AVNEL GOLD MINING LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

Management's Responsibility

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements have been prepared by and are the responsibility of the Board of Directors and Management of the Company.

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles and reflect Management's best estimates and judgements based on currently available information. The Company has developed and maintains a system of internal accounting controls in order to ensure, on a reasonable and cost effective basis, the reliability of its financial information.

The consolidated financial statements have been audited by Ernst & Young LLP. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

John Kearney	Howard Miller
Lead Director	Chairman
March 29, 2011	March 29, 2011

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders of
Avnel Gold Mining Limited

We have audited the accompanying consolidated balance sheets of Avnel Gold Mining Limited as of December 31, 2010 and 2009, and the related consolidated statements of operations, cash flows and changes in stockholders' equity, for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Avnel Gold Mining Limited at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for the years then ended in conformity with United States generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Avnel Gold Mining Limited will continue as a going concern. As more fully described in Note 1, the Company has identified a future cash shortfall. This condition raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 1. The 2010 financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result if the Company is unable to continue as a going concern.

Ernst & Young LLP
London, England
29 March, 2011

Avnel Gold Mining Limited

Consolidated Balance Sheets

December 31, 2010 and 2009

Expressed in thousands of US Dollars

	Note	2010	2009
ASSETS			
Cash and cash equivalents		2,106	2,027
Inventories	5	3,345	3,500
Prepaid and other assets		458	1,096
Total current assets		5,909	6,623
Property, plant and equipment, at cost			
Mining properties and capitalized mine development costs		23,376	23,092
Other property and equipment		9,575	9,782
		32,951	32,874
Accumulated depreciation		15,476	13,967
Net property, plant and equipment	6	17,475	18,907
Total Assets		23,384	25,530
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable	7	855	1,036
Other accrued liabilities	7	1,219	2,865
Short-term debt	7	-	13,986
Total current liabilities		2,074	17,887
Tax creditor - long term	8	1,658	1,515
Retirement and rehabilitation obligations	8	1,099	989
Total liabilities		4,831	20,391
Common stock: Authorised - unlimited number of ordinary shares of no par value Issued and outstanding 166,661,505 (2009:80,762,954)	9	43,915	28,435
Additional paid in capital	9	5,674	4,898
Retained deficit		(31,026)	(28,184)
Accumulated other comprehensive income		(10)	(10)
Total stockholders' equity		18,553	5,139
Total Liabilities and Stockholders' Equity		23,384	25,530

The accompanying notes are an integral part of these consolidated financial statements

(signed) *"Howard B Miller"*
Howard B Miller
Chairman

(signed) *"John Kearney"*
John Kearney
Lead Director

Avnel Gold Mining Limited

Consolidated Statement of Operations

For the Years Ended December 31, 2010 and 2009

Expressed in thousands of US Dollars

(except share and per share information)

	Notes	2010	2009
REVENUE			
Metal revenue		13,709	19,420
Other revenue	4	1,000	1,000
		14,709	20,420
EXPENSES			
Operating		12,454	16,658
Depreciation		1,856	7,153
Exploration		6	-
Administration expense		2,378	2,764
Total expenses		16,694	26,575
Loss from operations		(1,985)	(6,155)
Other expense			
Interest expense		(321)	(652)
Exchange loss		(536)	(1,087)
Total other expense		(857)	(1,739)
Loss before tax		(2,842)	(7,894)
Income taxes	14	-	(1)
Net loss		(2,842)	(7,895)
Loss per share		$(0.02)	$(0.10)
Weighted average shares outstanding		116,150,355	79,122,803

The accompanying notes are an integral part of these consolidated financial statements

Avnel Gold Mining Limited

Consolidated Statement of Cash Flows

For the Years Ended December 31, 2010 and 2009

Expressed in thousands of US Dollars

	2010	**2009**
Cash flows from operating activities:		
Net loss	(2,842)	(7,895)
Reconciled to net cash (used in) provided by operating activities		
Depreciation	1,856	7,153
Accretion of reclamation liability	110	78
Stock based compensation	46	41
Change in tax creditor	143	191
Changes in operating assets and liabilities		
Inventories	155	1,999
Prepaid and other assets	638	(185)
Accounts payable	(181)	82
Other accrued liabilities	(1,519)	1,025
Net cash (used in)/provided by operating activities	(1,594)	2,489
Cash flows from investing activities:		
Purchases and development of		
Property, plant and equipment	(461)	(904)
Disposal proceeds	37	-
Net cash used in investing activities	(424)	(904)
Cash flows from financing activities:		
Issue of share capital	2,097	-
Repayment of short term financing	-	165
Net cash provided by financing activities	2,097	165
Net decrease in cash and cash equivalents	79	1,750
Cash and cash equivalents at beginning of year	2,027	277
Cash and cash equivalents at end of year	2,106	2,027

Supplemental disclosures of cash flow information

The Company paid interest of $325,000 and $424,000 in 2010 and 2009 respectively. The Company paid income taxes of $Nil and $1,000 in 2010 and 2009 respectively.

The accompanying notes are an integral part of these consolidated financial statements

Avnel Gold Mining Limited

Consolidated Statement of Changes in Stockholders' Equity

	Common Stock		Additional Paid in	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Deficit	Income/(loss)	Equity
At December 31, 2008	73,909,372	28,093	4,898	(20,289)	(37)	12,665
Issuance of common stock in payment of interest	6,853,582	342	-	-		342
Net loss	-	-		(7,895)		(7,895)
Exchange profit	-	-		-	27	27
Comprehensive loss						(7,868)
At December 31, 2009	80,762,954	28,435	4,898	(28,184)	(10)	5,139
Issuance of common stock in payment of interest	1,130,438	173	-	-	-	173
Issuance of common stock for cash and conversion of existing debt, net of issue costs	84,768,113	15,307	730	-	-	16,037
Stock based compensation	-	-	46	-	-	46
Net loss	-	-		(2,842)		(2,842)
Comprehensive loss						(2,842)
At December 31, 2010	166,661,505	43,915	5,674	(31,026)	(10)	18,553

The accompanying notes are an integral part of these consolidated financial statements

1. Nature of Operations, Liquidity and Going Concern

Nature of Operations

Avnel Gold Mining Limited (the "Company") was incorporated under the laws of Guernsey on February 18, 2005. On February 22, 2005, Elliott Associates L.P., Elliott International L.P. (collectively "Elliott") and Fern Trust ("Fern") acquired 100% of the issued and outstanding common shares of the Company in exchange for 95% of the issued and outstanding shares of Avnel Gold, Limited ("Avnel Cayman"), a company incorporated in the Cayman Islands, pursuant to a reorganisation agreement. Under the reorganisation agreement, obligations of Avnel Cayman to Elliott and Fern in respect of existing shareholder loans of Avnel Cayman were assumed by the Company. The reorganisation was accounted for as an exchange between entities under common control whereby the assets and liabilities of the Avnel Cayman group were initially recognised at their carrying amounts in the accounts of the Avnel Gold Mining Limited group at the date of the transfer.

Avnel Cayman was incorporated in the Cayman Islands on September 28, 2001. On February 14, 2003 it entered into a Foundation Agreement with the Government of Mali for the development of the existing gold mining property at Kalana. Under the terms of the Foundation Agreement, a subsidiary company, SOMIKA, was established in Mali to develop the mining property. Eighty per cent of the voting equity is held by Avnel Cayman and 20 per cent is held beneficially by the Government of Mali.

Gold production commenced in January 2004 and the principal markets are European based bullion trading concerns.

On August 10, 2009, Avnel Gold Mining Limited entered into an option agreement (the "Option Agreement") with IAMGOLD Corporation ("IAMGOLD") whereby IAMGOLD has the option to acquire up to an initial 51% indirect interest in the Company's interest in SOMIKA. In return IAMGOLD have the obligation to spend $11m on exploration activities over a period of three years from the date of the Option Agreement and by delivering a NI 43-101 resource calculation of at least 2 million ounces of gold, as well as proceeding with a Feasibility Study. IAMGOLD paid Avnel an option fee of $1 million and a further $1 million in cash was paid in 2010 on the first anniversary of the Option Agreement on August 10, 2010. To date IAMGOLD has spent a total $6.5 million in exploration costs.

On August 5, 2010 the Company completed a private placement to raise additional funding and to equitise the Company's then outstanding debt. See note 9 for further detail.

Avnel Mali SARL ("Avnel Mali") was incorporated in Mali in 2003 and is a 100% owned subsidiary of Avnel Gold Mining Limited. During 2006, Avnel Mali acquired 100% of the interest in the Fougadian Exploration Permit, an area of 150 square kilometres which lies to the south of the Kalana Permit. If an exploitation company is formed, then the Government of the Republic of Mali is entitled to a 10% interest and Avnel Mali will hold the remaining 90% interest. In the first year after the award of the permit, Avnel Mali was required to and completed expenditure of CFA 158,000,000 on the permit which is equivalent to $330,000 at the 2007 average exchange rate. The exploration permit is valid for a period of three years, renewable twice with 50% surface area reduction at each renewal. Avnel applied for a renewal of the 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.

On December 6, 2010 the Company announced that it had entered into a joint venture arrangements agreement with IAMGOLD, (the "Joint Venture Arrangements Agreement") whereby IAMGOLD has the option to acquire up to an initial 51% interest in Avnel's 90% interest in the Fougadian Exploration Permit. Under the terms of the Joint Venture Arrangements Agreement, IAMGOLD will fully fund and satisfy the expenditure requirements of the Fougadian Exploration Permit and, upon establishing a qualifying mineral resource of not less than 250,000 oz of gold, may earn a 51% interest (of Avnel's 90% interest) in the permit. Upon delivery of a pre-feasibility study, IAMGOLD will be entitled to increase its interest to 65%. After delivery of a feasibility study, IAMGOLD will undertake to procure or provide project financing to develop a mining operation.

The Company is currently in the middle of a significant exploration programme being performed by IAMGOLD under the terms of the August 2009 Option Agreement. The Company intends to sustain the operation as long as economically feasible, without spending significant capital expenditure, until such time as the results of this exploration are completed and assessed to enable the Company to better evaluate future development options for the mine. Until this work is completed and a suitable development plan is identified, output from the mine will continue to be constrained.

The U.S. Dollar is the functional currency of the Company's principal operations.

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's current cash flow forecast has identified a future cash shortfall. The continuing operations of the Company are dependent on its ability to generate future cash flows from its mining operations or obtain additional financing and there is a risk that additional financing will not be available on a timely basis or on acceptable terms. Management are actively looking at re-financing options to address this issue and expect that a Private Placement of Units (comprised of shares and warrants) for cash proceeds will be closed on or around March 31, 2011 that would meet all identified shortfalls in full. Management believe that this or other financing options will continue to be available to enable the Company to continue to operate as a going concern. In the event that the Company is unable to 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.

2. Management Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We consider our most critical accounting estimates to be future metals prices, obligations for environmental, reclamation and closure matters, mineral reserves, and valuation of business combinations. Other significant areas requiring the use of management assumptions and estimates relate to asset impairments and inventory net realizable value. We have based our estimates on historical experience and on various other assumptions that

we believe to be reasonable. Accordingly, actual results may differ materially from these estimates under different assumptions or conditions.

3. **Summary of Significant Accounting Policies**

Basis of Presentation

The consolidated financial statements of the Company include the accounts of Avnel Gold Mining Limited and its subsidiaries Avnel Gold, Limited (Cayman Islands, 100%), Kalana Mine Services Limited (United Kingdom, 100%), SOMIKA (Mali, 80%) and Avnel Mali SARL (Mali, 100%). All intercompany balances and transactions have been eliminated in the consolidated financial statements.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) which differs in certain respects from accounting principles generally accepted in Canada (Canadian GAAP), as described in Note 15 to these consolidated financial statements.

In July 2009, The Financial Accounting Standards Board (FASB) issued the FASB Accounting Standards Codification (the "Codification") ("ASC") which became the source of authoritative accounting principles effective with financial statements of interim and annual periods ending after September 15, 2009. Sources of accounting principles referred to in this report refer to Topics, Subtopics and Sections of the Codification.

Operating Segment

ASC 280, (Segment Reporting), establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the Chief Executive Officer (CEO). The CEO reviews financial information presented on a consolidated basis for evaluating financial performance and allocating resources. Accordingly, the Company reports as a single reporting segment.

Comparative Figures

Where changes in presentational format of the financial statements have been made during the year, comparative figures have been restated accordingly.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with remaining maturities of three months or less at the date of purchase and which are not subject to significant risk from changes in interest rates.

Inventories

Processed ores are stated at the lower of average cost or market. There were no material amounts of gold in work in progress or held in sand and ore stockpiles. Materials and supplies are stated at cost on a first in first out (FIFO) basis.

Property, Plant and Equipment

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. Acquisition costs were incurred in relation to the purchase of the assets of the gold mining property at Kalana. Development costs represent costs in relation to improving and extending mine infrastructure to access ore bodies at the Kalana mine. Costs of start-up activities and on-

going costs to maintain production are expensed as incurred. Fixed asset costs include production facilities and equipment, vehicles and office equipment.
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 weighted average useful life of production facilities and equipment is eight years. Vehicles and office equipment are stated at cost and are depreciated using the straight-line method over estimated useful lives of three to ten years. Maintenance and repairs are charged to expense as incurred. Gains or losses on dispositions are included in operations.

Impairments
The Company reviews its long-lived assets in property, plant and equipment for impairment in accordance with ASC 360 (Property, Plant and Equipment). 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. An impairment loss is recognized for assets to be held and used when the estimated undiscounted future cash flows expected to result from the asset including ultimate disposition are less than its carrying amount. Impairment is measured by the excess of carrying amount over the fair value of the assets. With respect to properties, a test for recoverability is performed to determine if the estimated future cash flows exceed the carrying amount of the assets. Measurement of any impairment loss is determined by the estimated fair value of the assets based on the best information available, comparable asset values in the market and the use of valuation techniques. Although the Company has made a reasonable estimate of factors based on current conditions and information, assumptions underlying future cash flows are subject to significant risks and uncertainties. Estimates of undiscounted future cash flows are dependent upon estimates of metals to be recovered from proven and probable ore reserves, future production and capital costs and estimated metals prices (considering current and historical prices, forward pricing curves and related factors) over the estimated remaining mine life. It is reasonably possible that changes could occur in the near term that could adversely affect the Company’s estimate of future cash flows to be generated from the Company’s long-lived assets.

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.

Asset Retirement Obligations
Asset retirement obligations are recognized when incurred and recorded as liabilities at fair value. The fair value of the liability is determined as the discounted value of the expected future cash flow. The asset retirement obligation is accreted over time through periodic charges to earnings. In addition, the asset retirement cost is capitalized as part of the asset’s carrying value and amortized over the life of the related asset. Reclamation costs are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation costs. We review, on an annual basis, unless otherwise deemed necessary, the asset retirement obligation at each mine site in accordance with the provisions of ASC 410 (Asset Retirement and Environment Obligation).

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.

Revenue Recognition
Revenue from the sale of gold is recognized upon delivery and when title passes. Gains and losses on gold forward sales agreements are recognised in metal revenue on the delivery date identified at the contract inception. Gold forward sales agreements are exempt from the

provisions of ASC 815 (Derivatives and Hedging Activities) as normal course sales requiring settlement through physical delivery.

Income Taxes
The Company accounts for income taxes under ASC 740, (Income Taxes), which requires the use of the asset and liability method of accounting for income taxes. Under this method, deferred taxes are determined by calculating the future tax consequences attributable to differences between the financial accounting and tax bases of existing assets and liabilities. A valuation allowance is recorded against deferred tax assets when, in the opinion of management, it is more likely than not that the Company will not be able to realize the benefit from its deferred tax assets.

The Company files income tax returns, including returns for its subsidiaries, as prescribed by Federal tax laws and the tax laws of the state and local jurisdictions in which it operates. The Company's uncertain tax positions are related to tax years that remain subject to examination and are recognized in the consolidated financial statements when the recognition threshold and measurement attributes of ASC 740 (Income Taxes) are met.

Foreign Currency
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 translated 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.

The assets and liabilities of subsidiaries with functional currencies other than the U.S. Dollar are translated into U.S. Dollars at the rates of exchange prevailing on the balance sheet date. Revenue and expense transactions are translated at the weighted average rate for the period. Translation gains and losses are included in other comprehensive income in accordance with ASC 200 (Comprehensive Income).

Risk Management
The Company's main operating subsidiary is incorporated under the laws of Mali, and its principal mining facilities are located in Mali. Accordingly, the Company is directly affected by political and economic conditions in Mali. There can be no assurance that the Government of Mali will be successful in its attempt to keep prices and exchange rates stable. Instability in Mali may have a material adverse effect on the Company.

Since the Company has subsidiaries operating in the UK, Mali and the Cayman Islands, exposure also arises from fluctuations in currency exchange rates, political risks and varying levels of taxation. While the Company seeks to manage these risks, many of these factors are beyond its control.

Interest
Interest is capitalised during the development phase of a project. Interest capitalisation commences with the first expenditure for a qualifying asset and ends when the asset is substantially complete and ready for its intended use (the date when production commences). The amount of interest cost that may be capitalised for any accounting period may not exceed the actual interest cost that is incurred during the period.

To determine the amount of interest to be capitalised for a particular accounting period, the average accumulated investment in a qualifying asset during that period is calculated. If a specific borrowing is made to acquire the qualifying asset, the interest rate incurred on that borrowing may be used to determine the amount of interest costs to be capitalized. That interest rate is applied to the average accumulated investment for the period to calculate the amount of capitalized interest cost on the qualifying asset. Capitalised interest cost on average accumulated investments in excess of the amount of the specific borrowing is calculated by use of the weighted average interest rate incurred on other borrowings outstanding during the period. No interest was capitalised in the 12 months ended December 31, 2010 and 2009. Total interest costs in these periods were $321,000 and $652,000.

Stock Based Compensation

The Company accounts for all stock options and warrants using a fair value-based method. The fair value of each stock option granted is estimated on the date of the grant using the Black-Scholes option pricing model and the related stock-based compensation expense is recognised over the vesting period. The fair value of stock options granted to employees is measured at the date of the grant. Compensation charged amounted to $46,000 in 2010. (2009: $41,000).

Loss per Common Share

Loss per common share is based on the weighted average number of common shares outstanding during the period. The diluted loss per common share has not been disclosed as the inclusion of unexercised options or warrants would be anti-dilutive.

Fair Value Measurements

ASC 820 (Derivative Valuations) establishes a three-level valuation hierarchy for classification of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized below:

Level 1 – Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Valuation is based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument

Level 3 – Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

The classification of assets and liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement in its entirety.

Recent Accounting Pronouncements

Future Accounting changes:

International Financial Reporting Standards ("IFRS")
In February 2008, the CICA Accounting Standards Board confirmed publicly accountable enterprises will be required to report their financial statements under ("IFRS") for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.
The Company developed a three phase changeover plan to adopt IFRS as follows:

- Phase 1 – Scope and Plan: This first phase involved 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 included the detailed review, documentation and selection of accounting policy choices relating to each IFRS standard. In this phase, accounting policies were finalised, first-time adoption exemptions and exceptions considered, and draft financial statements and note disclosures prepared.

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

The Company is currently completing Phase 3 of the plan and currently believes that there will be no material changes to its primary financial statements.

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 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.

In April 2010, the FASB issued ASU 2010-13 related to stock compensation. The amendments clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, such an award should not be classified as a liability if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. We do not expect the adoption of this amendment to have a material impact on our consolidated financial statements.

4. Other Revenue

	2010	2009
	1,000	1,000

The $1,000,000 shown in the profit and loss account in 2009 and 2010 as other revenue is in relation to the IAMGOLD Joint Venture option fee. IAMGOLD's contribution of $6,019,000 (2009:$586,000) for exploration expenses is netted in the profit and loss account with expenses of the same amount.

5. Inventories

	2010	2009
Metal inventory	625	905
Materials and supplies	2,720	2,595
	3,345	3,500

Metal inventory consists of 625 oz (2009: 1,131 oz) of gold held at Kalana mine site and nil oz (2009: nil oz) held to the credit of the company's gold bullion account in Switzerland. The gold is valued at cost of $1,000/oz (2009: $800 per oz.)

6. Property, Plant and Equipment

	Mine acquisition costs	Capitalized Development	Fixed Assets	Total
Cost				
Balance December 31, 2009	3,455	19,637	9,782	32,874
Additions	-	285	176	461
Disposals	-	-	(384)	(384)
Balance December 31, 2010	3,455	19,922	9,574	32,951
Accumulated Depreciation				
Balance December 31, 2009	1,575	8,084	4,308	13,967
Expense for year	96	808	952	1,856
Disposals	-	-	(347)	(347)
Balance December 31, 2010	1,671	8,892	4,913	15,476
Net Book Value				
December 31, 2009	1,880	11,577	5,450	18,907
December 31, 2010	1,784	11,030	4,661	17,475

All property, plant and equipment of the Company relates to the Kalana Mine in Mali except for corporate fixed assets which have a net book value of $20,000 at December 31, 2010 (2009 - $23,000).

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. This estimate change in reserves has significantly reduced the 2010 depreciation charge.

Depreciation charges of ($1,856,000) reduced significantly in 2010 from 2009 ($7,153,000). This resulted from the revision of proved and probable reserves that can be mined down to the 300m elevation of 193,000ozs as at January 1, 2010 compared to reserves of 52,000ozs to January 1, 2009 together with reduced production in 2010.

7. Accounts Payable and Accrued Liabilities

	2010	2009
Trade creditors	855	1,036
Accrued expenses	1,219	2,692
Interest payable to related parties	-	173
Short-term debt	-	13,986
	2,074	17,887

The short term debt was fully equitised on August 5, 2010 (see note 9).

8. Long Term Liabilities

a) Retirement and rehabilitation obligations

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 Kalana 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 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.

A reconciliation of the asset retirement obligation carrying amounts is shown below:

Asset retirement obligation as at December 31, 2009	**989,000**
Accretion expenses recorded in 2010	110,000
Asset retirement obligation as at December 31, 2010	**1,099,000**

b) Taxation

	2010	2009
	1,658	1,515

The long term tax creditor relates to withholding tax which may be payable in Mali arising when SOMIKA's inter-company loan is repaid to Avnel Gold Mining Limited.

9. Share Capital

Avnel's authorized share capital consists of an unlimited number of common shares of no par value. The total number of common shares issued is shown in the Statement of Changes of Stockholders' Equity.

On January 8, 2010, 1,130,438 shares were issued in settlement of $172,865 of interest accrued on the convertible debt at December 31, 2009.

On August 5, 2010 the Company completed a private placement (the "**Private Placement**") of 13,025,000 Units of Avnel at a price of C$0.20 per Unit. Each Unit consisted of one common share of Avnel and one-half of one common share purchase warrant (each whole warrant a "**Warrant**"). Each Warrant entitles the holder to purchase one common share of Avnel at a price of C$0.35, at any time for a period of 36 months from the date of issue of the Warrants. Dundee Securities Corporation was the lead agent for the Private Placement which also included Haywood Securities Inc. and PI Financial Corp. The agents were issued Broker warrants. Each Broker Warrant entitles the holder to purchase one Unit of Avnel at a price of C$0.20, which includes one-half of one common share purchase warrant exercisable at C$0.35 at any time for a period of 36 months from the date of issue of the Warrants. The gross proceeds of the Private Placement were C$2,605,000. Concurrently with the closing of the Private Placement, Avnel equitised all of its outstanding indebtedness, provided by its related parties Elliott and the Fern Trust, through the issuance of 71,492,382 Units to the holders of such indebtedness at the price per Unit under the Private Placement.

A further 250,731 shares were issued on December 14, 2010 relating to the exercise of Broker warrants issued in connection with the Private Placement in August 2010.

The fair value of the warrants granted has been calculated using a binominal pricing model to allow for dilution. The warrants have been valued at $730,000 assuming a volatility of 57% and a risk free rate of 2.5% and an expected 3 year life, and the value has been added to additional paid in capital.

The details of the common shares issued and outstanding are as follows:

Common shares issued and outstanding as at December 31, 2009	**80,762,954**
Issued in lieu of interest due on convertible loan notes	1,130,438
Issue of common stock for cash and converting existing debt	84,768,113
Common shares issued and outstanding as at December 31, 2010	**166,661,505**

A summary of options or rights to purchase common shares of Avnel is shown in the following tables

	As at December 31, 2008	**Forfeited or expired**	**Granted**	**Other**	**As at December 31, 2009**
Warrants issued through the IPO on June 30, 2005	**6,518,713**	-	-	-	**6,518,713**
Warrants issued to IAMGOLD on August 10, 2009	-	-	2,000,000	-	**2,000,000**
Minority shareholder warrants	**1,411,042**	(1,411,042)	-	-	-
Convertible loan notes	**14,893,320**	-	-	(2,146,060)	**12,747,260**
Stock Option Plan	**2,874,000**	(275,000)	-	-	**2,599,000**
CEO Compensation Option	**2,500,000**	-	-	-	**2,500,000**
Options or rights to purchase common shares	**28,197,075**	**(1,686,042)**	**2,000,000**	**(2,146,060)**	**26,364,973**

	As at December 31, 2009	**Forfeited or expired**	**Granted**	**Exercised**	**As at December 31, 2010**
Warrants issued through the IPO on June 30, 2005	**6,518,713**	(6,518,713)	-	-	-
Warrants issued to IAMGOLD on August 10, 2009 @ C$0.45	**2,000,000**	-	-	-	**2,000,000**
Warrants issued on private placement on August 5, 2010 @ C$0.35	-	-	42,258,692	-	**42,258,692**
Broker Warrants issued on private placement on August 5, 2010 @ C$0.20	-	-	1,626,675	(250,731)	**1,375,944**
Broker Warrant rights on private placement on August 5, 2010 @ C$0.35	-	-	813,338	-	**813,338**
Convertible loan notes	**12,747,260**	(12,747,260)	-	-	-
Stock Option Plan	**2,599,000**	(200,000)	570,000	-	**2,969,000**
CEO Compensation Option	**2,500,000**	-	-	-	**2,500,000**
Options or rights to purchase common shares	**26,364,973**	**(19,465,973)**	**45,268,705**	**(250,731)**	**51,916,974**

Broker warrants issued on August 5, 2010, was 1,626,675, and 250,731 were exercised on December 14, 2010.

10. Commitments and Contingencies

The Company has entered into operating leases for office space and equipment with a company related to Fern Trust. Pursuant to these leases which expire in June 2012, future minimum payments will amount to £114,750 (2009: £ 191,000) up until the end of the lease, which at the 2010 year end exchange rate, is equivalent to $177,500 (2009: $305,000) per annum.

Avnel applied for a renewal of the Fougadian Exploration Permit and this was granted in March 2010. The renewal is for 3 years and Avnel has committed to expenditures of $1.9 million over this period. However, as per the Option Agreement described in note 1, all exploration costs will be borne by IAMGOLD.

The Company has entered into an operating lease for an office building in Bamako, Mali. The lease expires in June 2011. The remaining commitment at December 31, 2010 is $6,000.

11. Fair Value Accounting

The following table sets out the financial assets and liabilities measured at December 31, 2010 and at December 31, 2009 by level within the fair value hierarchy.

$'000 31 December 2010	Total	Level 1	Level 2	Level 3
Assets				
Cash equivalents	1,500	1,500		-
	1,500	**1,500**		-
Liabilities				
Trade payables	855	855		-
	855	**855**		-

$'000 31 December 2009	Total	Level 1	Level 2	Level 3
Assets				
Cash	2,027	2,027	-	-
	2,027	**2,027**	**-**	-
Liabilities				
Trade payables	1,036	1,036	-	-
Short term debt	13,986	-	13,986	-
	15,022	**1,036**	**13,986**	-

The cash equivalents and trade payables are classified as level 1 of the fair value hierarchy because they are valued using current market prices.

The short term debts are classified as level 2 of the fair view hierarchy because the contracts are not traded in the market but the carrying amounts approximate fair value based on the maturity of the instruments and the debt bears interest at market rates.

The Company does not acquire, hold or issue financial instruments for trading purposes. The estimated fair values of the Company's financial instruments approximate carrying values at December 31, 2010.

The credit risk in relation to financial instruments is the risk that a third party might fail to fulfil its performance obligations under the terms of a financial instrument. The Company

holds the majority of its cash and cash equivalents at large, reputable financial institutions. A table showing the concentration of credit risk as at December 31, 2010 is shown in the following table.

	United Kingdom
Cash and cash equivalents	1,500
Number of counterparties	1

12. Related Party Transactions

As described in note 10, the Company has entered into operating leases for office space with Fern Trust. Rent expenses amounted to $123,000 (2009: $123,000) and the amount outstanding at December 31, 2010 is $177,500 (2009: $305,000). The rental payments are denominated in Sterling so the U.S. Dollar amount payable is subject to fluctuation with the movement in exchange rates between Sterling and the U.S. Dollar.

SOMIKA purchased $556,000 of explosives during 2010 (2009: $541,000) from African Explosives Limited ("AEL"). Mr. Ibrahim Kantao, a director of Avnel and SOMIKA, is also the Director-General of AEL Mali.

13. Employee Stock Based Compensation

(i) The Stock Option Plan

On February 23, 2005, the board of directors of the Company adopted the Company's Stock Option Plan (the "Plan") effective upon the completion of the IPO Offering of June 30, 2005. The Plan was adopted by the board of directors in order to have a stock option plan which complies with the rules and policies of the Toronto Stock Exchange in place upon completion of the IPO Offering. Under the terms of the Plan, options can be granted to directors, employees or consultants of the Company. Other than the vesting date which can be determined by the Board of the Company as it sees appropriate, the terms and conditions applicable to the consultants' options are the same as for directors and employees. The maximum number of Common Shares reserved for issuance under the Plan is 8,333,075. Options granted under the Plan are subject to the following terms and conditions:

On 29 May 2008 the Company's Stock Option plan was re-approved.

(a) The maximum number of common shares which may be reserved for issuance under the Plan, together with any other compensation arrangement of the Company, to insiders shall not exceed 5% of the outstanding common shares, and to any one insider and such insider's associates in any 12 month period shall not exceed 5% of the outstanding common shares. Under the Plan the maximum number of common shares reserved for issuance to any one person shall be 5% of the outstanding common shares at the date of issuance.

(b) The exercise price of an option shall not be lower than the closing price of the common shares on the TSX on the day immediately proceeding the day of grant of such option.

(c) The Board of the Company shall determine the time during which any options may vest and the method of vesting or that no vesting restriction shall exist.

(d) Options shall have a maximum term of ten years from the date of the grant,

subject to any limits of any law or other regulatory body having jurisdiction.

(e) Unless otherwise determined by the Board of the Company, an option will terminate 90 days after an optionee ceases to be an eligible participant (i.e. upon ceasing to be a director, officer or consultant of the Company).

(f) In the event of the death of an eligible participant, the option will be exercisable, unless by its terms it sooner terminates or expires, within 90 days following such death by the persons to whom the eligible participant's rights, under the Plan, pass by will or the laws of descent and distribution, and

(g) Options are non-transferable without the consent of the Company's Board.

Generally, other than options that vest on the grant date, the period from grant date to vesting is between one and three years.

(ii) The CEO Compensation Option/ Continuation, Amendment and Restatement Option

On February 23, 2005, Avnel granted to Roy Meade, Chief Executive Officer of Avnel, an option (the "CEO Compensation Option") to acquire up to 2.5 million common shares of Avnel at an exercise price per share of the Canadian Dollar equivalent of $0.275. One third of the option was exercisable on June 30, 2005, one-third on February 23, 2006 and the remaining one-third was exercisable on February 23, 2007. The maximum number of options that can be issued under the CEO Compensation Option is 2.5 million. As at December 31, 2007, none of these options had been exercised. Mr. Meade's entitlement to any unexercised portion of the CEO Compensation Option will terminate in the event he leaves employment of Avnel at his own volition prior to the exercise date. The CEO Compensation Options do not form part of Avnel's Stock Option Plan. Mr Meade was appointed Director Mining on January 1, 2009 and the changes to the terms of these options were approved by shareholders at the 2009 Annual General Meeting. On May 27, 2009, the Annual General Meeting of Shareholders approved the Continuation, Amendment and Restatement of the CEO Compensation option which extends the latest exercise date to February 23, 2013.

At the time of the Company's reorganization referred to in Note 1, the CEO Compensation Option was granted to replace the existing arrangement between Mr Meade and Avnel Cayman in September 2003 under which no compensation was recorded as performance conditions were not met and provides Mr. Meade with the benefit of the option, even if he is no longer employed by the Company.

(iii) Summary of Options Granted

The fair value of the options for both the stock option plan and the CEO Compensation Option has been estimated using Binomial option models with the following assumptions:

Risk-free interest rate	2.5% - 4.2%
Expected option term	2-10 years
Expected volatility	40% - 74%
Expected dividend yield	Nil%

The interest rate assumptions used are available by reference to Canadian market data. Credifinance, the Company's advisors for the initial public offering, estimated the volatility of Avnel by reference to their proprietary databases of similar companies as being 40%. This figure was accepted by Avnel, and was used to calculate the fair value of options granted in 2005 as there was insufficient trading data for the Company's shares.
The volatility of the Company's share price since 2005 has been calculated on an annual basis and used to calculate the fair value of the options granted.

Using these assumptions the total value of the options granted amounts to $1,950,369. For the year ended December 31, 2010, administration expense includes compensation expense of $46,000 (2009: $41,000) and the corresponding amount has been credited to Additional Paid in Capital.

The table below summarizes the options granted and outstanding at December 31, 2010.

	Shares		Weighted average exercise price	Weighted average remaining contractual term		Aggregate Intrinsic Value
Stock Option Plan						
Outstanding at December 31, 2009	2,599,000	C$	0.56	7.6	$	-
Granted	570,000	C$	0.24	-		-
Forfeited	(200,000)	C$	0.45	-		-
Outstanding at December 31, 2010	2,969,000	C$	0.50	5.8	$	-

CEO Compensation Option

Outstanding at December 31, 2009	2,500,000	US$	0.28	4.1	-
Outstanding at December 31, 2010	2,500,000	US$	0.28	3.1	-
Exercisable at December 31, 2010	2,500,000	US$	0.28	3.1	-

The weighted average grant-date fair value of options granted in 2007 is C$0.45. All outstanding shares at 31 December, 2010 are fully vested and are currently exercisable. The aggregate intrinsic value of options outstanding and exercisable shares is $nil (2009: $nil)

The Company had no non-vested share options at December 31, 2010 and 2009.

14. Provision for taxes based on income

The Company has income tax expense for the year ended December 31, 2009 resulting from taxable income in companies which cannot be offset by losses incurred in other companies which operate in different tax jurisdictions.

The Company's statutory income tax rate for the years ended December 31, 2010 and 2009 is nil in the jurisdictions of Guernsey and the Cayman Islands in which the Company and Avnel Gold, Limited are incorporated.

	2010	2009
Statutory tax rate applied to pre-tax loss representing		
Income tax benefit of loss before tax	Nil	Nil
Reconciling item:		
Foreign tax charges	Nil	1
Income tax expense	Nil	1

The components of deferred income taxes, net as of December 31 2010 and 2009 are as follows (in thousands):

Deferred taxes:	**2010**	**2009**
Property, plant and equipment	(338)	(1,178)
Net operating loss and credit carryforwards	(4,266)	(2,974)
	4,604	4,152
Valuation allowance	(4,604)	(4,152)
Total deferred taxes	Nil	Nil

No other deferred tax assets and liabilities resulting from temporary differences in recognition of income and expenses for tax and financial reporting purposes existed at December 31, 2010 and 2009.

The provision for income taxes for the years ended December 31, 2010 and 2009 results in effective tax rates of (0.00)% and (0.01)% , respectively.

15. Canadian Generally Accepted Accounting Principles

Canadian Generally Accepted Accounting Principles ("Canadian GAAP") vary in certain respects from U.S. GAAP. The effect of the principal measurement differences on the Company's consolidated financial statements are described below.

Convertible Loan Notes

Under Canadian GAAP, the Company's convertible loan notes would be recorded in part as debt and in part as shareholders' equity, rather than entirely as debt as considered under U.S. GAAP. The amount recorded as debt represents the present value of future interest and principal amounts of the notes. The amount will be accreted to the face value of the notes over the term to maturity through periodic charges to interest expense.

Under Canadian GAAP, the convertible loan notes liability would originally decrease by $916,000, and other paid in capital, included in shareholders' equity, would increase by $916,000.

The following table presents the net loss and loss per share following Canadian GAAP:

		2010		**2009**
Net loss under US GAAP	$	(2,842)	$	(7,895)
Accretion of convertible notes		(92)		(183)
Net loss under Canadian GAAP		(2,934)		(8,078)
Net loss per share under Canadian GAAP	$	(0.03)	$	(0.10)

16. Contingent Liability

Malian Taxation

The three year period Malian tax audit on SOMIKA for the 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 of $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.

Malian Labour Tribunal

On December 27, 2010 the Bamako Labour Tribunal announced a verbal decision to grant a claim in favour of the SOMIKA's employees retrenched in 2009 valued at $231,000. This was followed by a written judgement in February 2011 stating that the correct legal procedures were not followed on the retrenchment. The Company and its legal advisors strongly dispute the decision and consider that all legal processes were followed by the Company. The Company has lodged an appeal against the decision.

17. Subsequent Events

There are no reportable events subsequent up to date of signing March 29, 2011.