially affect the Company's financial

## **CAZA GOLD CORP.**

(An Exploration Stage Company)

Management's Discussion and Analysis

Three and Nine Months ended September 30, 2012

(Stated in Canadian dollars)

---

position and results. In addition future contracts may not be denominated in Canadian dollars and may expose the Company to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results of its operations. In addition, the Company is or may become subject to foreign exchange restrictions which may severely limit or restrict its ability to repatriate capital or profits from its properties outside of Canada to Canada. Such restrictions have existed in the past in countries in which the Company holds property interests and future impositions of such restrictions could have a materially adverse effect on the Company's future profitability or ability to pay dividends.

### ***Third Party Reliance***

The Company's rights to acquire interests in certain mineral property interests have been granted by third parties who themselves hold only an option to acquire such properties. As a result, the Company may have no direct contractual relationship with the underlying property holder.

### ***Possible Dilution to Current Shareholders based on Outstanding Options and Warrants***

At September 30, 2012, the Company had 56,661,045 common shares and 5,300,400 share purchase options and nil share purchase warrants outstanding. The resale of outstanding shares from the exercise of dilutive securities could have a depressing effect on the market for the Company's shares. At September 30, 2012, dilutive securities represented approximately 9% of the Company's issued shares. None of these dilutive securities were exercisable at prices below the September 28, 2012 closing market price of \$0.14 for the Company's shares.