

**ABZU GOLD LTD.**  
**(formerly Totem Minerals Inc.)**

**MANAGEMENT'S DISCUSSION & ANALYSIS**

**For the three months ended October 31, 2010**

This management discussion and analysis of financial position and results of operations ("MD&A") is prepared as at December 22, 2010 and should be read in conjunction with the interim financial statements for the three months ended October 31, 2010 of Abzu Gold Ltd. (formerly Totem Minerals Inc.) (the "Company" or "Abzu") with the related notes thereto. Those unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and, as a result, do not contain all disclosure required under generally accepted accounting principles for annual financial statements. Accordingly, readers are referred to the July 31, 2010 annual audited financial statements of Abzu and the accompanying notes. All dollar amounts included therein and in the following management discussion and analysis are expressed in Canadian dollars except where noted.

This discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered to be reasonable by the Company's management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in statements made. Additional information on the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com)

**Overview**

The Company is a natural resource company engaged in the acquisition and exploration of mineral properties. It currently holds an option to earn 100% interest in the Caledonia Property in the Nanaimo Mining Division of British Columbia. The Company trades on the TSX Venture Exchange under the symbol "ABS".

**Overall Performance**

In June 2010, the Company announced that it entered into a Letter of Intent ("LOI") with Abzu Resources Ltd. ("Abzu Resources"), a British Columbia private company, to acquire Abzu Resources's indirect 100% interest (the "Transaction") in seven gold exploration concessions covering over 3,000 square kilometers in West Africa in Ghana and La Cote d'Ivoire, Africa (the "Concessions"). Under the terms of the LOI, the Company agreed to acquire Abzu Resources's 100% indirect interest in the Concessions by acquiring all of the issued and outstanding shares of Abzu Resources in exchange for the issuance of 15,202,832 common shares of the Company (issued). In addition, the Company has issued 200,000 share purchase warrants exercisable at \$0.60 per share until November 30, 2014 to replace certain outstanding share purchase warrants of Abzu Resources. The Transaction was completed by way of a take-over bid circular. The Transaction is arm's length and, is a "Fundamental Transaction" under the TSX Venture Exchange's (the "Exchange").

In September 2010, the Company announced a private placement for gross proceeds of \$7,000,000. Of the subscriptions related to this private placement, \$6,715,687 was received as at October 31, 2010. Additionally, as at October 31, 2010, the Company incurred \$86,851 in deferred financing costs in connection with this private placement. Subsequent to October 31, 2010, the Company closed on the \$7,000,000 private placement and issued 14,000,000 Subscription Receipts. Subsequent to October 31, 2010, the Company has paid commissions of \$353,390 in connection of the private placement

Each Subscription Receipt, issued for \$0.50, subsequent to October 31, 2010, has been automatically converted into one unit (a "Unit") of the Company. Each Unit will consist of one common share and one common share purchase warrant (a "Warrant"). Each Warrant will entitle the holder thereof to purchase one additional common share of the Company at a price of \$0.75 for a period of 12 months. In the event that the closing price of the Company's common shares on the Exchange exceeds \$1.00 for 20 consecutive trading days, the Company shall have rights to accelerate the exercise period of the Warrants to a date not less than 30 days from date notice is given to holders of the acceleration.

The Company has agreed, to the payment of a finder's fee in the amount of 665,000 common shares of the Company, which will be paid in accordance with Exchange policies to an arm's length third party, for introducing the Company to Abzu Resources upon the successful completion of the Transaction.

Also, pursuant to the terms of the Abzu LOI, the Company and Abzu Resources have agreed, subject to Exchange acceptance, that conditional upon the closing of the Transaction, the Company will grant stock options to new directors, officers and consultants of the Company to purchase up to 2,000,000 common shares of the Company at the private placement price of \$0.50 per share in accordance with the Company's Stock Option Plan.

#### Caledonia Property

On December 17, 2009, the Company acquired an option to earn 100% interest in 26 mineral claims in Caledonia Property situated in the Nanaimo Mining Division of British Columbia. Terms of the option call for cash payments of \$150,000 and exploration expenditures of \$300,000 to earn the 100% interest. Timing of the cash payments and work commitments are as follows:

Date	Cash Payments	Work Commitment
June 15, 2010	\$ 50,000*	\$ 100,000 (incurred)
January 1, 2011	50,000	100,000
January 1, 2012	50,000	100,000
Total	\$150,000	\$ 300,000

During the year ended July 31, 2010, the Company expended \$127,554 on an initial drill program

\*Additionally, during the year ended July 31, 2010, the Company entered into discussions with the optionor to extend the initial payment of \$50,000 to a future date, which is still being negotiated.

#### ***Results of Operations***

During the three months ended October 31, 2010, the Company incurred a loss of \$20,074 compared to a loss of \$46,510 for the three months ended October 31, 2009. The significant changes during the three months ended October 31, 2010 compared to the three months ended October 31, 2009 are as follows:

- Management and administration fees decreased to \$15,000 during the three months ended October 31, 2010 compared to \$33,000 for the three months ended October 31, 2009. This decrease was a result of fees paid to an officer and former director of the Company during the comparative period which did not occur in the current period.
- Professional fees decreased to \$385 during the three months ended July 31, 2010 from \$10,075 incurred during the three months ended October 31, 2009, as a result of a decrease in accounting fees paid to a director during the comparative period.
- Rent of \$3,000 was paid during the three months ended October 31, 2010. This amount remained unchanged from the comparative period.

#### ***Liquidity and Capital Resources***

The Company's working capital position at October 31, 2010 was \$603,679 as compared to a working capital position of \$702,314 at July 31, 2010. The decrease in working capital was primarily a result of the Company incurring \$86,561 in deferred financing costs in connection with the private placement in connection with the Abzu transaction. As at October 31, 2010, the Company had received \$6,715,687 in connection with this private placement financing. These funds have not been included in the working capital amount or cash on hand, as the funds are refundable if the transaction does not close on or before December 31, 2010. At October 31, 2010, the Company held cash of \$633,680 (July 31, 2010 - \$711,163).

As at October 31, 2010, the Company had current assets of \$7,349,797 (July 31, 2010 - \$1,582,216), total assets of \$7,674,679 (July 31, 2010 - \$1,820,537) and total liabilities of \$38,431 (July 31, 2010 - \$18,902). There is no long-term debt.

The principal assets of the Company are cash and mineral properties. The Company is currently in the process of completing the Abzu transaction.

The Company has sufficient funds on hand to meet its operating expenses for fiscal 2011.

The Company has financed its operations to date primarily through the issuance of common shares and exercise of stock options. The Company continues to seek capital through various means including the issuance of equity and/or debt.

The Company has not paid any dividends on its common shares. The Company has no present intention of paying dividends on its common shares, as it anticipates that all available funds will be invested to finance the growth of its business.

The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

***Quarterly Financial Information***

	Oct. 31, 2010	July 31 2010	Apr. 30 2010	Jan. 31 2010	Oct. 31, 2009	July 31, 2009	Apr. 30 2009	Jan. 31, 2009
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Operating loss	20,074	67,450	84,116	55,011	46,510	321,090	56,913	57,490
Basic and fully diluted loss per share	(0.00)	(0.01)	(0.01)	(0.00)	(0.00)	(0.03)	(0.005)	(0.005)

From the date of incorporation on October 5, 2005, the Company has been consistently incurring losses from operations as the Company is in the exploration stage of development. This trend is likely to continue.

The increase in the loss in the October 31, 2008 quarter is largely due to the non-cash expensing of 930,000 stock options to directors and officers. This expense totaled \$207,286 versus nil in the other quarters reported.

The increase in the loss in the July 31, 2009 quarter reflect deferred mineral property acquisition and exploration costs written off of \$327,566, and a future income tax recovery item of \$77,500.

Overall operating losses for the quarters ended October 31, 2009, January 31, 2010, April 30, 2010 and July 31, 2010 remained consistent while the Company searched for new business opportunities.

During the three months ended October 31, 2010, the Company received \$5,854,687 in connection with the private placement financing related to the Abzu transaction. Also during this quarter, the Company incurred \$86,561 in deferred financing costs on the private placement transaction. The loss for the quarter ended October 31, 2010 decreased from \$67,450 to \$20,074. The decrease was primarily a result in the drop in professional fees.

### ***Related Party Transactions***

During the year ended July 31, 2010, the Company entered into the following transactions with related parties:

- (a) Paid or accrued management and administrative fees of \$Nil (2009 - \$15,000) were paid to Tony Claydon, a director of the Company.
- (b) Paid or accrued professional fees of \$Nil (2009 - \$7,500) during the three months ended October 31, 2010, was paid to Greg Amor, a former officer and a director of the Company.

At October 31, 2010, there is \$100 in due to related parties (July 31, 2010 - \$100).

These transactions are in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### ***Financial Instruments***

#### **Fair Values**

The fair value of cash is measured based on level 1 of the fair value hierarchy.

The fair values of receivables and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments.

#### (a) Credit Risk

The Company's cash is mainly held at large Canadian financial institutions and as at October 31, 2010 is mainly held in interest bearing accounts. The Company's receivables are mainly HST recoverable from the Canadian government. The maximum exposure to credit risk is the equivalent of the cash and receivables on the balance sheet of the Company.

#### (b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital resources as outlined in Note 8 of the October 31, 2010 financial statements.

#### (c) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

#### (i) Interest rate risk

The Company has cash balances, which are deposited at Canadian financial institutions. As of October 31, 2010, the Company did not have any investments in short-term deposits.

#### (ii) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in a foreign currency. As at October 31, 2010, the Company did not have any accounts in foreign currencies.

#### (iii) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity

prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

### **Recent accounting pronouncements**

#### *International Financial Reporting Standards (“IFRS”)*

In February 2008, the Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of the Company will be August 1, 2011 and will require the restatement for comparative purposes of amounts reported by the Company for the year ended July 31, 2011. The Company continues to monitor and assess the impact of Canadian GAAP and IFRS.

#### *Business Combinations*

In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interests” which replace CICA Handbook Sections 1581 “Business Combinations” and 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These Sections are applicable for interim and annual financial statements for fiscal years beginning January 1, 2011. Early adoption of these Sections is permitted and all these Sections must be adopted concurrently.

#### ***IFRS Changeover Plan Disclosure***

The Canadian Accounting Standards Board (AcSB) has announced its decision to replace Canadian generally accepted accounting principles (“GAAP”) with International Financial Reporting Standards (IFRS) for all Canadian Publicly Accountable Enterprises (“PAEs”). The effective changeover date is August 1, 2011, at which time Canadian GAAP will cease to apply and will be replaced by IFRS. Following this timeline, the Company will issue its first set of interim financial statements prepared under IFRS in the first quarter of 2011 including comparative IFRS financial results and an opening balance sheet as at August 1, 2010. The first annual IFRS consolidated financial statements will be prepared for the year ended July 31, 2011 with restated comparatives for the year ended July 31, 2010.

Management has developed a project plan for the conversion to IFRS based on the current nature of operations. The conversion plan is comprised of three phases: 1) Scoping phase which will assess the overall impact and effort required by the Company in order to transition to IFRS; 2) Planning phase which will include a detailed analysis of the conversion process and implementation plan required for disclosure for the Company’s first quarter; and, 3) Transition phase which will include the preparation of an IFRS compliant opening balance sheet as at August 1, 2010, any necessary conversion adjustments and reconciliations, preparation of a fully compliant pro forma financial statements including all note disclosures and disclosures required for the MD&A.

Management has completed phase one, IFRS Scoping phase, and is now advancing through phase two, the Planning stage. Management prepared a component evaluation of its existing financial statement line items, comparing Canadian GAAP to the corresponding IFRS guidelines, and has identified a number of differences. Many of the differences identified are not expected to have a material impact on the reported results and financial position.

Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time.

IFRS 1, “First-Time Adoption of International Financial Reporting Standards”, 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 application of IFRS. The Company is still evaluating which option exemptions it should elect under IFRS 1.

Set out below are the most significant areas, management has identified to date, where changes in accounting policies may have the highest potential impact on the Company's consolidated financial statements based on the accounting policy choices approved by the Audit Committee and Board of Directors.

In the period leading up to the changeover in 2011, the AcSB has ongoing projects and intends to issue new accounting standards during the conversion period. As a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all the IFRS accounting standards at the conversion date are known. Management will continue to review new standards, as well as the impact of the new accounting standards, between now and the conversion date to ensure all relevant changes are addressed.

**IFRS 2 – Share Based Payments;**

IFRS and Canadian GAAP largely converge on the accounting treatment for share based transaction with only a few differences. Starting Q1 2010, the Company is moving from 'straight line' to 'graded' vesting for the recognition of stock-based compensation expense. A greater portion of expense is recorded in the initial vesting periods compared to distributing the expense equally over all vesting period.

**IAS 36 – Impairment of Assets;**

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with discounted cash flows. International Accounting Standard (IAS) 36, "Impairment of Assets" uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may potentially result in write downs where the carrying value of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

***Risk, Uncertainties and Outlook***

As a company active in the mineral resource acquisition and exploration industry, the Company is exposed to a number of risks, including the financial risks associated with the fact that it has no operating cash flow and must access the capital markets to finance its activities.

There can be no assurances the Company will continue to be able to access the capital markets for the funding necessary to acquire and maintain exploration properties and to carry out its desired exploration programs. In addition to this having an impact on any future wholly owned projects, the Company could find itself in a position at a future time where it is unable to fund its share of costs incurred under joint venture agreements to which it is a party, and its interest in such joint ventures could be reduced or eliminated as a result.

The Company is very reliant upon its existing management, and if the services of such personnel were withdrawn for any reason, this could have a material adverse impact on the Company's operating activities.

There is intense competition within the minerals industry to acquire properties of merit, and the Company competes with other companies possessing greater technical and financial resources than itself. Even if desirable properties are secured, there can be no assurances that the company will be able to execute its exploration programs on its proposed schedules and within its cost estimates, whether due to weather conditions in the areas where it operates, increasingly stringent environmental regulations and other permitting restrictions, or other factors related to exploring in areas that lack infrastructure, such as the availability of essential supplies and services.

Over the past several years, the prices of commodities have increased substantially, stimulating a rapid growth in exploration expenditures and intensifying the competition for talent and services. These

conditions have lead to increased costs and difficulties in scheduling contractors at times that are optimal from the Company's perspective.

The Company's future exploration activities may require permits from various governmental agencies charged with administrating laws and regulations governing exploration, labor standards, occupational health and safety, control of toxic substances, waste disposal, land use, environmental protection and other matters. Failure to comply with laws, regulations and permit conditions could result in fines and/or stop work orders, costs for conducting remedial actions and other expenses. In addition, legislation changes to existing laws and regulations could result in significant additional costs to comply with the revised terms and could also result in delays in executing planned programs pending compliance with those terms.

#### ***Off Balance Sheet Arrangements***

The Company is not aware of any off balance sheet arrangements as of December 22, 2010.

#### ***Contingencies***

The Company is not aware of any contingencies or pending legal proceedings as of December 22, 2010.

#### ***Subsequent Event***

Subsequent to October 31, 2010, 60,000 share purchase warrants were exercised at an exercise price of \$0.40 per share.

#### ***Share Capital***

As at December 22 2010, the Company had 45,306,833 common shares outstanding and the following outstanding warrants:

#### ***Outstanding Warrants***

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
10,920,000	\$0.40	April 16, 2012
14,000,000	0.50	December 21, 2011
200,000	0.60	November 30, 2014

There are no outstanding stock options.

#### ***Disclaimer***

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. It should be read in conjunction with all other disclosure document provided by the Company, which can be accessed [www.sedar.com](http://www.sedar.com). No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

#### ***Cautionary Statement on Forward-Looking Information***

Certain statements contained in this document constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: mineral exploration and development costs and results, fluctuation in the prices of commodities for which the Company is exploring, foreign operations and foreign government regulations, competition, uninsured risks, recoverability of resources discovered, capitalization requirements, commercial viability, environmental risks and obligations, and the requirements for obtaining permits and licenses for the Company's operations in the jurisdictions in which it operates.