

**AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2017**

The following management's discussion and analysis (the "MD&A") for Avnel Gold Mining Limited ("Avnel" or the "Company") describes the consolidated operating and financial results of the Company for the period from January 1, 2017 to March 31, 2017. This MD&A should be read in conjunction with the un-audited consolidated financial statements and related notes for the three months ended March 31, 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In this MD&A, the Company also reports certain non-IFRS performance measures, such as cash operating cost per ounce sold, which are defined near the end of this MD&A in the section titled "Non-IFRS Measures". All amounts are expressed in United States dollars, unless identified otherwise. References to "C\$" is to Canadian dollars. The information in this MD&A is provided as of May 11, 2017.

Avnel was incorporated under The Companies (Guernsey) Laws 1994 to 2001 on February 18, 2005 with the purpose of becoming the holding company for, and to carry on the business of, Avnel Gold, Limited, a Cayman Islands company ("Avnel Cayman"), pursuant to a reorganisation which was completed on February 22, 2005. The Company and its consolidated subsidiaries for financial reporting purposes are referred to herein as the "Company", unless the context requires otherwise.

All dollar amounts in this MD&A are expressed in United States dollars ("\$" or "US dollars" or "US\$"), unless stated otherwise. References to "C\$" are to Canadian dollars, to "€" are to the euro, the official monetary unit of the Eurozone, and to "CFA" are to West African CFA franc, the currency of the Republic of Mali.

First Quarter 2017 Highlights

- Announced Kalana Main Project optimisation
- Discussions ongoing with banks and financial institutions on financing the Kalana Main Project
- In January and February 2017, 67,063,700 C\$20c warrants were exercised for aggregate proceeds of \$10.2 million.
- Assay results from the Q4 2016 drill program at Kalanako were received.

Subsequent to March 31, 2017:

- The Company has issued a Request for Tender ("RFT) for contract mining to experienced West African Mining Contractors
- The Company has invited additional experienced contractors to tender for the construction of the Tailings Storage Facility ("TSF)
- The Company has invited Malian construction companies to tender for the construction of the Technicians' camp and the Gendarmes' Camp

Outlook

In March 2016 a positive Feasibility Study for the Kalana Main Project was completed and the related environmental and social impact assessment (the "ESIA") and associated Environmental and Social Management Plan (the "ESMP") have been approved by the Malian authorities. The approval of the ESIA was the key government approval required to advance the Kalana Main Project towards construction as the Kalana Exploitation Permit was awarded to Avnel in 2003 with an initial term of 30 years plus two ten year extensions. The Company continues to advance the Kalana Main Project towards a construction decision through its 80% ownership in Société d'Exploitation des Mines d'Or de Kalana, S.A. ("SOMIKA").

In January 2017 the company announced the results of an Optimisation of the Feasibility Study (see Kalana Main Project Optimisation below). The results enhanced the financial parameters for the project and reduced the execution risk for construction and operations. An engineering procurement and construction (the "EPC") Contract for the construction of the gold plant and associated infrastructure has been awarded to a Joint Venture of two international engineering companies namely DRA Mineral Services and Group Five. The EPC Contract has improved the construction period by 3 months and the fixed cost is within the Feasibility Study capex. A Power Supply Contract has been negotiated with an international power provider, subject to final documentation. The hybrid power plant will utilise solar and fossil fuels, reducing annual fuel consumption with financial and environmental benefits. The company issued a request for tender to international contract mining companies for the mining of the Kalana Main Project. Assuming positive results, the project financials will be enhanced and the execution risk reduced.

The company advanced the resettlement action plan (the "RAP") of impacted persons resulting from the future operation. Final urban planning approval for the extension of Kalana Town is expected by Quarter 3, 2017 and this will allow construction of new housing and public infrastructure to commence when funding is available. The RAP Commission to oversee the process was established by the Malian authorities and will implement the plan in consultation with all stakeholders according to Malian legislation and IFC Performance Standards.

The Company is committed to construct and operate the Project in compliance with Malian legislation, the Equator Principles and IFC Performance Standards. Resources are being applied to the health, safety and environmental policies and systems to meet this commitment.

Discussions are ongoing with banks and other financial institutions to provide financing for the development of the Kalana Main Project. The Company anticipates that the Kalana Main Project will be sufficiently advanced to consider a construction decision in 2017, subject to the availability of adequate financing on a timely basis.

With respect to operations at the small, Soviet-era, underground mine (the "Kalana Mine"), gold production in the quarter to March 31, 2017 was 1,765 ounces. The Company continues to sustain operations to partially offset the cost of providing underground access to facilitate due diligence activities necessary to secure mine development financing. The continued operation of the underground mine also helps to maintain socio-economic stability in the local community as the workforce prepares to transition to activities related to the construction and operation of the proposed Kalana Main Project. The Company intends to sustain operations for as long as it is

economically feasible and safe to do so, without incurring any significant capital expenditures, until such a time as the Company is able to commence construction of the Kalana Main Project.

The directors recognise the continuing requirement for short term funding, working capital purposes, and in the longer term to build the proposed open pit mine operations of the Company which are dependent upon its ability to raise adequate financing. The directors believe that the required financing will be raised and in conjunction with management are actively pursuing various financing options with the major shareholders and are engaged in ongoing discussions with banks, financial institutions and other mining companies regarding proposals for financing. While these discussions are ongoing, it cannot be guaranteed that such financing will be available on a timely basis or on acceptable terms.

Overview of the Company

Avnel is a junior natural resource company engaged in the business of exploration, mine development, and the mining and extraction of precious metals, principally gold, with operations in south-western Mali, on the border with Guinea, in West Africa. The Company is a reporting issuer in each of the provinces of Canada other than Quebec, and its Common Shares are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol "AVK".

The Company's principal asset is an 80% indirect equity interest in SOMIKA, in which the Republic of Mali holds the remaining 20% equity interest, which has free carry and anti-dilution rights. SOMIKA owns and operates the Kalana Mine, a small, Soviet-era, underground gold mine, and holds rights to the Kalana Exploitation Permit, a combined exploitation and exploration permit that is unique in Mali, which was awarded to Avnel in 2003 for an initial term of 30 years. This permit is also host to the Kalanako target, on which a mineral resource has been declared, the Djirila discovery, and 29 advanced exploration targets, including the Kalana Main Project, the Company's flagship development-stage project. A positive Feasibility Study has been completed for the Kalana Main Project and the ESIA for the development of a new mine has been approved by the Malian authorities.

The Company's strategic objective, through SOMIKA, is to develop the Kalana Main Project into an open-pit mining operation. A secondary objective of the Company is to explore the remainder of the Kalana Exploitation Permit to upgrade existing mineral resources and discover new mineral deposits.

Kalana Main Definitive Feasibility Study

The Company issued a news release on March 30, 2016 announcing a summary of the results of a feasibility study for the Kalana Main Project (the "Feasibility Study"). The Feasibility Study was led by Snowden Mining Consultants Pty Ltd. ("Snowden") with the support of several leading consulting firms, all of whom have extensive experience in Mali, including Mr. Ivor Jones of Denny Jones Pty. Ltd. ("Denny Jones"), DRA Projects (Pty) Ltd. ("DRA"), and Epoch Resources (Pty) Ltd. ("Epoch Resources"). The Company filed a NI 43-101 compliant technical report (the "Kalana Technical Report") in support of the Feasibility Study and the ESIA on SEDAR on May 6, 2016. Avnel has an 80% equity interest in SOMIKA, the Malian company that holds the Kalana Exploitation Permit, which includes the Kalana Main Project. The non-IFRS performance measures reported in this MD&A in respect of the Feasibility Study results are based upon 100% ownership of the Kalana Main Project.

The life of the Kalana Main Project is 21.5 years from construction to closure in the Feasibility Study. The proposed open pit mine at the Kalana Main Project (the "Kalana Open Pit Mine") covers the full footprint of the existing Kalana Mine underground infrastructure. The Kalana Mine's underground workings, offices, the gold plant, and other buildings are scheduled to be reclaimed 15 months after the start of construction. The pre-strip is scheduled to commence 16 months after the start of construction. Hot commissioning and commercial production are scheduled to commence 22 and 25 months after the start of construction, respectively. The life of mine ("LoM") is defined as 18 years, including the six months of mining pre-strip and the processing of stockpiled material after mining of the open pit is scheduled to cease.

The mine plan provides for mining production from the Kalana Main deposit, from a single open pit with 12 stages, using trucks and excavators. Run of mine ("RoM") ore will be delivered from the mine to the processing plant, which consists of a simplistic conventional two-stage crushing circuit and a single-stage milling circuit to achieve a target grind size of 80% passing 75 microns. The processing plant design is based on annual throughput rates of 1.5 million-tonnes-per-annum ("Mtpa") for saprolite and 1.2 Mtpa for saprock and fresh rock material. Gold is to be extracted by gravity concentration and a carbon-in-leach ("CIL") plant to produce a gold doré via elution, electrowinning, and smelting. LoM average recovery is projected to be 93% at an average head grade of 2.8 g/t Au resulting in LoM production of 1.82 million ounces.

The plant design philosophy incorporates a requirement that the processing plant be constructed in a manner that would expedite the construction of the leaching and adsorption circuit with the intention of processing historic tailings from the underground Kalana Mine prior to the hot commissioning of the mill. These tailings are intended to be recovered by hydraulic mining and processed through the CIL circuit over a 5-month period starting 17 months after the commencement of construction. Ore from the pre-strip stockpiles will be fed to the plant during the hot commissioning period prior to commercial production. This production represents an opportunity to generate pre-commercial production cash flow that could partially offset development capital requirements.

The site will be developed to include the process plant, the Kalana Open Pit Mine, mining services area, tailings storage facility, waste rock dump, accommodation facilities, stormwater management systems, and sewerage treatment. A 5-kilometre long diversion of the public road between the communities of Kalana and Yanfolila will also be required.

The site has an existing limited nominal grid supply of 5 mega-volt-ampere ("MVA") at 33 kilovolts ("kV") from the local utility and currently operates with 2 MW. Mali has an electrical power capacity deficit and it is not currently feasible to obtain reliable, additional power from the grid that will meet the requirements for the proposed Kalana Main Open Pit Mine. As a result, the power distribution design for the new process plant is expected to be provided by a power plant comprising heavy fuel oil ("HFO") generators, which will be constructed as part of the development phase. The existing grid supply will be retained and used to power the mining services infrastructure and accommodation.

The initial capital expenditure estimated to bring the Kalana Main Project to commercial production is \$196.3 million. The pre-production capital expenditure includes construction of the processing plant and related infrastructure, purchase of the initial mining fleet (not lease financed), construction of the TSF, the initial stages of the Town of Kalana partial relocation and Owner's team costs. After-tax operating revenue generated during the pre-production period from the processing of historic tailings

and commissioning ore is approximately \$41.2 million and is expected to offset the initial capital expenditure. As a result, the total net capital expenditure to commercial production is \$163.2 million, including an initial investment in working capital of \$8.1 million. Total LoM sustaining capital is estimated at \$123.0 million and includes capital for the process plant and infrastructure, allowances to divert the Kalanako stream, mobile fleet rebuilds and additional fleet purchases, plus other sustaining capital and closure costs.

Mine operating costs will vary depending on the amount of bulk and selective material, the depth of the material, the distance hauled to the waste dump or RoM pad, and the type of ore mined. Total mining costs are \$2.97 per tonne of material moved over the LoM, excluding the pre-strip, grade control and maintenance reduction. Pre-stripping commences in the pre-production period and the associated mining costs for ore and waste are included in the pre-stripping capital expenditure.

Processing plant operating costs also vary depending on the type of ore. Plant processing operating costs for saprolite, saprock, and fresh ores are \$12.82 per tonne of ore ("t ore"), \$18.28/t ore, and \$17.68/t ore, respectively. Plant processing operating costs for the historic tailings ore is \$8.44/t ore. Mine site G&A operating costs are \$6.17/t ore.

Average annual gold production over the first five full years of commercial production is approximately 148,000 recovered ounces at an average cash operating cost of \$460 per ounce produced which includes mining, plant processing and mine site G&A operating costs. Including refining, transportation, and royalties, the average total cash cost is \$507 per ounce sold. Including sustaining capital expenditures and mine operator fees to be earned by Avnel, the average on-site all-in sustaining capital cost ("AISC") is \$595 per ounce sold during the first five years of commercial production. Over the 18-year LoM, the average total cash operating cost is \$648 per ounce produced, the average total cash cost is \$695 per ounce sold, and the AISC is \$784 per ounce sold.

On a 100% ownership basis and utilising a constant gold price of \$1,200 per ounce, the Kalana Main Project has an unlevered post-tax internal rate of return ("IRR") of 38%, an unlevered post-tax net present value ("NPV") of \$196 million at an 8% discount rate (\$257 million at a 5% discount rate), and an undiscounted payback period of initial capital of 1.2 years. The Proven and Probable Mineral Reserve for the Kalana Main Project is 21.0 million tonnes at an average grade of 2.8 grams of gold per tonne ("g/t Au") containing 1.96 million ounces of gold.

Included in these after-tax estimates are management fees and engineering fees paid to Avnel for the operation of the Kalana Main Mine (the "Mine Management Fee"). As per the Company's Operator Agreement with SOMIKA, the Mine Management Fee is calculated as 0.75% of SOMIKA's turnover (gross revenue) and 2.5% of brut exploitation excess (or "EBE", which is equivalent to Earnings Before Interest, Taxes, and Depreciation or "EBITD") as calculated in accordance with Le Système Comptable Ouest Africain ("SYSCOA"). The engineering fee is calculated at 4% of capital costs.

Excluded from this analysis is SOMIKA's repayment of existing inter-company loans, accrued interest, and accrued Mine Management and Engineering Fees associated with the underground Kalana Mine to Avnel. Avnel estimates that these amounts total approximately \$124 million as at December 31, 2016.

Kalana Main ESIA

The ESIA is the culmination of more than two years of environmental baseline studies, engineering studies conducted as part of the Feasibility Study, archaeological and cultural heritage studies, water management studies, ecological studies, social baseline studies and comprehensive community consultations. Additionally, the Town of Kalana and the surrounding communities have overwhelmingly endorsed the development of the Kalana Main Project. The only significant government approval required to develop new mines on the permit is an ESIA and the associated ESMP.

The ESIA and other related documentation were submitted to the Malian authorities for review in the first quarter of 2016 and were approved by the Ministry of Environment and Sustaining Development on April 28, 2016. The approval of the ESIA was the key government approval required to advance the Kalana Main Project towards the construction phase as the Kalana Exploitation Permit was awarded to Avnel in 2003 with an initial term of 30 years.

The Company is not aware of any non-compliance at the existing underground Kalana Mine with its environmental obligations. The Kalana Mine is audited by the Ministry of Environment and Sustainable Development annually.

Mineral Resources

The In Situ Mineral Resource Statement for the Kalana Project as at March 2016, which is inclusive of mineral reserves, is summarised in the following table:

Mineral Resource Statement^{1,2,3,4,5} (March 2016)

	Tonnes (Mt)	Grade (g/t Au)	Contained Gold (Moz)
Measured			
Kalana Main	9.5	4.20	1.28
	9.5	4.20	1.28
Indicated			
Kalana Main	13.5	4.10	1.77
Kalana Main Tailings	0.7	1.75	0.04
	14.2	3.97	1.81
Measured and Indicated			
Kalana Main	23.0	4.14	3.06
Kalana Main Tailings	0.7	1.75	0.04
	23.7	4.07	3.10
Inferred			
Kalana Main	1.7	4.51	0.24
Kalanako	0.4	5.55	0.07
	2.1	4.71	0.31

1 – Mineral Resources are disclosed on a total project basis at 100%. Avnel owns an 80% equity interest in SOMIKA, the Malian company that holds the Kalana Exploitation Permit.

2 – Mineral resources are inclusive of mineral reserves and are reported above a cut-off grade 0.90 g/t Au at a gold price of \$1,400 per ounce, with the exception of Kalanako, which is reported at a gold price assumption of \$1,500 per ounce.

3 – Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. The estimate of Mineral Resources may be materially affected by environmental, permitting, legal, marketing, or other relevant issues. The Mineral Resources are estimated using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), CIM Definition Standards on Mineral Resources and Reserves prepared by the CIM Standing Committee on Reserve Definitions and adopted by the CIM Council.

4 – Kalana Main includes depletion by production to September 2015. There has been minor production since September 2015.

5 – The quantity and grade of reported Inferred resources in this estimation are uncertain in nature and there has been insufficient exploration to define these Inferred Resources as an Indicated or Measured Mineral Resource and it is uncertain if further exploration will result in upgrading them to an Indicated or Measured Mineral Resource category.

Mineral Reserves

The Mineral Reserve Statement for the Kalana Main Project is presented in the table below:

Kalana Main Project Mineral Reserve Estimate^{1,2,3} (March 2016)

Deposit	Classification	Tonnes (Mt)	Grade (g/t Au)	Ounces (Moz)
Kalana Main	Proven	5.1	3.0	0.49
Kalana Main	Probable	15.9	2.8	1.43
Kalana Main	Proven and Probable	21.0	2.8	1.92
Tailings	Probable	0.7	1.8	0.04
Total Proven and Probable		21.7	2.8	1.96

1 – Mineral reserves are disclosed on a total project basis at 100%, are inclusive of mineral resources, and defined using a gold price of \$1200/oz. Avnel owns an 80% equity interest in SOMIKA, the Malian company that owns the Kalana Exploitation Permit. Some amounts in this table may not compute due to rounding and truncation.

2 – Kalana Main includes depletion by production to September 2015. There has been minor production since September 2015.

3 – Mineral reserves are estimated using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), CIM Definition Standards on Mineral Resources and Reserves prepared by the CIM Standing Committee on Reserve Definitions and adopted by the CIM Council.

Kalana Main Project Optimisation

On January 9, 2017, the Company announced results from the optimisation feasibility study (“the OFS”), which indicate opportunities for a number of cost reductions from those set out in the Feasibility Study. If accepted, the OFS modifications could result in an increase of 25% in the after-tax NPV to \$321 million, at a 5% discount rate, compared to \$257 million estimated in the Feasibility Study and an improvement in the after-tax internal rate of return (IRR) to 50%, compared to the 38% IRR in the Feasibility Study (base case gold price of \$1,200 per ounce).

The OFS does not incorporate any changes to the project’s underlying NI 43-101 compliant Mineral Reserves and Resources and the production profile and the mining plan of the project outlined in the Feasibility Study remain unchanged, but as a result of the optimisation process, the project’s cost structure has been reduced.

The results of the OFS represent potential alternative scenarios and do not supersede the Feasibility Study. Investors should rely on the Feasibility Study. See “Forward-Looking Statements” and “Technical Information” in this MD&A. Information of a scientific or technical nature in this section has been prepared under the supervision of Mr. Roy Meade, President of the Company, who is a “qualified person” as defined by NI 43-101.

Initial capital expenditure has been lowered by \$25 million to \$171 million and, accounting for pre-commercial production revenue generated from processing historic tailings from the existing underground Kalana Mine, the net funding requirement to commercial production, including contingency, is estimated at \$139 million, approximately \$24 million lower than previously estimated in the Feasibility Study.

Project Economics

Economic Metrics (\$1,200/oz Gold)	Feasibility Study	OFS
Pre-tax NPV @ 5%	\$345 m	\$434 m
Post-tax NPV @ 5%	\$257 m	\$321 m
Pre-tax NPV @ 8%	\$266 m	\$341 m
Post-tax NPV @ 8%	\$196 m	\$250 m
Pre-tax IRR	44%	62%
Post-tax IRR	38%	50%
Undiscounted Payback Period	1.2 yrs	1.1 yrs

OFS Economic Metrics	Low Case	Base Case	High Case
Gold Price	\$1,000/oz	\$1,200/oz	\$1,400/oz
Pre-tax NPV @ 5%	\$212 m	\$434 m	\$656 m
Post-tax NPV @ 5%	\$154 m	\$321 m	\$482 m
Pre-tax NPV @ 8%	\$162 m	\$341 m	\$520 m
Post-tax NPV @ 8%	\$116 m	\$250 m	\$381 m
Pre-tax IRR	39%	62%	83%
Post-tax IRR	31%	50%	66%
Undiscounted Payback Period	1.6 yrs	1.1 yrs	0.9 yrs

Mineral Reserves and Resources

The OFS does not incorporate any changes to the project's underlying National Instrument 43-101 compliant Mineral Reserves and Resources.

Mine Production and Operating Costs

The production profile and the mining plan of the project outlined in the Feasibility Study remain unchanged, but as a result of the optimisation process, the project's cash operating cost over the Life of Mine ("LOM") has been reduced by 9%. For the first five years, the cash operating cost has been reduced to \$427/oz, making the project highly profitable even at materially lower gold prices.

The key changes to the assumptions in the Feasibility Study are:

- 28% reduction in fuel cost attributable to no customs duty paid on imports
- 10% lower plant power cost due to hybrid power plant and lower fuel costs
- 3% lower mining costs owing to optimised haulage design in the later years of the mine life

Costs		Feasibility Study		OFS	Feasibility Study		OFS	
		First 5 Years			Life Of Mine			
Cash Operating Cost	\$/oz	\$460		\$427	-7%	\$648	\$592	-9%
All-in Sustaining Cost	\$/oz	\$589		\$561	-5%	\$784	\$730	-7%

Capital Expenditure

Economic Metrics	Feasibility Study	OFS
Initial Capex to Commercial Production	\$196 m	\$171 m
Net Funding to Commercial Production (Including Tailings Net Revenue and working capital)	\$163 m	\$139 m
Sustaining Capex	\$123 m	\$122 m
Total capex	\$319 m	\$293 m

- Initial capital expenditure lowered by \$25 million to \$171 million
- Once accounting for pre-commercial production revenue generated from processing historic tailings from the underground Kalana Mine, the net funding requirement to commercial production, including contingency, is estimated at \$139 million.

The material changes leading to the reduction of initial capital expenditure compared to the Feasibility Study are summarised below:

- EPC contract has improved capital estimate of overall plant and infrastructure cost, leading to a reduction in the contingency estimate provided in the Feasibility Study
 - The power plant supply has been changed to an over the fence provider eliminating the capital cost of the owner purchased power plant
 - The oxygen plant supply has been changed to a service provider's owned and operated plant eliminating the capital cost of the owner purchased oxygen plant
- The decision to introduce a mineral sizer to crush saprolite ore in Phase 2 increased capital cost but is partially offset by the deferral of the jaw crusher and ROM system to Phase 3.

Construction Schedule

Key project milestones after start of construction:

- Month 13: Commence pre-strip
- Month 15: Commence processing tails through new CIL section of the plant
- Month 19: Commence hot commissioning of mill
- Month 22: Commercial production

The project construction timetable will be reduced by 3 months. On completion of Phase 1, existing tailings will be processed using the CIL and gold recovery circuits. The Feasibility Study assumed Phase 1 would be complete in month 17 and the optimised schedule is 15 months. On completion of Phase 2, the mill will be commissioned to process saprolite ore. The Feasibility Study assumed Phase 2 would be complete in month 22 and the optimised schedule is 19 months. The improved construction schedule has an economic benefit for the project.

Processing Flow Sheet

The OFS incorporates certain design refinements undertaken since the release of the Feasibility Study, including the removal of a standby cone crusher (saving \$0.8 million) and the addition of a mineral sizer (adding \$1.4 million).

These minor changes will serve to de-risk ore handling at the project in the event of exceptional rain fall. Further, the changes provide increased flexibility for different character of saprolite ore from Kalanako or other satellite deposits. The Company views the likelihood of additional saprolite ore feed from nearby deposits to be high.

The Feasibility Study proposed saprolite would pass through a jaw crusher prior to milling. Fresh ore would also pass through the jaw crusher and then be crushed in a secondary crushing circuit. As fresh ore will not be milled until, at the earliest, month 30 of the project, the capital expenditure for the run of mine bin, jaw crusher and secondary crusher will be postponed from Phase 2 to Phase 3.

Hybrid Power Plant and Contract

As part of the optimisation process, Avnel advanced discussions with KPS Africa Pty Ltd ("KPS"), an international power provider to the mining industry, to provide an "over the fence" power supply based on a hybrid plant utilizing fossil fuel and solar energy sources. The power provider will fund the project capital and charge the company a rate per kWh. The capital cost, including sustaining capital in the Feasibility Study was significantly reduced to provide only for civil works.

For the first 5 years operating cost per kWh will be impacted by the recovery of capital investment. The project predicts that 20% of the power requirements will be generated from the solar plant, leading to significant cost reductions and a lower environmental impact. Project risk is reduced by the power provider being contracted for the operation and maintenance of the power plant, plus the risk of any higher fossil fuel prices.

DRA Mineral Services (“DRA”) provided KPS with detailed power requirements to enable KPS to design and cost the hybrid power plant and provide Avnel with a commercial proposal that has been used in the optimisation model.

KPS is a Pacific Energy group business. Pacific Energy Limited (ASX: PEA) is an ASX-listed energy supply business and owns and operates 20 power stations with a total power generation capacity approaching 239MW. KPS has been delivering its resource sector clients, including some of the world’s biggest mining companies, ‘off-grid’ power supply solutions for in excess of 25 years. Detailed contract negotiations are complete subject to legal reviews.

Resettlement Action Plan

The OFS shows an increase in resettlement related capex of \$2 million from the Feasibility Study. The additional funds are to provide enhancements to homes for those affected by the village relocation.

EPC Contract

Avnel has agreed in principle to appoint a Joint Venture of DRA Mineral Services and Group 5 Projects (Pty) Ltd. to be the engineering, procurement and construction (“EPC”) contractor for the project. The EPC covers Phase 1 and Phase 2 of the gold plant construction to enable the processing of the existing tailings and saprolite ore. Phase 3 will enable the processing of fresh rock and will be implemented as an engineering, procurement, construction management (“EPCM”) contract.

The capital cost for the plant and infrastructure was reviewed based on the EPC (Phases 1 and 2) and EPCM (Phase 3). The capital cost including contingency, provided by Avnel is in line with the Feasibility Study capital estimate.

Mining optimisation

Snowden reviewed the mining schedule and optimised the haulage profiles for the later years of the mine life. This resulted in a decrease in mining cost of \$20 million over the life of the mine.

As part of the ongoing optimisation of the project, an in-depth review of fuel costs was commissioned. During this effort, the complex fuel price structure in Mali was further reviewed in the context of the provisions of Mali’s 1999 Mining Code. The study concluded that under the 1999 Mining Code, the operation will continue to be exempt from excise duty (TIPP). Currently fuel is purchased from suppliers in Bamako (Mali) who have paid customs duty to deliver stock to Bamako. The price invoiced to SOMIKA includes customs duty that can be reclaimed by SOMIKA. There are major delays in refunds being received, currently 3 years outstanding. When SOMIKA’s consumption is sufficient to enable a

vendor to import fuel directly to the mine site, the vendor will invoice SOMIKA the price excluding customs duty. This is the practice at most major fuel consumers in Mali. The Feasibility Study was based on a conservative estimate that assumed a price including customs duty, given the low oil prices at the time of the Feasibility Study. At current fuel prices delivered in Mali and an exchange rate of CFA600/\$, the price excluding duties is 28% lower than the Feasibility Study estimate. The change in fuel price reduces mining costs by \$62 million, approximately 9%, over the LOM.

Snowden Mining Industry Consultants were responsible for the mining optimisation for both an owner mining option and a contract mining option. Avnel provided the data related to fuel price in Mali including customs duty after detailed discussions with fuel suppliers and other mining operations. Snowden applied the revised fuel cost to the mining cost estimate.

DRA were responsible for the revised process flow sheet and operating plant cost estimate. DRA retained the gold recovery parameters as per the Feasibility Study. DRA provided KPS with detailed power requirements to enable KPS to design and cost the hybrid power plant and provide Avnel with a commercial proposal that has been used in the optimisation model.

DRA and Group 5 JV submitted an EPC proposal for Phases 1 and 2 and EPCM proposal for Phase 3.

Kalana Main Project Update

In preparation for the approval to commence construction of the Kalana Main Project, a number of activities have progressed during the first quarter 2017:

1. EPOCH Resources (Pty.) Ltd., a specialist tailings storage consultant, was appointed in June 2016 to commence the final design for the TSF (Tailings Storage Facility), SWCD (Storm Water Control Dam) and WRD (Waste Rock Dump). In 2015/2016 EPOCH completed a Feasibility Study design and cost estimate. EPOCH completed the detailed design for this work package, including detailed engineering drawings, a revised bill of quantities, construction specifications and complete tender document. The tender package was put out to tender in November 2016 with award of the contract expected to be in 2017. In March the tender was re-issued to additional experienced earthworks contractors. Tenders are expected in Q2 2017.
2. As part of the optimisation process, Avnel is in advanced discussions with KPS to provide an "over the fence" power supply based on a hybrid plant utilizing fossil fuel and solar energy sources. The power provider will fund the project capital and charge the company a rate per kWh. If implemented the capital cost in the Feasibility Study will be significantly reduced. For the first 5 years operating cost per kWh will be impacted by the recovery of capital investment. The project predicts that 20% of the power requirements will be generated from the solar plant, leading to significant cost reductions and lower environmental impact. Project risk is reduced by the power provider being contracted for the operation and maintenance of the power plant, plus the risk of any higher fossil fuel prices. During the quarter discussions were held between Avnel, KPS and DRA to establish detailed power draw schedules over the project. KPS completed a supply design and provided a commercial proposal to Avnel. This proposal

was used in the OFS. Subsequently a draft Power Supply Agreement has been negotiated and awaits approval once project financing is in place.

3. SOMIKA has appointed ABS Africa, a South African Environmental Consultant, to assist in the drafting of the action plans required to comply with the ESIA and IFC Performance standards. ABS Africa prepared the ESIA, which was completed in Q1 2016 and approved by the Malian authorities. During Q1 2017 an Environmental Manual has been completed to guide the implementation of the ESMP.
4. ESDCO, a leading Malian environmental consultancy, has been appointed to provide external consultant expertise for the implementation of the approved RAP in line with Malian legislation and IFC Performance Standards. The RAP will be implemented by a steering commission (the "Commission") headed by the Préfet of Yanfolila. The Commission members include local government administration officials, representatives of Technical Agencies (environment/forestry/land usage, health and education), the Mayor of the Commune, village chiefs, associations representing youth/women/disadvantaged individuals/hunters, artisanal miners, transport companies. Recently an Association has been formed to represent the interests of impacted persons and has been formally recognised and will participate in the Commission. ESDCO completed the RAP and socio-economic study as part of the ESIA. ESDCO has a major role to play as an independent expert within the Commission. The Commission formally commenced in December 2016 after the local government elections in Mali in November. During Q1 2017 the Commission met on several occasions with local population to establish the RAP process and the Grievance Mechanism Plan. ESDCO has re-affirmed through interviews with all Impacted Persons the individual assets that will be impacted and the compensation procedures. Compensation can be in cash or alternative accommodation.
5. An ESIA was prepared for the 5.5 km public road diversion around the new mine infrastructure and the relocated power line. This will replace the existing public road to Kalana Town. The ESIA was submitted in April 2017 and approval is expected in Q2 2017.
6. The site for the relocation of impacted persons was identified by the community in Q1 2016. During Q3 2016 SOMIKA completed a geotechnical survey of the site and the results were provided to ESDCO urban development specialists and the administration authorities. The Mayor has submitted a letter to the Governor of Sikasso providing a request to allow development of an urban area south of Kalana Town for the RAP. The urbanisation plan will be completed in Q2 2017.
7. ESDCO completed the architectural design and location for the relocated Technician Camp and Gendarmes Camp/offices that are within the exclusion zone. The necessary authorisation for the location and construction has been approved by the relevant authorities. Request for tender has been issued and tenders are expected in Q2 2017
8. The company has continued negotiating the EPC contract with DRA/Group 5 and final documentation is being reviewed by legal advisors. Due to the delay in project start the EPC price will have to be reviewed taking into consideration potential inflation and exchange rate changes.

Kalanako Deposit

Located less than 3 km northeast of the Kalana Main Project and the milling facilities proposed in the OFS and the Feasibility Study, the Kalanako prospect is an old area of traditional mining activity. Several mineralised trends have been established from RC and diamond drilling at Kalanako, resulting in a single northwest-southeast corridor of 1,500 meters by 250 meters. These mineralised zones are typically less than 10-20 meters wide and appear to be steeply dipping to the East, often contain high-grade intercepts near surface (i.e. in the weathered zone).

The depth of saprolite and saprock is between 70 m and 130 m, much deeper than that observed at the Kalana deposit. Diamond drilling at Kalanako intersected numerous high strain zones, packets of densely laminated quartz veins or vein stockwork with sulphides and locally highly altered and mineralised felsic intrusive rocks. Mineralisation is associated with these felsic intrusive rocks or quartz stockwork that occur along northwest-southeast striking shear zones, parallel or less than 10° in azimuth from the main IP boundary between a low and a high IP gradient domain.

The March 2015 MRE for the Kalanako deposit was based upon information from 46 diamond drill holes and 232 RC drillholes. Historical drill-hole intersections were independently summarised and press-released in October 2016. A maiden Inferred *In Situ* Mineral Resource for Kalanako has been reported, which is summarised in the subsection titled "Mineral Resource Estimates".

An infill drilling programme of 8,635 meters has been successfully achieved in December 2016, on time and on budget and with an excellent productivity and safety record (no Lost Time Injury). This programme was focused on Kalanako's saprolite and saprock weathered domains, a depth considerably deeper than observed at Kalana Main (drillhole depth of 50-175 meters). A large part of the Kalanako prospect remains undrilled. The drilled portion of Kalanako is located at the central part of a 5 km long geophysical structure defined as a contact between low and high IP gradient domains. Kalanako is open on strike. Some large collapses above old artisanal underground developments in the north and more modern artisanal pits in the south, highlights the continuity of the mineralisation along the main northwest-southeast structure. Future drilling campaigns would target extensions along strike following our low-risk infill programme.

Regional Exploration

Avnel's exploration team has dedicated significant resources to the evaluation of regional exploration prospects outside of the Kalana Main area. Based on historical geochemical and geophysical data (SONAREM, Avnel, IAMGOLD) and a field survey of the main historical and traditional mines (i.e. orpaillage), 29 prospects have been identified on the Kalana Permit. To date, only 3 of our 30 targets have been partially drill tested, all successful. Exploration work is being conducted to evaluate and rank our premier targets.

A first group of 4 prospects (Solomanina, Tonda, Bandiala, Kodialani which is the NW extension of Kalanako) have been selected for an advanced geochemical survey. Sampling grids (5 x 5 or 10 x 10m) have been implemented to sample the rejected quartz and tailing domes produced by historical and traditional mining activities in order to localise the ore shoot inside these large prospects. In the first months of 2017, 1,100 grab samples and 3,500 tailing dome samples had been collected at

Solomanina, Tonda and Bandiala; 320 grab samples and 1,070 tailing dome samples from Solomanina had been assayed and QAQC validated.

Fougadian Project

All of the exploration permits that comprise the Fougadian Project expired in 2015. The Company has applied to the Malian Ministry of Mines, Energy, and Water for a new consolidated exploration permit that covers an area of 99.8 km² and discussions are ongoing. As of the date of this MD&A, the Company does not consider the Fougadian Project to be material to it.

Current Underground Mining Operations

In 2016, the Kalana Mine processed approximately 54,300 tonnes of material per month from a mix of underground production and surface stockpiles at an average grade of 7.2 g/t with a 77% recovery resulting in production of 9,633 oz.

Gold production of 1,765 ounces in the quarter to March 31, 2017 was 40% lower than the quarter to March 31, 2016. The reduced production resulted from a 17% decrease in head grade to 5.8 g/t Au in the first quarter of 2017 compared to 7.9 g/t Au in the first quarter of 2016, lower gold recovery of 71.5% in the first quarter of 2017 relative to 77.8% in the comparative period of 2016, and reduced tonnes milled from 14,905 tonnes in the quarter to March 31, 2016 to 13,275 tonnes in the quarter to March 31, 2017.

Although the Kalana Mine continues to benefit from the ongoing weakness in local currencies relative to the US dollar, the Company does not expect the underground mine to be profitable under the prevailing gold price environment. In the quarter ended March 31, 2017, the Kalana Mine had a negative cash flow of \$327,000. The Company continues to sustain operations to partially offset the cost of providing underground access to facilitate due diligence activities necessary to secure mine development financing. The continued operation of the mine also helps to maintain socio-economic stability in the local community as the Company prepares to transition the workforce to activities related to the construction and operation of the new mine. The Company intends to sustain operations for as long as economically feasible and safe to do so, without incurring any significant capital expenditures, until such a time as the Company is able to evaluate development options for the Kalana Main Project.

Selected Financial Information (In thousands of U.S. dollars except per share amounts) Three months ended March 31

	2017	2016
Total revenue	2,400	3,251
Total expenses	3,806	3,811
Other Income/ (expense)	(2,142)	(185)
Net loss	(3,548)	(745)
Net profit/(loss) from continuing operations attributable to owners of the parent	(3,066)	(419)
(Net loss) per share attributable to owners of the parent	(\$0.008)	(\$0.001)
Basic weighted average shares outstanding	366,424,570	304,330,124

Balance Sheet	March 31 2017	December 31, 2016
Working capital surplus (excluding derivative financial instruments)	12,927	4,492
Total Assets	32,549	24,815
Total non-current provisions (excluding derivative financial instruments)	3,707	3,653
Shareholders' Equity	44,567	34,494

Results of Operations, Three Months Ended March 31, 2017

Metal revenues decreased to \$2,400,000 in the quarter to March 31, 2017 from \$3,251,000 in the quarter to March 31, 2016. The decrease in revenue is a result of a 27% decrease in ounces sold from 2,696 ounces in the quarter to March 31, 2016 relative to 1,956 ounces in quarter to March 31, 2017, that was partly offset by a 2% increase in the realised average sales price of gold from \$1,203 per ounce in the quarter to March 31, 2016 to \$1,224 per ounce in the quarter to March 31, 2017.

Total expenses remained at \$3,800,000 in the quarter to March 31, 2017 compared to \$3,811,000 in the quarter to March 31, 2016. Operating costs per ounce of gold sold for the quarter to March 31, 2017 increased from \$832 per ounce to \$1,311 per ounce resulting from reduced production.

Avnel recorded a net loss of \$3,548,000 (\$0.008 attributable loss per share) for the quarter ended March 31, 2017 compared to a net loss of \$745,000 (\$0.001 attributable loss per share) in the quarter to March 31, 2016. Included in the quarter to March 31, 2017 is a loss on the fair value of derivative financial instruments of \$2,012,000, compared to a loss of \$175,000 in the quarter to March 31, 2016. The fair value accounting gains reported have no cash effect on the Company.

As compared to the balance sheet as at December 31, 2016, Avnel's cash and cash equivalents as at March 31, 2017 increased by \$7,055,000 from \$3,720,000 to \$10,775,000 arising from cash proceeds from the exercise of warrants of \$10,205,000, offset by cash used in operations of \$2,721,000 and cash used in investing activities of \$456,000.

There was a working capital surplus of \$12,927,000 as at March 31, 2017 compared to a working capital surplus of \$8,336,000 as at December 31, 2016. Total assets increased from \$24,815,000 as at December 31, 2016 to \$32,549,000 at March 31, 2017. Total provisions increased from \$3,653,000 as at December 31, 2016 to \$3,707,000 at March 31, 2017. Total stockholders' equity increased to \$44,567,000 as at March 31, 2017 from \$34,494,000 as at December 31, 2016.

Mining Operations

The following table summarises the production from the Kalana Gold Mine:

	Three Months ended March 31	
	2017	2016
Tonnes milled:	13,275	14,905
Average grade processed (g/t Au):	5.8	7.9
Recovery rate (%):	71.5	77.8
Gold production (ounces):	1,765	2,958
Cost per tonne milled (\$/t):	\$177	\$177
Operating cost per ounce of gold sold (\$/oz):	\$1,311	\$832
Operating cost per ounce of gold produced (\$/oz):	\$1,331	\$890

Gold production of 1,765 ounces in the quarter to March 31, 2017 was 40% lower than the quarter to March 31, 2016. The reduced production resulted from a 17% decrease in head grade to 5.8 g/t Au in the first quarter of 2017 compared to 7.9 g/t Au in the first quarter of 2016, lower gold recovery of 71.5% in the first quarter of 2017 relative to 77.8% in the comparative period of 2016, and reduced tonnes milled from 14,905 tonnes in the quarter to March 31, 2016 to 13,275 tonnes in the quarter to March 31, 2017.

Gold Sales

Gold sales data is as follows:

		Three Months ended March 31	
		2017	2016
Gold ounces sold	- at spot price	1,956	2,696
Average realised gold price per ounce	- at spot price	1,224	1,203
Metal revenue - \$000			
Total gold sales		2,395	3,245
Silver sales		5	6
Metal revenue		2,400	3,251

Gold spot prices commenced in 2017 at \$1,151 per ounce and ended at March 31, 2017 at \$1,245 per ounce, with the London PM Fix averaging \$1,219 per ounce during the quarter.

Summary of Quarterly Results

Consolidated Statement of Operations for the Quarters Ended

Quarter ended (US\$'000 except per share amounts)	Mar 31 <u>2017</u>	Dec 31 <u>2016</u>	Sept 30 <u>2016</u>	June 30 <u>2016</u>	Mar 31 <u>2016</u>	Dec 31 <u>2015</u>	Sept 30 <u>2015</u>	June 30 <u>2015</u>
Total revenue	2,400	3,106	2,714	2,960	3,251	2,614	2,280	3,379
Net (loss)/profit from continuing operations	(3,548)	436	2,888	(2,863)	(745)	(1,267)	825	(2,273)
Net (loss)/profit from continuing operations attributable to ordinary equity holders of the parent	(3,066)	701	3,278	(2,326)	(419)	(792)	1,352	(1,860)
Net (loss)/earnings per share from continuing operations attributable to ordinary equity holders of the parent	(\$0.008)	\$0.002	\$0.011	(\$0.008)	(\$0.001)	(\$0.004)	\$0.004	(\$0.006)

Liquidity, Capital Resources and Going Concern

The unaudited interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Group will realise its assets and discharge its liabilities in the normal course of business. At March 31, 2017 the Group had net current assets of \$12,927,000, excluding derivative financial liabilities, including a cash balance of \$10,775,000. In January 2017, 65,263,700 warrants, issued on July 17, 2014, which entitled the holders thereof to purchase one Ordinary Share at a price of C\$0.20 at any time until January 17, 2017, were exercised for aggregate proceeds of \$9,929,000. A further 1,800,000 C\$20c were exercised on February 16, 2017 for aggregate gross proceeds of \$276,000. As discussed below, the Company may need to raise further funds in the first quarter of 2018 in order to satisfy short-term working capital needs and is also focusing on securing the longer term project financing required to develop the Kalana Main project.

On March 30, 2016 the Company announced the results of the Definitive Feasibility Study ("DFS") for the Kalana Main project together with an updated Mineral Resource Estimate ("MRE") prepared by Snowden and Denny Jones. The economic results of the DFS show post-tax NPV of \$196.0m discounted at 8% at a gold price of \$1,200 per ounce. The MRE, based on a 0.9g/t cut-off grade and utilising a \$1,400 per ounce gold price, shows in-situ measured and indicated resources of 23.0m tonnes at a grade of 4.14g/t resulting in contained gold of 3.06m ounces and inferred resources of 1.70m tonnes at a grade of 4.51g/t resulting in 0.24m ounces of contained gold. The Company

subsequently completed an Optimisation Study in the fourth quarter of 2016 which further enhanced the results of the DFS.

Supported by the results of the DFS, the directors consider that in the Kalana Main project the Company has a valuable asset. The directors recognise the continuing operations of the Company are dependent upon its ability to raise adequate financing and that funding will be required both in the short term for working capital purposes and in the longer term to build the proposed open pit mine at Kalana. The directors recognise that the need for further funds to be raised within twelve months of the date of approval of these unaudited interim consolidated financial statements represents a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The directors believe that the required financing will be raised and in conjunction with management are actively progressing various financing options with the major shareholders and are engaged in ongoing discussions with banks, financial institutions and other mining companies regarding proposals for financing. While these discussions are ongoing, it cannot be guaranteed that such financing will be secured, or be available on a timely basis or on acceptable terms. The directors have reasonable expectations that these financing discussions will be successful and therefore the unaudited interim consolidated financial statements have been presented on the basis that the Company is a going concern. The unaudited interim consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realise its assets and discharge its liabilities in other than the normal course of business and at amounts different than those reflected in the unaudited interim consolidated financial statements.

Mining Properties

The carrying value of the Company's property, plant and equipment, including mining properties and capitalised mine development costs and capitalised exploration and evaluation assets, at March 31, 2017 was \$18.1 million and \$17.4 million as at December 31, 2016. The carrying value of these assets is not necessarily indicative of the realisable value of such assets if they were to be offered for sale at this time.

As of March 31, 2017, management assessed indicators of impairment of the carrying value of the Company's mineral properties and mining assets and does not consider that there has been any evidence of impairment in the value of such assets.

By their very nature, there can be no assurance that these estimates will actually be reflected in the future operations. The ultimate value of mineral properties and capitalised development costs is dependent upon, amongst other things, obtaining the necessary financing to develop the proposed open-pit Kalana Main Mine.

Contractual Obligations

The Company had the following future commitments under operating leases as at March 31, 2017:

Operating leases commitments within - \$000	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Operating Leases ^(1,2)	409	129	250	30	-
Total Contractual Obligations	409	129	250	30	-

Notes:

1. The Company renewed an operating lease on July 1, 2016 for office space and equipment with a company related to the Fern Trust, a significant shareholder of the Company, as defined by the TSX. Pursuant to these leases, which expire in June 2020, future minimum payments amount to \$405,000 up until the end of the lease.
2. The Company has entered into an operating lease for an office building in Bamako, Mali. Pursuant to the lease, which expires in June 2017, future minimum payments amount to \$4,000.

Contingent Liability

Malian Taxation

The three-year period Malian tax audit on SOMIKA for the years ended 2009, 2010 and 2011 was carried out during 2012 and resulted in a partial report received in December 2012 covering only the 2009 year. A further report covering 2010 and 2011 was received in November 2013. The inspector was claiming \$7.2 million including penalties, disputing various tax items including tax allowances on interest, withholding tax on foreign suppliers and VAT exemption. Management believed strongly that the majority of the tax claims were incorrect and took external advice. Management responded to the inspector in December 2013 contesting the claim and held a working clarification meeting in January 2014. A re-assessment was received on July 14, 2014 for \$6.5 million, and on July 16, 2014, a letter disputing the re-assessment was sent by the Company to the Malian tax authorities. A further re-assessment was received on November 25, 2016 reducing the claim to \$1.4 million which does not give rise to an obligation to pay and discussions continue.

The tax audit of SOMIKA for the years ended 2012, 2013 and 2014 commenced in December 2015. A claim was received on December 9, 2016 for \$6.5 million. Management believe that the majority of tax claims are incorrect and after receiving external advice sent a response letter disputing the claim on February 7, 2016. A material part of both these tax audit claims result from withholding tax and VAT on foreign suppliers which the Company disputes.

Related Party Transactions

SOMIKA purchases explosives from African Explosives Limited ("AEL"). Mr. Ibrahim Kantao is a director of the Company, SOMIKA and AEL and is also the Director-General of AEL Mali SARL. Such purchases

amounted to \$78,000 in the three months ended March 31, 2017 compared to \$73,000 in the three months to March 31, 2016. The Company has an ongoing supply agreement with AEL.

The premises occupied by Avnel and Kalana Mine Services in London are leased from a company associated with the Fern Trust, a significant shareholder of the Company. The Company incurred \$31,000 in rental costs during the quarter ended March 31, 2017 compared to \$35,000 in the quarter to March 31, 2016. The Company's lease expires in June 2020.

Business Risks

The risks associated with Avnel and the effect on future operating results and financial position of the Company are set out in detail under the section entitled "Risk Factors" in the Company's most recently filed Annual Information Form (the "AIF"), which is incorporated by reference into and forms an integral part of this MD&A. The AIF is available on SEDAR (www.sedar.com) and on the Company's website (www.avnelgold.com).

Going Concern

Supported by the results of the Definitive Feasibility Study results reported on March 30, 2016, the directors consider the Kalana Project, through the Company's 80% equity ownership in SOMIKA, to be a valuable asset. The directors recognise the continuing operations of the Company are dependent upon its ability to raise adequate capital and that additional funding will be required in the short term for both working capital and to develop the Kalana Main Project. The directors recognise that this represents a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Exploration, Development, and Operating Risk

The Company faces risks associated with underground mining such as rock conditions, water, geological faults, variable vein widths, dilution, power supply, and equipment failures. The international mining industry is facing a shortage of skilled personnel and the Company faces risks in attracting and retaining skilled employees. The Company operates in a remote location in Mali and is reliant on transport systems to deliver equipment and materials which are purchased in South Africa or Europe. There is a risk that such equipment and materials may not always be available on site when required.

The Company's operations are located in West Africa where a major health risk of the Ebola virus occurred in 2014. There is a risk that the Ebola virus may impact the Company's future operations both directly and indirectly. The governments of Mali and its neighbouring countries have instituted procedures to reduce the risk of the Ebola virus becoming an epidemic and outside international agencies continue to provide support.

Gold Prices

The Company also faces risk in respect of its exposure to gold prices. Gold prices are subject to significant fluctuation and are affected by a number of factors which are beyond Avnel's control. Such factors include, but are not limited to, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold-producing countries throughout the world. The price of gold and base metals has fluctuated widely in the past 10 years, and future serious price declines could cause continued development of and commercial production from our properties to be impracticable.

Foreign Exchange Risk/Gold Hedging

All gold revenues and a portion of operating costs are in United States dollars.

The Company may engage in hedging agreements or activities to minimise the effect of declines in gold prices on its operating results. While these hedging activities may protect the Company against low gold prices, they may also limit the price that the Company can realise on the gold it produces where the market price of gold exceeds the gold price in such forward sales or option contracts. As a result, the Company may be prevented from realising possible revenues in the event that the market price of gold exceeds the price stated in such forward sales or option contracts.

The Company's local costs are paid for in CFA, which is fixed to the Euro at a ratio of 655.957 CFA per Euro. Currency exchange rate fluctuations against the US dollar may increase the Company's costs and the Company may engage in hedging activities to protect the Company's costs. The Company to date has not hedged its foreign exchange risk relating to its non-US dollar expenses.

Capital Requirements

Avnel will require significant capital in order to fund future plans to develop the Kalana Main Project. In addition, a portion of Avnel's activities will be directed towards the search for, and development of, new mineral deposits which will require significant capital investment to achieve commercial production from any successful exploration efforts. Avnel will require additional financing from external sources to meet such requirements. There can be no assurance that such financing will be available to Avnel or, if it is, that it will be offered on acceptable terms. If additional financing is raised through the issuance of equity or convertible debt securities of Avnel, the interests of shareholders in the net assets of Avnel may be diluted. Any failure of Avnel to obtain required financing on acceptable terms could have a material adverse effect on Avnel's financial condition, results of operations and liquidity and require Avnel to cancel or postpone planned capital investments.

Insurance and Uninsured Risks

Due to Malian law, which states that insurance should be contracted only with local Malian insurance companies, Avnel has not had property insurance coverage since July 31, 2009. The Company has been in negotiation with its UK insurance brokers and Malian insurance companies to place the insurance with a Malian insurance company and re-insure the risk in Europe. The Company has to date not been able to obtain re-insurance. Avnel does not maintain political risk insurance.

Environmental Risks and Hazards

The Company is committed to environmental protection, to safe operations and to the control of environmental risks. The Company adheres to the requirements of the Malian Government and has adopted policies and procedures as expected in the mining industry. The Company is committed to maintaining the aforementioned risks at levels as low as can be reasonably achieved, taking into account social and economic factors, and that continued improvement in environmental and health and safety performance be achieved. Certain hazardous materials are presently stored on the Kalana Gold Mine site, including diesel fuel, arsenic trioxide and sulphide concentrates tailings that remain from the SOGEMORK operations in the 1980s.

Governmental Regulation

All phases of Avnel's operations are subject to environmental regulation in the jurisdiction in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. 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. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Avnel's operations. Environmental hazards may exist on the property which are unknown to Avnel at present and which have been caused by previous or existing owners or operators of the properties.

Global Financial Risk

Recent global financial conditions have been characterised by increased volatility and several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by both the rapid decline in value of sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. These factors may impact the ability of the Company to obtain equity or debt financing in the future on terms favourable to the Company. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Common Shares may be adversely affected.

Critical Accounting Estimates

The unaudited interim consolidated financial statements of the Company for the three months ended March 31, 2017, have been prepared in accordance with IFRS. Management is required to make various estimates and judgements in determining the reported amounts of assets and liabilities, revenues and expenses for each period presented and in the disclosure of commitments and contingencies. Management considers the following critical accounting policies reflect its more significant estimates and judgements used in the preparation of the unaudited interim consolidated financial statements.

The unaudited interim consolidated financial statements have been presented on the basis that the Company is a going concern. Accordingly, the unaudited interim financial statements do not include adjustments relating to the carrying value of assets, the amounts and classification of liabilities, or other adjustments that might result should the Company be unable to continue as a going concern.

All costs, other than acquisition costs, are expensed prior to the establishment of a Canadian National Instrument 43-101 compliant resource and that the directors conclude that it is more than likely that a future economic benefit will be realised. Gains or losses resulting from the sale or abandonment of properties are included in operations. Acquisition and development costs associated with properties brought into production are charged to operations using the units-of-production method based on estimated proven and probable reserves that can be recovered. Costs of start-up activities and on-going costs to maintain production are expensed as incurred. Production facilities and equipment are stated at cost and are amortised over the estimated proven and probable reserves which can be recovered from the related property.

The Company evaluates the carrying value of its properties and equipment when events or changes in circumstances warrant and tests for recoverability of the long life asset value. With respect to properties, a test for recoverability is performed to determine if the estimated discounted future cash flows exceed the carrying amount of the asset. Measurement of any impairment loss is determined by the estimated fair value of the assets based on the best information available, including comparable asset values in the market and the use of valuation techniques. Any estimates of future cash flows are subject to risks and uncertainties and it is reasonably possible that changes in estimates could occur which may affect the expected recoverability of investments in mining properties. The fair value of the Company's mineral resource has been estimated in excess of the net book value of the Company's assets at the balance sheet date using comparative market value of resources, taken from recent mine transactions conducted at arm's length between willing parties. Based on these estimates management believe that no impairment to the carrying values exist at the balance sheet date. The Company has not recorded any impairment losses in any of the periods.

The fair value of a retirement or rehabilitation obligation is recognised as an asset and a liability in the period when it is incurred. The liability is discounted and an accretion expense is recognised using the credit-adjusted risk-free rate. The retirement asset is included in mining properties and is charged to operations using the units-of-production method based upon estimated proven and probable reserves that can be recovered.

The Company commissioned an environmental report by an independent party. This estimated undiscounted cost for the retirement and rehabilitation of Kalana Mine is \$2,236,000. The environmental

liability is based on the work required to be carried out on the tailings facilities to ensure stabilisation of the facility and re-vegetation of the tailings surface area, the capping of the underground shafts and the reclamation of plant, workshops, and buildings where appropriate. The area disturbed by mining operations will then be re-vegetated. There will then be an ongoing monitoring of the water quality and re-vegetation programmes. It is possible that the closure plan will change if a new open pit mine is developed, which is dependent on ongoing exploration, positive technical studies, approval of a new ESIA by the Malian authorities, and the availability of project financing.

Identification of functional currencies requires a judgement as to the currency of the primary economic environment in which the companies of the Group operate. This is based on analysis of the economic environments and cash flows of the subsidiaries of the Group.

Disclosure of Outstanding Share Data

As at May 11, 2017, the Company had 376,993,300 issued and outstanding Common Shares. The following provides details on options or rights to purchase Common Shares of the Company as at May 11, 2017.

Avnel's share purchase options that have been issued to employees and contractors consist of:

1. 2,500,000 Meade Compensation options issued on February 23, 2005, which can be exercised at a price of \$0.275 per option to purchase one common share of Avnel, expiring on February 23, 2023; and
2. 5,135,000 Employee Long Term Incentive Plan options issued between August 2006 and August 2016 and expiring between August 2018 and August 2026, which can be exercised at a price of between C\$0.20 and C\$0.60 per option to obtain one Ordinary Share.
3. 5,000,000 Employee Share Performance units issued in 2016 and expiring in 2019, 50% of which will be exchanged one Ordinary Share each if the Company's share price exceeds C\$0.50 for 10 consecutive trading days with the remaining 50% of the units being so exchanged on the one-year anniversary of the exchange of the first 50% of the units.

LTIP Options

Date of Grant	Vesting Date	Expiration Date	Exercise Price (\$C)	Number Outstanding
August 8, 2008	August 8, 2008	August 6, 2018	0.45	1,500,000
November 15, 2011	November 15, 2011	November 15, 2021	0.60	1,500,000
March 25, 2013	March 25, 2013	March 25, 2023	0.35	50,000
September 5, 2014	September 5, 2014	September 5, 2019	0.20	920,000
September 5, 2014	September 5, 2015	September 5, 2019	0.20	245,000
September 5, 2014	September 5, 2016	September 5, 2019	0.20	120,000
August 24, 2016	February 24, 2017*	August 24, 2026	0.45	400,000
August 24, 2016	February 24, 2017**	August 24, 2026	0.60	400,000
				5,135,000

* Options are exercisable upon the date following which the ordinary shares of the company reach a twenty day volume-weighted average trading price of C\$0.45.

** Options are exercisable upon the date following which the ordinary shares of the company reach a twenty day volume-weighted average trading price of C\$0.60.

LTIP Share Performance Units

Date Issued	Type	Date Expiring	Vesting Price (C\$)	Number Outstanding
August 10, 2016	Performance units	August 10, 2019	0.50	1,100,000
October 19, 2016	Performance units	October 19, 2019	0.50	3,900,000
				5,000,000

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that material items requiring disclosure by the Company are identified and reported in a timely manner.

Based on current securities legislation in Canada, management, including the Chief Financial Officer ("CFO") and Chief Executive Officer ("CEO") of the Company, evaluated the design and effectiveness of the Company's disclosure controls and procedures as of December 31, 2016, and concluded that such disclosure controls and procedures were operating effectively at that date. There were no significant changes to the Company's disclosure controls process during the quarter ended March 31, 2017.

It should be noted that, while the Company's CFO and CEO believes that the Company's disclosure controls and procedures provide a reasonable level of assurance and that they are effective, it is not expected that the disclosure controls and procedures can prevent all errors or mistakes. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal controls over financial reporting

Management is responsible for designing, establishing and maintaining a system of internal controls over financial reporting to provide reasonable assurance that the financial information prepared by the Company for external purposes is reliable and has been recorded, processed and reported in an accurate and timely manner.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities. The Audit Committee fulfils its role of ensuring the integrity of the reported information through its review of the interim and annual financial statements.

Due to the small size of the Company, there are certain aspects of the Company's internal control systems that are not ideal. This is not uncommon in a company the size of Avnel. Due to the limited number of staff at Avnel, it is not feasible or cost effective to achieve complete segregation of duties.

The Company's management, including the CFO, have evaluated the design and effectiveness of internal controls over financial reporting as at December 31, 2016, and have concluded that the Company's internal control over financial reporting was effective during the year 2016.

The Company's management believe that any internal controls over financial reporting, including those systems determined to be effective and no matter how well conceived and operated, have inherent limitations and can provide only reasonable, not absolute, assurance that the objectives of the control system are met with respect to financial statement preparation and presentation. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

There are inherent limitations in the effectiveness of internal controls over financial reporting, including the possibility that misstatements may not be prevented or detected. Accordingly, even effective internal controls over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of internal controls can change with circumstances.

Additional Information

This MD&A has been prepared as of May 11, 2017 and should be read in conjunction with the Company's unaudited interim consolidated financial statements and related notes as at and for the three months ended March 31, 2017 that have been prepared in accordance with IAS 34. Additional information about the Company, including the Company's most recent Annual Information Form, is available from the Company's website (www.avnelgold.com) or the website of SEDAR (www.sedar.com).

Non-IFRS Measures

Avnel's unaudited interim consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and the accounting policies adopted by the Company in accordance with IFRS.

Management uses both IFRS and non-IFRS measures to monitor and assess the operating performance of the Company's operations. Throughout this MD&A, management uses certain non-IFRS performance measures to provide additional information, as the Company believes that certain investors use these measures to assess gold mining companies. These non-IFRS performance measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Non-IFRS performance measures do not have standardised

definition under IFRS and therefore may not be comparable to similar measures presented by other organisations:

“Cost per Tonne Milled” is calculated by dividing the relevant mining and processing costs and total costs by the tonnes of ore processed in the period. Management uses this measure as a possible indication of the mining and processing efficiency of the mine.

“Cash Operating Cost” is calculated as reported production costs, which includes costs such as mining, processing, administration, non-site costs (transport and refining of metals, and community and environmental), less royalties paid. These costs are then divided by the number of ounces produced to arrive at “Cash Operating Cost per Ounce Produced” and are divided by the number of ounces sold to arrive at “Cash Operating Cost per Ounce Sold”, after taking into account certain inventory movements. These terms are commonly used by gold mining companies to assess the level of gross margin available to the company, typically by subtracting Cash Operating per Ounce Sold from the average per ounce price realised during the period. These terms are also often used as an indication of a mining company’s ability to generate cash flow from operations.

“On-site All-in Sustaining Cost” is defined in the Feasibility Study as mine site cash operating costs, which includes costs such as mining, processing, administration, plus transport and refining of metals, stamp duty, and royalties, plus sustaining capital costs, which includes community and environmental. These costs are then divided by the number of ounces of expected production to arrive at “On-site All-in Sustaining Cost per Ounce”

Forward-Looking Statements

This MD&A contains “forward-looking statements” within the meaning of Canadian securities laws that are based on the Company’s expectations, estimates and projections regarding its business and the gold market and economic environment in which it operates. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections, and other forward-looking statements will not occur. These assumptions may cause the Company’s actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Forward-looking statements in this MD&A include, among other things, cash flow estimates, production estimates and similar statements relating to the economic viability of a project, exploration results and budgets, mineral reserve and resource estimates, timelines, strategic plans, including our plans and expectations relating to the development and exploitation of the Kalana Main Project, costs and timing of and availability of financing for the development an open pit mine based on the Feasibility Study, the potential benefits and implementation of the OFS, the availability of project financing, the Company’s ability to raise funds, the continued operation of, and production at, the existing Kalana Mine, the completion of transactions, market prices for gold and other statements that are not statements of fact. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Therefore, actual results of the Company could differ materially from those discussed in such forward-looking statements as a result of these risks and uncertainties and readers should not place undue reliance on such statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements, where as a result of new information, future events or otherwise, unless required by applicable law.

Technical Information

Except where indicated, the disclosure contained or incorporated into this MD&A of an economic, scientific or technical nature has been summarised or extracted from the NI 43-101 compliant technical report titled "NI43-101 Technical Report on Kalana Main Project", dated effective 30 March 2016, prepared by Snowden Mining Industry Consultants (Pty) Ltd. ("Snowden"), Denny Jones Ltd ("Denny Jones"), DRA Projects SA (Pty) Ltd ("DRA") and Epoch Resources (Pty) Ltd ("Epoch Resources"). The Kalana Technical Report was prepared under the supervision of Mr. Allan Earl (Executive Consultant – Mining Engineering of Snowden), Mr. Ivor Jones (Executive Consultant – Applied Geosciences of Denny Jones), Mr. Glenn Bezuidenhout (Principal Process Engineer of DRA), Mr. Sybrand van der Spuy (Civil Engineer of DRA), Mr. Guy Wiid (Principal Consultant – Tailings and Waste Rock Facilities of Epoch Resources), and Mr. Stephanus (Fanie) Coetzee (Principal Consultant – Environmental and Social of Epoch Resources), all of whom are independent "Qualified Persons" as such term is defined in NI 43-101. Readers should consult the Kalana Technical Report to obtain further particulars regarding the Kalana Project, which contains the Kalana Main Project, the Kalana Mine, plus a number of mineral exploration prospects.

Information of a scientific or technical nature in this MD&A arising since the date of the Kalana Technical Report has been prepared under the supervision of Mr. Roy Meade, the Company's President, and Dr Olivier Féménias, the Company's Vice-President, Geology, both of whom are non-independent "Qualified Persons".

Mineral resources and mineral reserves reported in this MD&A have been classified within the meaning of the CIM Definition Standards for Mineral Resources and Mineral Reserves (November 2010). Mineral resources may be affected by further infill and exploration drilling that may result in increases or decreases in subsequent resource estimates. Mineral resources may also be affected by subsequent assessments of mining, environmental, processing, permitting, taxation, socio-economic, and other factors. Actual recoveries of mineral products may differ from reported mineral reserves and mineral resources estimates due to inherent uncertainties in acceptable estimating techniques. In particular, inferred mineral resources have a great amount of uncertainty as to their existence, economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category of mineral resource. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Investors are cautioned not to assume that all or any part of the mineral deposits in these categories will ever be converted into proven and probable mineral reserves.