AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

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 three and nine month periods to September 30, 2016. This MD&A should be read in conjunction with the un-audited consolidated financial statements and related notes as at and for the three and nine month periods ended September 30, 2016, that have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ('IAS 34'). In this MD&A, the Company also reports certain non-IFRS measures, which are defined herein. All amounts in this discussion are expressed in United States dollars, unless identified otherwise.

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 carrying on the business of, Avnel Gold, Limited, a Cayman Islands company ("Avnel Cayman") which owns 80% of its subsidiary in Mali (Somika SA), 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.

Third Quarter 2016 Highlights

- Discussions advance with banks and financial institutions on financing the Kalana Main Project
- Repairs to bridge at the Bale River completed, enabling safe delivery of heavy loads of project equipment in 2017
- Detailed design of Tailings Dam Storage Facility ("TSF") completed and tender document for construction ready to be issued
- Tender for Engineering, Procurement and Construction Management ("EPC") for the gold plant and infrastructure issued and proposals received
- Project optimisation shows potential for project construction to be completed in 19 months, a 3 month shorter timeframe than set out in the Definitive Feasibility Study ("DFS").
- Optimisation identified potential engineering improvements to reduce cost and operation risk
- Development of Environmental Social Management Plan ("ESMP") and International Finance Corporation Performance standards advanced

Subsequent to September 30, 2016:

- Announced infill and extension drilling programme on the Kalanako deposit and regional exploration activity in Q4 2016 and Q1 2017
- Appointed Anne-Séverine Le Doaré to the Board of Directors
- Base shelf prospectus filed on SEDAR
- Appointed DRA Mineral Services and Group 5 Joint Venture to execute the EPC for the Kalana Project, subject to final contractual documentation

Outlook

A positive feasibility study for the Kalana Main Project (the “Feasibility Study”) has been completed and the related Environmental and Social Impact Assessment (“ESIA”) and associated Environmental and Social Management Plan (“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 extentions. The only significant government approval required to develop new mines on the permit is an ESIA and the associated ESMP. The ESIA has been prepared to conform to the requirements of the International Finance Corporation's Performance Standards, the World Bank Group's Environmental, Health, and Safety guidelines, and other financial institutions that are signatories to the Equator Principles.

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”). Discussions are progressing with banks and other financial institutions to provide financing for the development of the Kalana Main Project. Cost optimisation analysis continued in the period on the construction costs 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 Kalana Mine, gold production in the nine months to September 30, 2016 was 7,181 ounces. The Company forecasts gold production of 9,000 ounces for the full year of 2016. 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 in compliance with World Bank Equatorial principles and Malian laws. 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 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.

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 and territories of Canada other than Quebec, and its Common Shares are listed for trading on the TSX under the symbol “AVK”.

The Company’s principal asset is an 80% indirect equity interest in Société d’Exploitation des Mines d'Or De Kalana, S.A. (“SOMIKA”), with the Republic of Mali holding 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 a 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 paralell 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 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 *National Instrument 43-101 Standards for Disclosure for Mineral* Projects ("NI 43-101") compliant 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 measurements reported in this MD&A in regards to 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 Kalana Open Pit 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 it scheduled to cease.

The mine plan provides for mining production from the Kalana Open Pit 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 potentially partially offset development capital requirements.

The site will be developed to include the process plant, Kalana Open Pit, 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 internal rate of return ("IRR") of 38%, an unlevered 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 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").

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 Gold Mine to Avnel. Avnel estimates that these amounts total approximately $115 million as at December 31, 2015.

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 existing underground Kalana Mine is in full compliance with all environmental obligations and is audited by the Ministry of Environment and Sustainable Development annually. The Company is actively engaged with the Kalana workforce, organised labour, community elected, and traditional leaders. The Company has made significant contributions to the local communities, including the electrification of Kalana Town and support to schools, medical clinics, youth facilities, and local sports.

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 Update

In preparation for the approval to commence construction of the Kalana Main Project, a number of activities have progressed during the third quarter 2016

1. The existing road bridge across the Bale River is located on the National Route between Yanfolila and Kalana. Following an updated engineering inspection of the bridge by a South African Engineering Consultant, the company initiated a repair project with the National Roads Department. The repair work was completed in Q3 when the water level in the river allows access to bridge foundations and steelwork. The Engineering Consultant confirms the load capacity of the bridge is 100 tonnes following the repair work. This is sufficient for the maximum loads required for the project and will be safe for transport during 2017. The project cost of US$180,000 was funded by SOMIKA and two mining companies who also require this bridge for access to their projects.
2. 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 DFS 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 early 2017.
3. Avnel issued a tender for the EPC services for the Kalana Gold Plant and associated infrastructure. Two international Engineering Companies were selected and have submitted bids for the EPC and the company is evaluating the proposals.
4. Based on the EPC tender proposals, the project construction time table 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 optimized 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 optimized schedule is 19 months.

5. As part of the optimisation process, Avnel is in advanced discussions with 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. 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
6. The process flow sheet was reviewed and a strategic decision made to incur additional capital expenditure in the up-front crushing circuits. When processing saprolite material there is potential risk that increased moisture content can lead the sticky material that can cause delays in production. Whilst the risk is considered low for Kalana saprolites, there is potential to identify additional ore resources close to Kalana, such as Kalanako, where sticky ore may be a higher risk. The engineering solution is to install a mineral sizer through which saprolite will pass directly to the mill. Mineral sizers are used in some mines in West Africa, particularly where the saprolite is stickier than Kalana saprolites. 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 month 30 of the project, the capital expenditure for the ROM bin, jaw crusher and secondary crusher will be postponed for one year. In addition the second standby secondary crusher will be removed from the flow sheet. The impact on capital expenditure is estimated as $1.4 million for the mineral sizer circuit with a reduction of $800,000 in the secondary crushing circuit. The benefit is a strategic related to other sources of saprolite, reducing risk during the initial two years of production with saprolite being the major ore source and deferred capital
7. 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 completed in Q1 2016 and approved by the Malian Authorities. During Q3 significant progress has been made and the ESMS (Environmental and Social Management System) and Actions Plans will be completed Q4.

   ESDCO, a leading Malian Environmental Consultancy, has been appointed to provide external consultant expertise for the implementation of the approved Resettlement Action Plan ("RAP") in line with Malian legislation and IFC Performance Standards. The RAP will be implemented by a Steering Committee headed by the Prefet of Yanfolila. The Committee 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 Committee

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 Committee.

The Committee will formally commence in December 2016 after the local government elections in Mali in November.

8. An ESIA is being prepared for the 5.5 Km public road diversion around the new mine infrastructure. This will replace the existing public road to Kalana Town. The ESIA will be submitted in Q4 and approval is expected in Q1, 2017
9. The site for the relocation of impacted persons was identified by the Community in Q1 2016. During Q3 2016 SOMIKA has completed a geotechnical survey of the site and the results 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 Resettlement Action Plan. This is the first step in the formal process of approval for the new urban area.

Exploration Upside

Kalana Main Project Reserves per development stages

Although the lateral near-surface extents of the Kalana Main deposit seem to have been fairly well defined, the company believes that the deposit could be improved in grade and quality in the deepest part of both the reserve and resource pits. Indeed the drop in ore grade (from 3.1 to 2.5g/t Au) and the strong increasing of the strip ratio observed in the DFS stage 12 (reserve pit) as well as in the deep resource (not yet included into reserve), are both interpreted as being the result of 1) the less dense drilling pattern at depth; 2) the decreasing of the average DDH core diameter and subsequent sample size and 3) the lack of large RCH sample alternating with cored samples. These 3 factors cannot be entirely managed from surface and an in-pit infill exploration drilling campaign has been designed.

	Waste		**Total Reserve**		
	Tonnes (Mt)	**Strip Ratio**	**Tonnes (Mt)**	**Grade (g/t Au)**	**Ounces (Moz)**
Tailings	-	-	0.7	1.8	0.044
Stages 1 to 11	112.1	8.9	12.6	3.1	1.25
Stage 12	95.7	11.4	8.4	2.5	0.67
Total	**207.8**	**9.9**	**21.7**	**2.8**	**1.964**

There is also significant regional exploration potential. Avnel's exploration team has dedicated significant resources to the evaluation of regional exploration prospects outside of the Kalana Main area. This initial work is based upon historical data carried out by others, regional work conducted by Avnel and the IAMGOLD Corporation, and the Company's field surveys of active and historical orpaillage. This work, which is still ongoing, is used to prioritise targets for future exploration. An advanced geochemical survey, started in October 2016, has been designed to improve the knowledge on 3 to 5 high priority prospects, which are at the grassroots level in our exploration pipeline.

A high-priority exploration project for the Company is the Kalanako deposit. The deep weathering profile at Kalanako displays a potential free digging high-grade ore satellite located less than 3 km northeast of the Kalana Main Project proposed mill site. The Kalanako deposit currently has an Inferred in-situ resource of 0.38 Mt grading 5.55 g/t Au, containing 0.07 Moz of gold. The March 2015 Kalanako Mineral Resource Statement was completed by Denny Jones Pty Ltd, at a cut-off grade of 0.9 g/t Au based upon information from 46 diamond drill holes (9,661m) and 232 RC drill holes (24,952m); no local estimates for internal or external dilution. The current Kalanako maiden mineral resource is based on a wide drill spacing (75m x 25m). Several mineralized 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 mineralized zones are less than 10 meters thick and appear to be steeply dipping, often contain high-grade intercepts near surface.

Kalanako Drilling and Regional Exploration

New drilling is expected to start mid-November 2016. This RC infill drilling campaign of 7,000m to 9,000m has been designed to improve grade continuity infilling the in-pit resource to upgrade resource classification and, using historical data as a guide, to increase the total amount of resources drilling the mineralised zones between these resource pits. The infill drilling programme will be focused on saprolite and saprock weathered domains, a depth considerably deeper than observed at Kalana Main (drillhole depth of 75-175 meters). Please refer to the press release dated October 17, 2016 for further details

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 Gold Mine is scheduled to process approximately 4,400 tonnes of material per month from a mix of underground production and surface stockpiles at an average grade of 6.4 g/t until the end of 2016. In the nine months to September 30, 2016, gold production from the Kalana Mine was 7,181 ounces with the forecast production for the 2016 year being 9,400ozs.

The soviet era underground mine with a throughput of 40,000 tonnes per annum remains marginally economic and will remain so without significant capital expenditure which is not the appropriate way of mining the resource.

The Kalana Underground Mine continues to benefit from an ongoing weakness in local currencies relative to the US dollar, an improved gold price environment, and higher than expected production. In the first nine months of the year the underground mine has made a positive cash flow of $975,000, and the Company now expects the underground mine to be cash positive in the full year 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 September 30		Nine months ended September 30	
	2016	**2015**	**2016**	**2015**
Total Revenue	2,714	2,280	8,925	8,746
Total Expenses	(3,573)	(3,953)	(11,949)	(12,034)
Other income	3,747	2,498	2,304	1,707
Net profit/(loss)	2,888	825	(720)	(1,581)
Net profit/(loss) from continuing operations attributable to parent	3,278	1,352	533	(422)
Net profit/(loss) per share attributable to parent	$0.011	$0.004	$0.002	($0.001)
Weighted average shares outstanding	307,994,100	304,330,124	305,596,044	284,372,981

Balance Sheet	**Sept 30, 2016**	**Sept 30, 2015**	**Dec 31, 2015**
Working capital surplus	6,861	10,953	8,803
Total assets	25,710	30,166	27,958
Total non-current liabilities	3,495	8,316	8,062
Shareholders’ equity	34,798	34,149	32,738

Results of Operations, Nine Months Ended September 30, 2016

Total revenue increased to $8,925,000 in the nine months to September 30, 2016, from $8,746,000 in the nine months to September 30, 2015. The increase in revenue is a result of a 6% increase in the realised average sales price of gold from $1,183 per ounce in the nine months to September 30, 2015, to $1,258 per ounce in the nine months to September 30, 2016. The increase in revenue was partly offset by a 4% decrease ounces sold from 7,376 ounces in the nine months to September 30, 2015 to 7,079 ounces in the nine months to September 30, 2016.

Total expenses reduced slightly from $12,034,000 in the nine months to September 30, 2015 to $11,949,000 in the nine months to September 30, 2015. Exploration costs expensed was $392,000 in the nine months to September 2016, compared to nil in the nine months to September 2015. Operating costs per ounce of gold sold for the nine months to September 30, 2016 reduced from $1,092 per ounce to $1,053 per ounce, which is attributable to lower operating costs in the current period relative to the comparative period.

Avnel recorded a net loss of $720,000 ($0.002 attributable profit per share to parent) for the nine months ended September 30, 2016, compared to a net loss of $1,581,000 ($0.001 attributable loss per share to parent) in the nine months to September 30, 2015. Included in the nine months to September 30, 2016 is a profit on the fair value of derivative financial instruments of $2,428,000, compared to a profit of $1,897,000 in the nine months of 2015, arising from a change in the fair value of warrants outstanding and exercised. The fair value accounting gains and losses reported have no cash effect on the Company.

As compared to the interim consolidated statement of financial position as at December 31, 2015, Avnel's cash and cash equivalents as at September 30, 2016 decreased by $2,798,000, from $7,211,000 to $4,413,000. The decrease was the result of cash provided in operations of $2,621,000 and cash used in investing activities of $1,056,000, that was partly offset by the exercise of warrants and options $873,000. The Company had working capital of $6,861,000 as at September 30, 2016, compared to working capital of $8,803,000 as at December 31, 2015. Total assets decreased from $27,958,000 as at December 31, 2015 to $25,710,000 at September 30, 2016.

Total non-current liabilities reduced from $8,062,000 as at December 31, 2015 to $3,495,000 at September 30, 2016, mainly due to value of the outstanding warrants moving from a non-current liability to a current liability. The fair value of these derivative financial instruments has no cash effect on the Company.

Total stockholders' equity increased to $34,798,000 as at September 30, 2016 from $32,738,000 as at December 31, 2015.

Mining Operations

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

	Three months ended September 30		Nine months ended September 30	
	2016	**2015**	**2016**	**2015**
Tonnes milled:	13,124	13,346	40,950	37,927
Average grade processed (g/t Au):	7.16	6.27	7.11	7.58
Recovery rate (%)	77.1	77.8	76.8	79.9
Gold production (ounces)	2,328	2,092	7,181	7,379
Cost per tonne milled	$183	$200	$187	$212
Operating cost per ounce of gold sold	$1,038	$1,330	$1,053	$1,092
Operating cost per ounce of gold produced	$1,034	$1,273	$1,068	$1,089

Gold production of 7,181 ounces in the nine months to September 30, 2016 was 3% lower than the nine months to September 30, 2015. The decrease in production is attributable to a 6% decrease in average grade processed to 7.11 g/t Au in the nine months to September 2016, compared to 7.58 g/t Au in the nine months to September 2015. Average gold recovery of 76.8% in the nine months to September 2016 was 4% lower than the 79.9% achieved in the comparative period of 2015.

Gold Sales

Gold sales data is as follows:

	Three months ended September 30		Nine months ended September 30	
	2016	**2015**	**2016**	**2015**
Ounces sold	2,038	2,043	7,079	7,376
Average realized gold price ($ per ounce)	$1,329	$1,114	$1,258	$1,183

Metal revenue - $000

	Three months ended September 30		Nine months ended September 30	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Total gold sales	2,708	2,275	8,907	8,728
Silver sales	6	5	18	18
Metal revenue	2,714	2,280	8,925	8,746

Gold spot prices commenced in 2016 at $1,082 per ounce and ended at September 30, 2016 at $1,322 per ounce, with the London PM Fix averaging $1,258 per ounce during the year to September 30, 2016.

Summary of Quarterly Results

Consolidated Statement of Operations for the Quarters Ended

Quarter ended (US$'000 except per share amounts)	Sept 30 2016	June 30 2016	Mar 31 2016	Dec 31 2015	Sept 30 2015	June 30 2015	Mar 31 2015	Dec 31 2014
Total revenue	2,714	2,960	3,251	2,614	2,280	3,379	3,087	3,722
Net profit/(loss) from continuing operations	2,888	(2,863)	(745)	(1,267)	825	(2,273)	(133)	(2,948)
Net /profit(loss) from continuing operations attributable to ordinary equity holders of the parent	3,278	(2,326)	(419)	(792)	1,352	(1,860)	86	(2,922)
Net profit/(loss) per share from continuing operations attributable to ordinary equity holders of the parent	$0.011	($0.008)	($0.001)	($0.004)	$0.004	($0.006)	$0.000	($0.011)

Third Quarter Results

Total revenue increased 19% to $2,714,000 in the quarter to September 30, 2016 from $2,280,000 in the quarter to September 30, 2015, which is attributed mainly to an increase in the realised average sales price of gold from $1,114 per ounce in quarter to September 30, 2015 to $1,329 per ounce in quarter to September 30, 2016.

Total expenses reduced from $3,953,000 in the quarter to September 30, 2015 to $3,573,000 in the quarter to September 30, 2016. Operating costs per ounce of gold sold for the quarter to September 30, 2016 reduced from $1,330 per ounce to $1,038 per ounce arising mainly from the strengthening of the US dollar relative to the CFA and the South African rand and higher production.

Avnel recorded a net profit of $2,888,000 ($0.011 attributable profit per share to parent) for the quarter to September 30, 2016, compared to a net profit of $825,000 ($0.004 attributable profit per share to parent) in the comparative period in 2015. Included in the quarter to September 30, 2016 is a profit on the fair value of derivative financial instruments of $3,809,000, compared to a profit of $2,576,000 in the quarter to September 30, 2015, arising from the fair value of warrants. The fair value accounting losses reported have no cash effect on the Company.

Avnel's cash and cash equivalents increased by $316,000 in the quarter to September 30, 2016 from $4,097,000 to $4,413,000, mainly arising from the exercise of warrants and options totalling $694,000 partly offset by the cost of exploration and evaluation asset expenditures $316,000.

Liquidity, Capital Resources and Going Concern

These 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 September 30, 2016 the Group had net current assets, excluding the liability for outstanding share warrants of $6,861,000 including a cash balance of $4,413,000. As discussed below, the Company needs to raise further funds in near term in order to satisfy short-term working capital needs and will also focus 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 DFS for the Kalana Main project together with an updated MRE prepared by Snowden and Denny Jones Pty. Ltd. 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/oz. 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.

On April 28, 2016 the Company received approval from the Ministry of Environment for a new Environmental and Social Impact Assessment ("ESIA"). The Company is pursuing international financing for the construction of an open pit mine at Kalana Main and is actively engaged in early discussions with a number of parties in this regard. As a result of these activities, the Kalana Main project is expected to be sufficiently advanced for the Company to consider a construction decision during 2017, subject to the availability of project financing.

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 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 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 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 September 30, 2016 was $17.3 million and $16.9 million as at December 31, 2015. 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 September 30, 2016, 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 Kalana Main Project.

Contractual Obligations

The Company has the following contractual obligations as at September 30, 2016:

Contractual Obligations - $000	Total	Less than1 year	1-3 years	4-5 years	After5 years
Operating Leases (1) (2)	508	145	264	99	-
Total Contractual Obligations	**508**	**145**	**264**	**99**	**-**

(1) The Company has entered into operating leases 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 will amount to $496,000 up until the end of the lease.

(2) The Company has entered into an operating lease for an office building in Bamako, Mali. The lease expires in June 2017, future minimum payments will amount to $12,000.

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, alleging payment of interest and fees, (which is disputed), withholding tax on foreign suppliers and VAT exemption. Management believes strongly that the majority of the tax claims are unfounded and have taken external advice. Management responded to the inspector in December 2013 contesting the claim and held a working clarification meeting in January 2014. A reassessment was received on July 14, 2014 for $6.5 million that does not give rise to an obligation to pay. On July 16, 2014, the Company sent a letter disputing the reassessment to the tax authorities following which the Company has not received any further correspondence. The tax audit of SOMIKA for the years ended 2012, 2013 and 2014 commenced in December 2015.

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 $216,000 in the nine months ended September 30, 2016 compared to $274,000 in the nine months to September 30, 2015. 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 $112,000 in rental costs during the nine months ended September 30, 2016 compared to $118,000 in the nine months to September 30, 2015. 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 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 due to a recent outbreak of the Ebola virus has occurred, The World Health Organisation has now declared West Africa to be Ebola free. There is a risk that the Ebola virus may impact the mine's future operations both directly and indirectly. The Malian government has instituted procedures to contain and reduce the risk of the Ebola virus becoming an epidemic in the future

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 nine months ended September 30, 2016, have been prepared in accordance with IAS 34 Interim Financial Reporting. 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 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 proven and probable reserves. 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 amortized 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 carrying value of the Company's estimate of mineral resource has been estimated as at 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 in effect when the liability is incurred. The retirement asset is included in mining properties and charged to operations using the units of production method based upon estimated proven and probable reserves which can be recovered.

During 2006, the Company commissioned an environmental report by an independent party. This estimated a cash flow for the retirement and rehabilitation of the underground Kalana Gold Mine of $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, and availability of project financing.

Transactions expressed in foreign currencies are translated into U.S. dollars at the rate of exchange prevailing on the date of transaction. Monetary assets and liabilities expressed in foreign currencies are re-converted into U.S. dollars at the rates of exchange prevailing on the balance sheet date.

The financial statements of overseas subsidiaries are remeasured into their functional currency. Mining properties and other non-current assets are remeasured at historical rates. Monetary assets and liabilities are remeasured at current rates. Revenue and expense transactions are remeasured at the average rate for the period. Remeasurement gains and losses are included in income.

Disclosure of Outstanding Share Data

As at November 11, 2016, the Company had 309,929,600 issued and outstanding Common Shares. The following provides details on options or rights to purchase Common Shares of the Company as at November 11, 2016.

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

(a) 2,500,000 amended CEO 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

(b) 5,635,000 Employee Long Term Incentive Plan options issued between August 2005 and May 2015, which can be exercised at a price of between C$0.20 and C$0.60 per option to obtain one common share of Avnel, expiring between December 2016 and August 2026.

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
January 1, 2011	January 1, 2011	December 31, 2016	0.35	170,000
January 1, 2011	January 1, 2012	December 31, 2016	0.35	170,000
January 1, 2011	January 1, 2013	December 31, 2016	0.35	160,000
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	*	August 24, 2026	0.45	400,000
August 24, 2016	**	August 24, 2026	0.60	400,000
				5,635,000

- * 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.

(c) 5,000,000 Employee Performance Units, whose release date will be the following day that the closing price of the Company's ordinary shares on the Toronto Stock Exchange has exceeded C$0.50 for ten consecutive trading days. On the release date 50% of the performance units will be released with the remaining 50% one year after the release date.

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

Warrants and Compensation Options

The following table shows the number of warrants (and similar instruments) to purchase Common Shares of the Company as at November 11, 2016.

Date Issued	Type	Date Expiring	Exercise Price (C$)	Number Outstanding
July 17, 2014	Warrants*	January 17, 2017	0.20	66,319,700
July 17, 2014	Broker Warrants	January 17, 2017	0.20	810,000
May 7, 2015	Warrants	May 7, 2017	0.40	21,450,000
May 7, 2015	Broker warrants	May 7, 2017	0.27	2,378,000
				90,957,700

* The warrants issued on July 17, 2014, entitle the holder to purchase one ordinary share in the capital of the Company at a price of C$0.20, at any time for a period of 30 months from the date of issue. However, in the event that the ordinary shares trade on the TSX, or other recognised stock exchange or market, as applicable, at a volume-weighted average price of C$0.30 or more for a period of at least 20 consecutive trading days, the Company shall be entitled to accelerate the exercise period to a period ending at least 30 days from the date that notice of such acceleration is provided to the holders of warrants.

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, 2015, 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 September 30, 2016.

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, 2015, and have concluded that the Company's internal control over financial reporting was effective during the year 2015.

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 November 11, 2016. Additional information about the Company, including the Company's Annual Information Form, is available at www.avnelgold.com or the website of the System for Electronic Document Analysis and Retrieval at www.sedar.com.

Non-IFRS Measures

Avnel's unaudited interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting.

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, Mine Management fees to be earned by Avnel, plus sustaining capital costs, which includes community and environmental. These costs are then divided by the number of ounces of expected production to be sold to arrive at "On-site All-in Sustaining Cost per Ounce Sold".

"Earnings Before Interest, Taxes, and Depreciation" or "EBITD" represents net earnings before interest, taxes, and depreciation. EBITD is an indicator of the Company's ability to generate liquidity by producing operating cash flow to fund working capital needs, service debt obligations, and fund capital expenditures.

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, 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 preliminary economic assessment of the Kalana Main Project, the completion of the Definitive Feasibility Study on the Kalana Main Project, the approval of the ESIA, the availability of project financing, the Company's ability to raise funds, the continued operation of, and production at, the existing Kalana Gold 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 *National Instrument 43*-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101") compliant technical report titled "NI43-101 Technical Report on Kalana Main Project", dated effective 1 April 2016 (the "Kalana Technical Report"), 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.