AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009

The following management's discussion and analysis (the "MD&A") for Avnel Gold Mining Limited ("Avnel" or the "Company") describes the operating and financial results of the Company for the period from January 1, 2009 to December 31, 2009. 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 reorganization which was completed on February 22, 2005.

This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009 and related notes thereto. The selected financial information and the discussion of results of operations were prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). Reference should be made to Note 15 of the consolidated financial statements of the Company for a reconciliation of Canadian and U.S. GAAP. All amounts in this discussion are expressed in U.S. dollars, unless identified otherwise.

Forward-Looking Statements
This MD&A contains forward-looking statements which 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. 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.

Cautionary Note Regarding Technical Information
Technical information in this publication regarding the Kalana Gold Mine and the Kalana Permit (as such terms are defined below) is summarized or extracted from technical reports prepared by Snowden Mining Industry Consultants (Pty) Ltd ("Snowden") entitled "Kalana Gold Mine Technical Report" dated February 20, 2005 (the "2005 Snowden Technical Report") and "Kalana Phase I Exploration, Mali, West Africa" dated November 4, 2004 (collectively the "Technical Reports"). The Technical Reports were prepared by G.M. Greenway, Principal Resource Geologist, and D.H. Kullmann, Principal Consultant Mining Engineer, of Snowden, each of whom is a "Qualified Person" as such term is defined in National Instrument 43-101 — *Standards of Disclosure for Mineral Projects* ("National Instrument 43-101"). The full text of the Technical Reports are available for review on the System for Electronic Document Analysis (SEDAR) located at www.SEDAR.com.

Technical information in this publication arising subsequent to the date of the Technical Reports, if any, regarding the Kalana Gold Mine and the Kalana Permit is provided by Avnel management under the supervision of Roy Meade, a Company director, who is a non-independent "Qualified Person" as such term is defined in National Instrument 43-101.

Overview of the Company
Avnel's principal assets are an 80% indirect interest in Société d'Exploitation des Mines d'Or De Kalana, S.A. ("SOMIKA") and a 90% indirect interest in the Fougadian Exploration Permit, through its subsidiary, Avnel Mali SARL. The State of Mali holds the remaining 20% interest in SOMIKA and 10% interest in the Fougadian exploration and exploitation permit (the "Fougadian Exploration Permit"). SOMIKA is the owner of a gold mine located in the southwest of Mali (the "Kalana Gold Mine") and is the holder of an exploration permit in respect of 387.4 kilometres square in south western Mali (the "Kalana Permit").

The Kalana Gold Mine was acquired by Avnel in late 2002 following which the existing plant and infrastructure were upgraded. Mining operations were resumed by SOMIKA in January 2004 with commercial production commencing in March 2004.
Avnel's strategic objective, through SOMIKA, is to commercially exploit the remaining underground reserves at the Kalana Gold Mine, convert existing open pit mineral resources into open pit reserves and increase the resource base of bulk mineable resources. In August 2009, Avnel concluded a Joint Venture with IAMGOLD in pursuance of this objective under which IAMGOLD is required to spend $11 million to explore the Kalana Mine area with a view to realizing a large scale, bulk mineable potential.

The key terms of the agreement with IAMGOLD are summarized as follows:

- IAMGOLD paid Avnel a signing fee of $1 million and will pay a continuation fee of a further $1 million on the first anniversary of the Option Agreement (subject to IAMGOLD not terminating the option before then).

- IAMGOLD is required to spend $11 million within three years (subject to a one year extension) to explore the potential for further gold mineralization principally in and around the area of the existing Kalana Gold Mine.

- If IAMGOLD, on the completion of exploration, delivers a resource study establishing the existence of not less than 2 million ounces of gold and a work plan to move forward with a feasibility study, it will have the option to acquire a 51% indirect interest in Avnel’s 80% interest in SOMIKA and an undiluted 51%interest in all of the loans made by Avnel to SOMIKA (the “Guernsey Loans”).

  If IAMGOLD funds the exploration costs within the required time period but does not deliver the required resource study and feasibility study work plan it will have the option to acquire a 25% indirect interest in Avnel’s interest in SOMIKA and an undiluted 51% interest in the Guernsey Loans.

- After IAMGOLD has acquired an indirect interest in SOMIKA under the Option Agreement, it will enter into a shareholders’ agreement (the “Shareholders’ Agreement”) with Avnel (the terms of which are agreed) to govern IAMGOLD’s and Avnel’s indirect joint ownership interest in SOMIKA.

- Under the Shareholders’ Agreement, if IAMGOLD exercises its right to acquire a 51% interest under the Option Agreement, IAMGOLD will have the right to acquire up to an additional 19% (total 70%) interest if, among other requirements, it solely funds the preparation of and delivers a feasibility study that supports the development or re-development of a gold mine in the Kalana Permit area.

  If Avnel participates in the funding of the feasibility study by reimbursing IAMGOLD for 25% of its feasibility study costs, IAMGOLD’s additional interest will be 14% (total 65%).

- If IAMGOLD does not deliver the feasibility study, its interest will drop to 35%

- During the period of the preparation of the feasibility study, Avnel and IAMGOLD will share all operating costs related to the Kalana Gold Mine and Kalana Permit Area on a pro-rata basis based on their indirect partnership in SOMIKA.

- Upon delivery of the feasibility study, IAMGOLD will pay a cash fee to Avnel based on the number of ounces of gold categorized as reserves in the feasibility study and the number of ounces of gold in excess of 650,000 ounces categorized as resources (excluding reserves) in the feasibility study, multiplied by the gold price per ounce based on the previous 180 day trading average gold price.

- Upon delivery of the feasibility study, as a precondition to IAMGOLD increasing its indirect interest in SOMIKA, IAMGOLD is required to provide a completion guarantee to secure project financing for the development and construction of the mine outlined in the feasibility study or, IAMGOLD shall itself provide the project financing in an amount equal to 60% of the development costs. Avnel and IAMGOLD shall fund the remaining 40% of development costs on a pro-rata basis based on their indirect ownership interests in SOMIKA.

On August 10, 2009, Avnel issued to IAMGOLD warrants to acquire up to 2 million common in connection with the Option Agreement. Each warrant entitles the holder to purchase one common share of Avnel at an exercise price of Cdn. $0.45 per share. The warrant exercise period expires on the earlier of (i) August 10, 2012 and (ii) the exercise by IAMGOLD of its option under the Option Agreement or otherwise the termination or forfeiture of the option. The warrants were fully vested upon grant and were valued at $40,512 based on the Black-Scholes valuation model.

The mineral reserves that can be mined from the existing underground infrastructure are being constantly reviewed and are currently estimated at 24,000 tonnes containing 7,000 gold ounces available to mine. Development may provide additional reserves during the next quarters. Avnel anticipates the decline in production from the narrow vein underground mine will take place in an orderly transition whilst the bulk mining potential of the Kalana deposit and proximal areas is investigated by the IAMGOLD Joint Venture. The mineral reserves that can be mined from existing underground infrastructure may be depleted during 2010.

Initial work on the exploration of the Kalana Permit area was carried out by SONAREM and SOGEMORK between 1967 and 1982. In this period, 815 diamond drill holes (totalling 81,524 m) were drilled focusing on an area adjacent to the Kalana village. This area eventually became the Kalana Gold Mine.

In a second phase of drilling between 1989 and 1991, a further 56 holes (totalling 16,000 m) were drilled by SOGEMORK to test the deeper parts of the Kalana Gold Mine. The result of the exploration drilling was a final drill spacing of approximately 50 m by 50 m. Sampling of core was generally only where high gold grades were apparent, i.e. the gold bearing quartz veins as the perception was that only the high grade free milling quartz veins could be profitably mined with the technology available in Mali at that time. The quartz veins and their immediate hanging and foot walls were analysed with the result that only a fraction of the core was analysed (likely being significantly less than 10%).

The majority of the drill holes were either vertical or sub vertical as the veins targeted were flat dipping. As such this drilling was not optimally oriented to intersect steeply dipping mineralized zones.

Borehole information was interpreted by SOGEMORK on northeast-southwest sections that are spaced at intervals of between 45 m and 50 m. In addition, there are longitudinal sections aligned northwest-southeast at intervals of approximately 60 m. The SOGEMORK exploration staff interpreted rock types, structure and the mineralized features, such as quartz veins and areas of stockwork, on these sections in great detail.

SONAREM-SOGEMORK also conducted exploration within the Kalanako I prospect area that is approximately 3.0 km to the northeast of the Kalana Gold Mine. SONAREM-SOGEMORK reported a historical resource of 600,000 tonnes at a grade of 3.6 g/t Au. Snowden cannot comment on the reliability of this historical resource as information regarding the estimate was not available for Snowden's review.

From 1963 until the 1980s, intermittent exploration activities were carried out by SONAREM-SOGEMORK on grids in the southern part of the Kalana Permit area. Most of the work within these grids involved mapping, selective sampling, and ground geophysics. No drilling or systematic soil geochemistry was conducted in the southern grid areas.

With this very large technical database Avnel determined during 2008 to commence an optimisation programme entitled The Kalana Main Project.

Kalana Main Project

The objective of the Kalana Main Project is to (i) capture the very large geological database generated in paper form by SONAREM into a digital database, and (ii) re-interpret that data to assess the potential for gold mineralization outside of the flat dipping quartz vein structures mapped and assayed by SONAREM and SOGEMORK and (iii) optimise a future drill program to enhance the existing mineral resource base. These quartz vein structures host substantially all of the Kalana Gold Mine's mineral resources, reported in the National Instrument 43-101 compliant

2005 Snowden Technical Report filed on SEDAR. Avnel has continued underground exploration by development and diamond drilling and this data will be included in the database. Underground mining has exposed numerous quartz vein, stockworks and mineralization in the metasediments that had not been incorporated by SONAREM and SOGEMORK into their geological model of the deposit.

The SONAREM and SOGEMORK exploration in its first and most substantive phase aimed at establishing a high grade free milling gravity gold recoverable underground mine targeting a set of stacked, flatly dipping quartz veins that occur in and around a diorite stock. This has a number of implications in terms of the Russian exploration methodology, being:

- As the target was perceived by SONAREM and SOGEMORK to consist of flatly dipping veins, more than 98% of their drilling was vertical or sub-vertical. The joint venture between Ashanti Gold Fields Ltd. ("Ashanti") and Johannesburg Consolidated Investments Ltd. which studied the mine between 1995 and 1996 and the surrounding area also drilled predominantly vertical holes.

- With SONAREM and SOGEMORK's perception that only the high grade free milling quartz veins could be profitably mined, they analysed the quartz veins and their immediate hanging and foot walls with the result that only a portion of the core was analysed and incorporated into their geological model.

- All drilling by SONAREM and SOGEMORK was core drilling but the core was not kept, although it was meticulously logged. Ashanti drilled two twin holes (one vertical and one inclined) which had good correlation with the SONAREM and SOGEMORK holes that they twinned.

- As SONAREM and SOGEMORK were only targeting free milling gold, they neglected the oxide cap (except for the Kalana, I pit) potential for mineralization in the wallrocks with disseminated sulphides, stockworks and other quartz vein structures.

The focus of the Kalana Main Project is to study the potential for non-quartz vein and low grade quartz vein hosted gold mineralization and explore the potential for the mining of the Kalana Gold Mine or parts of it either as an open pit or by underground bulk mining methods.

Selected Annual Information
(in thousands of U.S. dollars except per share amounts)

	2009	2008	2007
Total Revenue..	20,420	17,800	15,938
Total Expenses...	26,575	19,077	15,827
Net Loss...	(7,895)	(3,457)	(904)
Loss per share	$(0.10)	$(0.05)	$(0.01)
Weighted average shares outstanding	79,122,803	71,068,219	62,382,062
Balance Sheet			
Working Capital (Deficiency)	(12,779)	(639)	(261)
Total Assets	25,530	31,843	30,102
Long Term Debt	-	10,941	10,941
Shareholders' Equity	5,139	12,665	12,982

Results of Operations
Revenue has increased to $20,420,000 in 2009 from $17,800,000 in 2008. This is as a result of an increase in average sales price of gold from $905 per ounce in 2008 to $976 per ounce in 2009, and a slight increase in gold ounces sold from 19,614 ounces in 2008 to 19,853 ounces in 2009.

Avnel recorded a net loss of $7,895,000 ($0.10 per share) for the year ended December 31, 2009 compared to a net loss of $3,457,000 ($0.05 per share) in 2008. Higher depreciation costs was the main contributing factor to the increase in the net loss in 2009 compared to 2008, resulting from the significant reduction of proved and probable reserves of 52,000ozs as at January 1, 2009 compared to reserves of 341,000ozs as at January 1, 2008.

As compared to the balance sheet as at December 31, 2008, Avnel's cash and cash equivalents as at December 31, 2009 increased by $1,750,000. Operating activities generated a positive cash flow of $2,489,000 with capital expenditure of $904,000.

There was a working capital deficiency of $12,779,000 as at December 31, 2009 compared to working capital deficiency of $639,000 as at December 31, 2008, with the main factor being that the convertible loan became a current liability being due 30 June, 2010.

Total assets decreased from $31,843,000 as at December 31, 2008 to $25,530,000 at the end of 2009 as the net value of property, plant and equipment decreased by $6,249,000.

At December 31, 2008 and December 31, 2009 shareholder loans (as defined below) were $10,941,000. Short term debt increased by $11,106,000 mainly resulting from shareholder loans of $10,941,000 moving from long term debt to short term debt. Shareholders' equity decreased to $5,139,000 as at December 31, 2009 from $12,665,000 at the end of 2008. The biggest contributing factor was the increase in losses in 2009. Additional Paid in Capital increased by $342,000 due to shares issued as payment of interest on the shareholder loans. The retained deficit increased by $7,895,000 as a result of the net loss made in 2009.

Mining Operations

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

	2009	2008
Tonnes milled:		
Underground ore	49,348	48,232
Coarse sand reclaimed	-	-
Total	49,348	48,232
Gold grade - grams per tonne (g/t):		
Underground ore	12.1	15.7
Coarse sand reclaimed	-	-
Total	12.1	15.7
Recovery rate - %	86.6	88.0
Gold production - ounces	16,677	21,047
Cost per tonne milled	$279	$227
Operating cost per ounce of gold sold	$788	$653
Operating cost per ounce of gold produced	$826	$513

Tonnes milled in 2009 were 2% higher than the production achieved in 2008. Gold production at 16,677 ounces in 2009 was 21% lower than 2008 reflecting lower head grade not offsetting higher tonnes milled

Underground mining production increased 2% in 2009 as additional mining faces were made available on 150m and 180m levels.

The gold grade of underground ore mined of 12.1 g/t in 2009 was 23% lower than 15.7g/t obtained in 2008. The gold grade decreased as mining moved into lower grade reserve blocks.

Gold recovery in 2009 decreased to 86.6% from 88% as the head grade decreased.

Tonnes milled and gold produced was lower due to the flooding of the 180m level on May 21, 2009 resulting in the underground ore production stopping. Underground production resumed on June 6, 2009. It is estimated that the production loss was 2,300 tonnes and 700 ounces during the shutdown.

Mine development totalled 651 metres in 2009 compared to 1,689 metres in 2008. Ore development increased to 472 metres in 2009 from 440 metres in 2008 as new ore reserve blocks were opened up on 150m and 180m level.

Ore development was focused on opening up mine reserves at Veins 1, 17, 18, and 18C. As reported previously, disappointing grades on Vein 1 and Vein 18C led to development stopping on these veins. In the fourth quarter, mine development east of a major fault exposed Vein 17 approximately nine metres below the Vein 17 elevation west of the fault. The current geological model based on limited boreholes did not show this vein extending east of the fault. On 180m level, the mine initiated exploration development of three veins (19C, 20C and 21C). The grade of these narrow quartz veins is 7.0g/t based on the development to date. The potential of veins 19C and 21C is limited but Vein 20C will be developed down dip below the 180m level.

Based on the diamond drill results in quarter 1, it was decided to stop underground diamond drill operations. The target areas lie below the existing infrastructure at No 2 Shaft and it was not considered appropriate to continue with this program. The drill holes were targeting Vein 19 and 19A between the 180m level and the 220m level. The results show that the veins contain good grades over several narrow channel widths. When the mineralised zone is combined as a number of narrow quartz veins within the metasediments, the mineralised package extends over several metres but at lower grades. This mineralisation is not suitable for narrow vein mining with only gravity recovery as currently practised at Kalana but will be suitable for a mass mining method with a larger gold plant which is designed to recover all gold, not just free milling gravity gold.

Operating cost of sales for the year ended December 31, 2009 amounted to $16,658,000 compared with $13,349,000 in 2008. The main reason for the 22% increase was due to the stock cost of gold bullion held at 31 December 2008 being sold in 2009. Cash operating cost of $279 per tonne milled in 2009 was 23% higher than the cost per tonne in 2008 of $227 per tonne. Cash operating cost per ounce sold of $788 per ounce in 2009 increased from $653 per ounce in 2008 due to higher operating costs.

Gold Sales

Gold sales data is as follows:

		2009	2008
Gold ounces sold	- at spot price	15,103	14,364
	- under forward contracts	4,750	5,250
	- total	19,853	19,614
Average realized gold price per ounce	- at spot price	$981.06	$888.26
	- under forward contracts	$960.06	$952.79
	- total	$976.17	$905.38
Metal revenue - $000			
Gold sales if all sales were at spot prices		$19,118	$12,756
Net effect of forward sales		262	5,002
Total gold sales		19,380	17,758
Silver sales		40	42
Metal revenue		$19,420	$17,800

Gold spot prices commenced in 2009 at $875 per ounce and ended at $1,088 per ounce, with the London AM Fix averaging $972 per ounce during the year.

2009 Classified Mineral Reserve Estimates from the Company

The Company has classified the mineral reserves in two areas. The first is the reserves that can be mined from the existing infrastructure down to the 180m elevation. The second area is the reserves that can be mined from the mineral resources between the 180m and 300m elevations. In December 2008 the company excluded these reserves from the mineral reserve statement on the basis of a change in strategy to implement the Kalana Main Project. These mineral reserves may still be mined as previously planned in the 2005 feasibility study and the Company has decided to include the mineral reserves between 180m and 300m elevation in the December 2009 Reserve Estimates.

As described in this MD&A, the Company has decided to optimize the potential of the Kalana Gold Mine by further exploration drilling that may lead to a large, bulk mining operation. Underground development and diamond drilling has shown that gold mineralization occurs outside of the narrow, high grade quartz veins that make up the majority of the underground mineral resources as defined in 2004 by Snowden as described in the 2005 Snowden Technical Report. The Kalana Main Project seeks to evaluate this potential to increase mineral resources to enhance the economics of the Kalana Gold Mine. On completion of this program, the existing mineral reserves between 180m and 300m elevation may be exploited as originally planned by deepening No. 1 Shaft or by a bulk mining method. The classified mineral reserves for proved and probable reserves as of December 2009 for underground mineralization, as prepared by the Company, is summarized in the table below and are presented in accordance with the standards prescribed in National Instrument 43-101 and were prepared under the supervision of Roy Meade, an Executive Director of the Company, and a "Qualified Person" as defined in National Instrument 43-101.

Kalana Gold Mine Classified Reserve Estimate – December 2009

Category	Tonnes	Grade	Contained Ozs	% Recovery	Recovered Ozs
Existing Infrastructure					
Proven-underground	7,000	12.8	3,000	86	2,000
Probable-underground	17,000	10.4	6,000	86	5,000
Sub Total	24,000	11.2	9,000	86	7,000
180-300m elevation					
Probable	395,000	14.5	184,000	86	158,000
Total	**419,000**	**14.3**	**193,000**	**86**	**165,000**

The differences from the 2005 Snowden Technical Report estimate of the Kalana Gold Mine Total Reserve compared to the above are mainly due to depletion of reserves by mining.

Other Expenses

General and administrative costs reduced to $2,764,000 for the year ended December 31, 2009 compared to $3,135,000 in 2008. The decrease was mainly due to reduced salaries and travel costs partly offset by higher legal costs associated with the IAMGOLD Joint Venture.

Depreciation, depletion and reclamation expenses amounted to $7,153,000 in 2009 compared to $1,650,000 in 2008. Depletion costs are calculated on the unit-of-production basis on proved and probable reserves. The proved and probable reserves of 52,000ozs as at January 1, 2009 reduced significantly compared to reserves of 341,000ozs as at January 1, 2008.

Interest expense was $652,000 for the year ended December 31, 2009 compared to $713,000 in 2008. This was mainly as a result of the decrease in the 6-month U.S. dollar LIBOR rate which impacted the rate of interest payable on the Company's shareholder loans.

Exploration

SOMIKA

In August 2009 Avnel and IAMGOLD entered into the IAMGOLD Joint Venture. Based on the agreement, IAMGOLD commenced an exploration program in August, 2009. The work was carried out by IAMGOLD on behalf of SOMIKA.

An airborne geophysics study was completed in the fourth quarter. The study covered the total SOMIKA Permit.

The study generated new information on magnetic, radiometric and topographic data. The study will improve the quality of previous surveys as the line spacing (50 meters) and height flown (25 meters) is superior to previous work. The interpretation of the results is ongoing.

The termite mound sampling and regolith mapping is ongoing with a Malian contractor. A cumulative total of 3,354 samples have been taken between December 2009 and January 2010 and 32 sq.km have been mapped. Half of the northern part of the permit is finished, including the Kalana mine and Kalanako areas. Digitalization of maps is ongoing. Assay results are expected in 2010.

Underground grab sampling totaling 3,953 samples from accessible adits on 75m, 100m, 150m, 160m and 180m level were collected with initial assay results promising. The underground grab sampling was compiled on a geosoft project. Mapping is coherent between levels and displays a strong sulfide mineralization all through the mine. Nevertheless strong differences between the northern (epidote-chlorite poor) and the southern (epidote-chlorite bearing = deuteritization) part of the mine occur in relation with the diorite emplacement (central part of the mine). The most northern part of 100m level displays epidote-chlorite rich alteration which supposes a new magmatic intrusion north of the underground mine. The entire mine displays a strong sulfide mineralization between the main quartz lode.

Fougadian Exploration Permit
On October 17, 2006, Avnel was awarded the Fougadian Exploration Permit which lies south of the Kalana Permit. The Fougadian Exploration Permit covers an area of 150 square kilometres including a portion of the Niessoumala exploration area. The permit was awarded in accordance with the 1999 Mining Code and a foundation agreement (the “Foundation Agreement”) was signed between Avnel Mali, a 100% wholly-owned subsidiary of Avnel, and the Government of the Republic of Mali. Avnel has a 90% indirect interest and the Malian State holds a 10% in the Fougadian Exploration Permit, provided a decision is made to construct a mine. The Foundation Agreement provides for the exploration and exploitation of Group 2 minerals as defined in the 1999 Mineral Code. Group 2 minerals include gold and silver, and base metals, but exclude precious stones, semi-precious stones and fossils.

Avnel applied for a renewal of the Fougadian Exploration Permit and this was granted in March 2010. Avnel has specified a new area of 75 sq. km as required by the Malian Code. This area lies in the northern half of the original permit and includes the largest anomaly Avnel 1. The renewal is for 3 years and Avnel has committed to expenditures of $1.9 million over this period.

The 2008 drill program was focused on the Avnel-1 gold-in-soil geochemical anomaly that we believe is the largest and the most important in terms of gold and arsenic values on the Fougadian Exploration Permit. The anomaly is defined by an area where values generally exceed 32ppb Au and attain a maximum of 1731ppb Au. It extends for almost 4km in an N-S direction and for 1.5km in an E-W direction.

Two diamond drill holes were completed to a depth of 190 metres in order to provide information on the bedrock structure that can be used to optimise the orientation of the RC drilling programme. 48 inclined RC drill holes totalling 5422 metres were completed on a grid pattern during the second quarter, covering only a small portion of the Avnel 1 anomaly. The holes were drilled in a heel-to-toe fashion to ensure complete coverage across the width of the anomaly. As the budget was inadequate to fully test this large anomaly, the holes were drilled along pairs of lines spaced 200m apart, one pair in the north and a second pair 800m further to the south. Because of encouraging geological indications, an additional three holes were drilled to the south of the latter set of lines. In summary, out of the 50 holes drilled 15 (30%) intersected values above 1g/t Au. An airborne geophysics study was completed in the fourth quarter. The study covered the total Fougadian Exploration Permit. The study generated new information on magnetic, radiometric and topographic data. The study will improve the quality of previous surveys as the line spacing 50m and height flown 25m and is we believe superior to previous work. The interpretation of the results is ongoing.

Consolidated Statement of Operations for the Quarters Ended

Quarter ended (US$'000)	**Dec 31 2009**	**Sep 30 2009**	**June 30 2009**	**Mar 31 2009**	**Dec 31 2008**	**Sep 30 2008**	**June 30 2008**	**Mar 31 2008**
Revenue	$4,802	$4,396	$4,738	$6,484	$3,382	$ 5,592	$ 3,330	$5,496
Net income (loss)	$(1,989)	$(1,420)	$(1,395)	$(3,091)	$(1,101)	$(455)	$ (2,102)	$201
Income (loss) per share	$(0.025)	$(0.018)	$(0.018)	$(0.041)	$(0.015)	$ (0.007)	$ (0.030)	$0.003

Fourth Quarter Results
Fourth quarter revenue of $4,802,000 has increased by 42% compared to revenue of $3,382,000 in the fourth quarter of 2008 due to the Company holding gold bullion in stock at the 2008 year end to meet the January 2009 hedge program. Net loss increased from $1,101,000 in the fourth quarter of 2008 to $1,989,000 in the fourth quarter of 2009. Cash and cash equivalents increased from $277,000 at the start of the fourth quarter to $2,027,000 at December 31, 2009, an increase of $1,750,000. Cash provided by operating activities in the fourth quarter of 2009 was $647,000 and expenditure on property, plant and equipment was $374,000, compared a cash utilisation of $2,046,000 and expenditure on property, plant and equipment was $167,000 in the fourth quarter of 2008.

Liquidity and going concern
The 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.

The Company has total current liability debts of $13.9 million, due for repayment on June 30, 2010, all of which is due to related parties and $2 million of which is secured. This debt repayment and the continuing operations of the Company are dependent on its ability to restructure and re-negotiate the debt and/or obtain additional financing. The Lead Director, together with members of the independent committee of the board of directors and in conjunction with management, is engaged in discussions and negotiations with the major creditors of the Company (Elliott and the Fern Trust) regarding proposals for the restructuring of the debt, including possible equitization, and with brokers and financial advisors in regard to such potential debt restructure and a possible equity issue.
There is a risk that additional financing will not be available on a timely basis or on acceptable terms. In the event that the Company is unable to repay this debt, refinance such debt, or secure additional financing, the Company will not be able to continue as a going concern, and material adjustments would be required to the carrying value of the assets and liabilities and the balance sheet classifications used.

The Company's cash flow is dependent on the volume of production, gold prices, operating costs, interest rates on borrowings and investments and discretionary expenditure levels including exploration, resource development and general and administrative costs as well as obtaining new sources of finance. With the world economy moving slowly out of recession, sources of finance are still difficult to obtain and are expensive.

Contractual Obligations
The Company has the following contractual obligations at December 31, 2009:

Contractual Obligations - $000	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Short -term debt (1)	13,986	13,986	-	-	-
Operating Leases (2,3)	311	6	305	-	-
Total Contractual Obligations	$ 14,297	$ 13,992	$ 305	$ -	$ -

Notes:

(1) The short term debt of Avnel consists of the shareholder loans (as defined below) and a temporary overdraft facility with Ecobank in Mali.

(2) The Company has entered into operating leases for office space and equipment with a company related to the Fern Trust, the Company's major shareholder. Pursuant to these leases which expire in June 2012, future minimum payments will amount to £191,000 up until the end of the lease, which at the 2009 year end exchange rate, is equivalent to $305,000 per annum.

(3) The Company has entered into an operating lease for an office building in Bamako, Mali. The lease expires in June 2010. The remaining commitment as at December 31, 2009 is $6,000.

Short Term Debt and Capital Resources

All debt of the Company is short term and is with related parties, with the exception of a $165,000 temporary working capital overdraft at Ecobank, Mali.

Included in the short term debt is a secured bridge loan with a related party of $2,000,000. The loan matures on June 30, 2010 and bears interest at a rate of 10% per annum, payable bi-annually.

The Company also has unsecured term loans provided by related parties with an aggregate principle amount outstanding of $880,000, bearing interest at a rate of 8% payable bi-annually. The term loans are due for repayment on June 30, 2010.

Other debt of the Company consists of convertible loans provided by Elliott International L.P. and Elliott Associates L.P. (collectively "Elliott") and the Fern Trust, the two major shareholders of Avnel (the "Shareholder Loans") with an aggregate principal amount outstanding of $10,941,000. The convertible loan notes mature on June 30, 2010.

Each convertible loan note is convertible by the holder into common shares of Avnel (the "Common Shares") at Cdn$0.898299 per common share and bears interest at the six month U.S. LIBOR rate plus 2% payable bi-annually. The Company may elect to pay the interest in Common Shares in lieu of cash and may, upon maturity, elect to repay the outstanding principal amount in Common Shares at Cdn$0.898299 per Common Share if the 40-day weighted average trading price of the Common Shares prior to the conversion date is equal to or greater than $1.20.

Mining Properties

The carrying value of the Company's property, plant and equipment, including mining properties and capitalized mine development costs, at December 31, 2009 was $18.9 million. The carrying value of these assets is not necessarily indicative of the realizable value of such assets if they were to be offered for sale at this time.

As of December 31, 2009, management carried out assessments of the carrying value of the Company's mining assets and does not consider that there has been any impairment in value of such assets.

Tests for recoverability were performed to determine if the estimated fair value exceed the carrying amount of the asset, including comparable asset values in the market, and the use of other techniques. In assessing the future estimated cash flows management used various estimates including, but not limited to, estimated operating and capital costs and estimated indicated and inferred resources. Management have assessed the recoverability of the carrying value of the carrying value of the capitalised development at the mine site under three possible scenarios:

a) Mine to end of those current reserves accessible from the current infrastructure (approx 1-2 years) and cease production;
b) IAMGOLD exploration of SOMIKA is successful, leading to ultimate conversion to an open pit ; and
c) Reversion to original feasibility study.

For option a) there is a small expected cash outflow, and option b) is assumed to be breakeven from a cash perspective for Avnel. Management prepared a detailed cash flow analysis to 2023, on the basis of reverting to the original feasibility study under option c), on the basis that IAMGOLD's investigation does not lead to development of the mine as an open pit venture. The carrying value on this basis is supported by the undiscounted cash flow predicted. Gold prices used have been based on broker expectations, and costs have been approximately inflated from the feasibility study, and considered in the light of Avnel's production to date and historic ability to control costs.

Management has assumed that each scenario is equally likely. If either a) or b) occurred then an impairment would be required, but on the basis that the probability weighted scenario in c) occurs, there is sufficient headroom for no impairment to be required at December 31, 2009. This is supported by recent external indicators of market value for the Kalana Gold Mine, if it were offered for sale.

By their very nature, there can be no assurance that these estimates will actually be reflected in the future operations. The ultimate recoverability of amounts of mining properties and capitalized development costs is dependent upon, amongst other things obtaining the necessary financing to develop the Kalana Mine.

Contingent Liability

The three year period Malian tax audit on SOMIKA for years ended 2005, 2006 and 2007 was carried out during 2008 and resulted in a report received in November 2008 from the tax inspector disputing various tax items including tax allowances on interest, withholding tax on foreign suppliers and VAT exemption. Management took internal and external advice on these issues and held discussions with all parties involved. This resulted in a tax assessment in May 2009 of $210,000 and penalties of $220,000 for the period. The Company paid the tax assessment in October 2009 and believes that it has been relieved of the associated penalties.

In December 2009, the Company received a notice of outstanding payroll taxes $210,000, VAT $280,000 and penalties and interest $640,000 totalling $1.13 million.

Management have held further discussions with the Malian tax authorities and, after paying a further $210,000 in December 2009, believe that this contingent liability is fully covered on the basis that recoverable VAT and customs duties can be offset against this liability and therefore believe that no material tax liability exists at the balance sheet date.

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 $541,000 in the year ended December 31, 2009. The Company has an ongoing supply agreement with AEL Mali SARL.

Avnel entered into forward sales agreements on March 4, 2008 in respect of 10,000 ounces for the period through to April 2009 at an average price of $956 per ounce with Elliott. As at December 31, 2009, the Company had met all its obligations under this agreement. During the year ended December 31, 2009, forward sales of $4,563,000 were recorded.

The premises occupied by Avnel and Kalana Mine Services in London are leased from a company associated with the Fern Trust, a significant shareholder. The Company incurred $123,000 in rental costs during the year ended December 31, 2009. The Company's lease expires in June 2012.

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 Annual Information Form dated March 30, 2010 (the "AIF"), which section is incorporated by reference into and forms an integral part of this MD&A. A copy of the AIF can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Going concern

The Company has a significant going concern risk in that it relies on the cash flow of one operating mine. The mine has in excess of a one million ounce mineral resource, but has reached a stage in its development that extraction by underground mining and gravity recovery methods may not be the most economical and the Company is considering very carefully its future strategy.

The 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. The continuing operations of the Company are dependent on its ability to generate future cash flows from its mining operations or obtain additional financing, although there is a risk that additional financing will not be available on a timely basis or on acceptable terms. In the advent that the Company is unable to secure additional financing and 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 the 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.

Gold Prices
The Company also faces risk in respect of its exposure to gold prices.

Hedging Activities
All gold revenues and a portion of operating costs are in U.S. dollars. The Company has not hedged its foreign exchange risk relating to its non-U.S. dollar expenses.

Capital Requirements
Avnel will require significant capital in order to fund its operating costs, to service existing and future indebtedness and to carry out plans to develop the Kalana Gold Mine and the Kalana Permit. As well, 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 characterized 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.

Recent Accounting Pronouncements
As of the balance sheet date, there were no new accounting pronouncements not yet adopted that are expected to materially affect the Company other than possibly those below.

In June 2009, the FASB amended the consolidation guidance for variable-interest entities. The amendment was issued in response to perceived shortcomings in the consolidation model that were highlighted by recent market events, including concerns about the ability to structure transactions under the current guidance to avoid consolidation, balanced with the need for more relevant, timely, and reliable information about an enterprise's involvement in a variable-interest entity. The amendments include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable- interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. The new guidance will be effective January 1, 2010 for calendar year-end companies. We do not expect the adoption of this amendment to have a material impact on our consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, which amends the guidance on fair value to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The new guidance is effective for the first reporting period beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We do not expect the adoption of this amendment to have a material impact on our consolidated financial statements.

International Financial Reporting Standards
In February of 2008, the Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly accountable enterprises to use IFRS. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

The Company has developed a three phase changeover plan to adopt IFRS as follows:
- Phase 1 – Scope and Plan: This first phase involves the development of an initial project plan and structure, the identification of differences between IFRS and existing US GAAP, and an assessment of their applicability and the expected impact on the Company.
- Phase 2 – Design and Build: The second phase includes the detailed review, documentation and selection of accounting policy choices relating to each IFRS standard. In this phase, accounting policies will be finalised, first-time adoption exemptions and exceptions will be considered, and draft financial statements and note disclosures will be prepared.

- Phase 3 – Implement and Review: The final phase involves the actual implementation of IFRS standards. This phase will involve the finalisation of IFRS conversion impacts, and approval and implementation of accounting policies.

The Company is in the process of carrying out phase 1 of the changeover plan and will then move on to phase 2. While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences with respect to recognition, measurement and disclosure which the Company is beginning to assess.

Critical Accounting Estimates

The consolidated financial statements of the Company have been prepared in accordance with U.S. GAAP. 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 consolidated financial statements.

The 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 which 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 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 arms 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 an increase in estimated cash flow for the retirement and rehabilitation of the Kalana Gold Mine from $1,000,000 to $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.

The Company has used a credit-adjusted risk-free rate of 8.5% to discount future cash flows in arriving at the fair value of its asset retirement and rehabilitation obligations. This is also the rate at which shareholders advanced funds to the Company in 2004. The Company still considers that 8.5% is an appropriate credit-adjusted risk-free rate.

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.

Financial Instruments

In 2008, the Company sold forward 10,000 ounces of gold at an average price of $956 per ounce. The Company believes that these forward sales qualify as normal sales contracts under SFAS 133 and recorded the revenues when the gold sold forward was delivered. These forward sales agreements were entered into with Elliott and fully satisfied in 2009. The Company has no other financial instruments or long-term commitments outstanding.

Disclosure of Outstanding Share Data

As at March 30, 2010, the Company had issued 81,893,392 common shares.

The following table shows the number of options or rights to purchase common shares of the Company as at March 30, 2010.

Warrants issued through the IPO on June 30, 2005	6,518,713
Convertible Loan Notes	12,747,260
IAMGOLD Joint Venture warrants	2,000,000
Meade Compensation Options	2,500,000
Long Term Incentive Plan	2,599,000
Total as at March 30, 2010	**26,364,973**

Outlook

For 2010, Avnel is planning gold production of 10,500 ounces at an average operating cost of approximately $1,140 per ounce of gold produced, net of royalties from tonnes milled 40,000 tonnes, at an average grade of 9.8g/t. This is based on an assumption that additional ore will be mined in excess of the mineral reserves as at 31 December 2009 (see below). The company intends to sustain the operation as long as feasible whilst the exploration program progresses. This is important to reduce the social impact on the community and to cover the costs of underground pumping. Once underground mining operations are temporarily stopped, the mine will be placed on care and maintenance. The underground water pumping system will remain in operation to prevent flooding of the mine and access for future exploration activity.

We plan to advance development 242 metres during 2010. Development will focus on opening up Vein 17 east of the fault and Veins 20C below 180m level. Dependent on results, development will continue. Surface drilling in the first quarter will provide new information on the extent of Vein 17 east of the fault, as well as potential to extend mining of Vein 18 west on 180m level.

It is forecast that the mineable reserves available from the current mine infrastructure are approximately 24,000 tonnes containing 7,000 ounces. This will provide approximately 8 months of operations to August 2010.

There remains approximately 1,740,000 tonnes containing over 600,000 ounces in underground mineral resources (measured and indicated). In addition the open pit mineral resources (measured, indicated and inferred) contain approximately 400,000 ounces in 3 million tonnes. Underground mining and underground diamond drilling have exposed additional mineralised zones that may contain gold to extract by open pit mining or underground bulk mining. Avnel believes the optimum method to exploit these mineral resources will require the development of an open pit with a new gold plant. The development of the underground mine between 180m and 300m level will be postponed until this study is completed. Avnel has revised the mineral reserves of the Kalana Gold Mine in line with the strategic decision to proceed with the Kalana Main Project Study and the IAMGOLD Joint Venture which is more fully explained on pages 2 to 3 above.

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 Executive Officer, who is also acting as interim Chief Financial Officer ("CEO") of the Company, evaluated the design and effectiveness of the Company's disclosure controls and procedures as of December 31, 2009, 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 year ended December 31, 2009.

It should be noted that, while the Company's 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 fulfills its responsibilities. The Audit Committee fulfills 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 made certain further changes to its systems of internal controls over financial reporting in 2009, including changes in accounting personnel and reporting procedures. These changes are not reasonably likely to materially affect internal control over financial reporting.

The Company has paid particular attention to segregation of duties relating to its internal controls over financial reporting as the Company has only limited staff resources at the present time such that "ideal" segregation of duties is not feasible. This risk is mitigated by management and Board review where appropriate.

The Company's management, including the CEO, who is also acting as the CFO, have evaluated the design and effectiveness of internal controls over financial reporting as at December 31, 2009, and concluded that the Company's internal control over financial reporting was not effective during the year 2009. During this process, the CEO identified certain deficiencies in internal control over financial reporting resulting primarily from a significant turnover of key management and accounting personnel during the year, lack of accounting expertise at the Company's remote Malian operations, and non-segregation of duties. None of these deficiencies were individually or cumulatively considered to be material weaknesses and the risks arising from these deficiencies are not considered to be significant.

During 2008 Avnel appointed the current Chairman of the Board of Directors as the Chief Executive Officer of the Company. This creates a potential conflict as there is an inherent lack of segregation of duties and absence of oversight between management and the Board. To alleviate any potential conflict between the Board and management, a Lead Director has been appointed who is also Chairman of the Audit Committee.

Mr. Roy Meade, an executive director of the company, took on the duties of Technical Director responsible inter-alia for mining, in Country on January 1, 2009. The Company appointed a new Chief Financial Officer in August 2008 who resigned due to ill health in January 2009. Mr. Alan McFarlane was appointed VP Finance with effect from February 1, 2009. The Company's Financial Controller of its Malian operations resigned on October 1, 2009 and a replacement was appointed December 1, 2009. The Company is aware that turnover of key management and accounting personnel represents a significant risk to internal control over financial reporting and is endeavouring to put in place policies to retain key personnel.

The Company has taken such action as it considers appropriate to minimize any potential risks from these deficiencies, including increased Director and Audit Committee oversight when deemed appropriate. The Company continues to review and assess its internal controls over financial reporting and is seeking to put enhanced procedures and controls in place. At the present time, the Company does not anticipate hiring additional accounting or administrative staff and accordingly, will continue to rely on review procedures to detect potential misstatements in reporting of material to the public.

The Company believes that its internal controls over financial reporting need to be enhanced to provide reasonable, but not absolute, assurance that the objectives of the control system are met. The design of a control system must reflect that there are staffing and financial resource constraints, and that the benefits of controls must be considered relative to their costs to the Company.

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 March 30, 2010. 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.