

**AVNEL GOLD MINING LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2011**

## **Corporate information**

### **DIRECTORS**

Howard Miller (Chairman)  
John Kearney (Non-executive & Lead Director)  
Derek Kyle (Non-executive-Director)  
Ibrahim Kantao (Non-executive Director)  
Anthony Bousfield (Non-executive Director)  
Roy Meade (Director Mining)  
Jonas Rydell (Director)

### **AUDITORS**

Ernst & Young LLP  
1 More London Place  
London SE1 2AF  
United Kingdom

### **REGISTERED OFFICE**

1<sup>st</sup> and 2<sup>nd</sup> Floors  
Elizabeth House  
Les Ruettes Brayes  
St. Peter Port  
Guernsey GY1 1EW

**REPORT OF THE DIRECTORS**

**DATE OF INCORPORATION**

Avnel Gold Mining Limited (“Avnel”) was incorporated under The Companies (Guernsey) Laws 1994 on February 18, 2005.

**NATURE OF BUSINESS**

Avnel was established for the purpose of becoming the holding company for, and to carry on the business of, Avnel Gold, Limited (“Avnel Cayman”), a corporation incorporated under the laws of the Cayman Islands, pursuant to a reorganization completed on February 22, 2005. Avnel Cayman and subsidiaries own and operate a gold mine located in the southwest of Mali (the “Kalana Gold Mine”) and the surrounding exploitation property (the “Concession”), and hold rights to the Kalana exploration and exploitation permit. On October 17, 2006, Avnel was awarded the Fougadian Exploration Permit which lies south of the Kalana Permit.

**FINANCIAL RESULTS**

The financial results of the Group are reflected in the income statement appearing on pages 6-9.

**DIVIDENDS**

The company has not declared any dividends during the year (2010:\$nil). The directors do not propose payment of a dividend.

**DIRECTORS**

Particulars of the directors at the date of approval of the financial statements are listed on page 2. There have been no changes during the year.

**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.

As a result of the private placement completed on March 31, 2011, the Company raised significant capital and is now able to fund its mining operations for the foreseeable future. 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. The risks relating to these dependencies are described more fully in the MD&A.

**DIRECTORS’ STATEMENT AS TO THE DISCLOSURE OF INFORMATION TO THE AUDITOR**

The Directors who were members of the board at the time of approving the directors’ report are listed above. Having made enquiries of fellow directors and of the Company’s auditor, each of the directors confirms that:

- so far as each director is aware, there is no relevant audit information of which the Company’s auditor is unaware; and
- each director has taken all steps a director ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company’s auditor is aware of that information.

(signed) “Howard B Miller”

March 28, 2012

.....  
Director

.....  
Date

**STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED  
DECEMBER 31, 2011**

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations. The directors have chosen to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Guernsey Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company at the period end and of the profit or loss of the company for the period then ended. In preparing these financial statements, the directors should:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements prepared by the company comply with the requirements of the Companies (Guernsey) Law 2008. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **REPORT OF INDEPENDENT AUDITORS**

We have audited the financial statements of Avnel Gold Mining Limited for the year ended 31 December 2011, which comprise, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Management Discussion & Analysis to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2011, and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP  
London, England  
March 28, 2012

### **Notes;**

1. The maintenance and integrity of the **Avnel Gold Mining Limited** web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Avnel Gold Mining Limited**  
**Consolidated statement of comprehensive income**  
**For the years ended December 31, 2011 and 2010**  
**Expressed in thousands of US Dollars**  
**(except share and per share information)**

	<u>Notes</u>	<u>2011</u> \$'000	<u>2010</u> \$'000
<b>Revenue</b>	6	14,654	14,709
<b>Cost of operations</b>			
Production costs	7	12,318	12,350
Depletion and depreciation	13	1,880	1,995
		14,198	14,345
<b>Gross profit</b>		456	364
Administration expense	8	3,048	2,378
<b>Operating loss</b>		(2,592)	(2,014)
<b>Other expense</b>			
Net loss on other financial derivatives	16*	(1,647)	(3,882)
Other finance expense	9	(52)	(371)
Interest income		52	-
Foreign exchange loss		(638)	(536)
		(2,285)	(4,789)
<b>Loss before tax from continuing operations</b>		(4,877)	(6,803)
<b>Taxation</b>	24	(2)	-
<b>Net loss from continuing operations</b>		(4,879)	(6,803)
<b>Other comprehensive income:</b>			
Exchange differences		(475)	1,624
<b>Total comprehensive loss</b>		(5,354)	(5,179)
<b>Attributable to:</b>			
Equity holders of the parent		(4,705)	(4,429)
Non-controlling interests		(649)	(750)
<b>Basic loss per share from continuing operations</b>	10	\$(0.025)	\$(0.038)
<b>Diluted loss per share from continuing operations</b>	10	\$(0.025)	\$(0.038)

**Notes;**

16\*Loss on financial derivative liabilities arise as a result of the revaluation at each period end of share purchase warrants previously issued by the Company (also see note 22). In accordance with IFRS share purchase warrants issued or denominated in a currency other than the Company's reporting currency of US dollars are classified as a derivative financial instrument and accounted for as a liability and subject to revaluation at each period end with the gain or loss on revaluation recognised in the Statement of Comprehensive Income. The associated liability has no cash cost or tax effect on the Company.

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

Avnel Gold Mining Limited  
Consolidated statement of financial position  
As at December 31, 2011 and December 31, 2010 and January 1, 2010  
Expressed in thousands of US Dollars

	<u>Notes</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
		<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	13	17,692	19,684	19,631
Total non-current assets		17,692	19,684	19,631
<b>CURRENT ASSETS</b>				
Inventories	11	3,702	3,345	3,500
Other receivables		961	458	1,096
Cash and cash equivalents	12	9,371	2,106	2,027
Total current assets		14,034	5,909	6,623
<b>TOTAL ASSETS</b>				
		31,726	25,593	26,254
<b>CURRENT LIABILITIES</b>				
Trade and other payables	14	1,976	2,074	3,901
Other derivative financial liability	16*	1,275	-	-
Loans	14	-	-	13,551
Total current liabilities		3,251	2,074	17,452
<b>NON-CURRENT LIABILITIES</b>				
Other derivative financial liability	16*	6,643	4,078	11
Provisions	15	3,623	3,421	3,228
Total non-current liabilities		10,266	7,499	3,239
<b>Net Assets</b>				
		18,209	16,020	5,563
<b>EQUITY</b>				
Common equity:				
Authorised - unlimited number of ordinary shares of no par value Issued and outstanding 191,743,724 (2010:166,661,505)	17	50,550	43,836	28,435
Warrant/option reserve	18	5,921	5,092	4,857
Other comprehensive income		919	1,299	-
Retained deficit		(32,875)	(28,550)	(22,822)
<b>Total shareholders' equity</b>		24,515	21,677	10,470
Non controlling interest		(6,306)	(5,657)	(4,907)
<b>Total Equity</b>		18,209	16,020	5,563

(signed) "Howard B Miller"  
Howard B Miller

(signed) "John Kearney"  
John Kearney

Chairman

Lead Director

March 28, 2012

**Notes;**

16\* Share purchase warrants identified as a derivative financial instrument are accounted for as a liability and but the liability has no cash, actual cost or tax effect on the Company and will be transferred to the Company's equity account on exercise, or if not exercised, the revaluation will be recorded in the Statement of Comprehensive Income. (also see note 22). As the derivative liability is not a cash liability, the Company will exclude it when reporting working capital.

**Avnel Gold Mining Limited**

**Consolidated Statement of Changes in Equity**

**For the years ended December 31, 2011 and December 31, 2010**

**Expressed in thousands of US Dollars**

	<u>Common Equity</u>		Warrant/option	Retained	Foreign exchan ge reserve	Non –controlling		Total
	<u>Shares</u>	<u>Amount</u>	<u>Reserve</u>	<u>Deficit</u>		<u>Total</u>	interest	<u>Equity</u>
		<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$,000</u>
<b>At January 1, 2010</b>	<b>80,762,954</b>	<b>28,435</b>	<b>4,857</b>	<b>(22,822)</b>		<b>10,470</b>	<b>(4,907)</b>	<b>5,563</b>
Issuance of common stock for conversion of debt	71,492,382	13,459	189	-		13,648	-	13,648
Issuance of common stock for cash	13,025,000	2,452	-	-		2,452	-	2,452
Issuance of common stock for payment of interest	1,130,438	173	-	-		173	-	173
Warrants exercised during the year	250,731	50	-	-		50	-	50
Issue costs	-	(733)	-	-		(733)	-	(733)
Stock based compensation	-	-	46	-		46	-	46
Exchange differences	-	-	-	-	1,299	1,299	325	1,624
Loss for the year	-	-	-	(5,728)	-	(5,728)	(1,075)	(6,803)
Total Comprehensive loss	-	-	-	(5,728)	1,299	(4,429)	(750)	(5,179)
<b>At December 31, 2010</b>	<b>166,661,505</b>	<b>43,836</b>	<b>5,092</b>	<b>(28,550)</b>	<b>1,299</b>	<b>21,677</b>	<b>(5,657)</b>	<b>16,020</b>
Issuance of common stock for cash	25,000,000	8,097	631	-		8,728	-	8,728
Warrants exercised during the year	82,219	27	-	-		27	-	27
Issue costs	-	(1,410)	-	-		(1,410)	-	(1,410)
Stock based compensation	-	-	198	-		198	-	198
Exchange differences	-	-	-	-	(380)	(380)	(95)	(475)
Loss for the year	-	-	-	(4,325)	-	(4,325)	(554)	(4,879)
Total Comprehensive loss	-	-	-	(4,325)	(380)	(4,705)	(649)	(5,354)
<b>At December 31, 2011</b>	<b>191,743,724</b>	<b>50,550</b>	<b>5,921</b>	<b>(32,875)</b>	<b>919</b>	<b>24,515</b>	<b>(6,306)</b>	<b>18,209</b>



Avnel Gold Mining Limited  
Consolidated Statement of Cash Flows  
For the Years Ended December 31, 2011, 2010  
Expressed in thousands of US Dollars

	<u>2011</u> <u>\$'000</u>	<u>2010</u> <u>\$'000</u>
<b>Cash flows from operating activities:</b>		
Net loss for the period	(4,879)	(6,803)
Adjusted for:		
Change in reclamation liability	52	50
Depletion and Depreciation	1,880	1,995
Stock based compensation	198	46
Tax creditor provision	150	143
Finance (income)/expense	-	321
	<u>(2,599)</u>	<u>(4,248)</u>
Net changes in working capital items		
Inventories	(357)	155
Prepaid and other receivables	(502)	638
Trade and other payables	(99)	(1,936)
Other derivative financial liability	1,647	3,882
<b>Net cash used in operating activities</b>	<b><u>(1,910)</u></b>	<b><u>(1,509)</u></b>
<b>Cash flows from investing activities:</b>		
Purchases and development of Property, plant and equipment	(363)	(461)
Disposal proceeds	-	37
<b>Net cash used in investing activities</b>	<b><u>(363)</u></b>	<b><u>(424)</u></b>
<b>Cash flows from financing activities:</b>		
Issue of share capital	10,317	2,597
Issue costs	(779)	(585)
Proceeds from short term financing	-	-
<b>Net cash provided by financing activities</b>	<b><u>9,538</u></b>	<b><u>2,012</u></b>
<b>Total increase in cash and cash equivalents</b>	<b><u>7,265</u></b>	<b><u>79</u></b>
<b>Cash and cash equivalents at beginning of period</b>	<b>2,106</b>	<b>2,027</b>
<b>Cash and cash equivalents at end of period</b>	<b><u>9,371</u></b>	<b><u>2,106</u></b>

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

## **1. Corporate information, Liquidity and Going Concern**

### ***Corporate information***

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 has been accounted for as an exchange between entities under common control whereby the assets and liabilities of the Avnel Cayman group are 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 \$19.5 million in exploration costs.

On August 5, 2010 the Company completed a private placement (the "2010 Private Placement") of 13,025,000 units of Avnel at a price of C\$0.20 per Unit. Each Unit consisted of one ordinary share of Avnel and one-half of one ordinary share purchase warrant (each whole warrant a "Warrant"). Each Warrant entitles the holder to purchase one ordinary 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"). The gross proceeds of the Private Placement were C\$2,605,000 (\$2,547,000). 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.

On March 31, 2011 the Company completed a best efforts private placement (the "2011 Private Placement") of 25,000,000 units of Avnel (the "Units") at a price of Cdn. \$0.40 per Unit (the "Issue Price"). Each Unit consisted of one ordinary share of Avnel and one-half of one ordinary share purchase warrant (each whole warrant a "Warrant"). Each Warrant entitled the holder to purchase one ordinary share of Avnel at a price of C\$0.70, at any time for a period of 18 months from the date of issue of the Warrants. Dundee Securities Ltd. was the lead agent and the gross proceeds of the Private Placement were C\$10,000,000 (\$10,290,000) and Avnel intends to use these proceeds for general corporate purposes.

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

**Avnel Gold Mining Limited**  
**Notes to the Consolidated Financial Statements**  
**Year ended December 31, 2011**  
**Tabular amounts expressed in thousands of US Dollars**

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. To date IAMGOLD has spent a total \$1.05 million in exploration costs.

IAMGOLD has applied for an exploration permit in respect of the southern 75 sq. Km and this is expected to be granted shortly. The combined permits are referred to as the "Fougadian Exploration Permit".

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.

Following the military coup d'état on March 21, 2012 developments in Mali are being closely monitored by Avnel. Mr. Roy Meade, Executive Director of Operations based at Kalana reports that mining and exploration activities at the mine site are continuing as normal and conditions in the surrounding communities are completely calm. The road between the Kalana Mine Site and the capital, Bamako, remains open. Communications remain open as normal and arrangements are being investigated to ensure continuity of supply of locally procured consumables such as diesel (mainly for exploration). The mine, which is operating normally, operates on grid power and there have been no interruptions to electric power supply to date. We are optimistic that the issues giving rise to, and arising from the coup d'état will be resolved by peaceful dialogue.

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.

As a result of the private placement completed on March 31, 2011, the Company raised significant capital and is now able to fund its mining operations for the foreseeable future. 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. The risks relating to these dependencies are described more fully in the MD&A.

**Avnel Gold Mining Limited**  
**Notes to the Consolidated Financial Statements**  
**Year ended December 31, 2011**  
Tabular amounts expressed in thousands of US Dollars

**2. Basis of Preparation/consolidation**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union. The group has presented its first year consolidation for the year ended 31 December 2011 and the comparative figures for the year 31 December 2010 in IFRS as stated in note 22 below and IFRS 1 has been applied.

The consolidated financial statements have been prepared under the historical cost convention except for share based payments that are fair valued at the date of grant and other financial assets and liabilities that are measured at fair value. The 2010 comparative figures have been restated to comply with IFRS using a transition date of 31 December 2009.

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.

**3. Segmental Reporting**

The Group's operating segments are geographic by location of the group's assets. The Group's material assets are in Mali, West Africa. As the Group has only one asset location, management consider that any additional costs arising in the UK or Canada are contributing to the Group's asset in Mali and therefore only one segment is reported.

**4. Summary of Significant Accounting Policies**

**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 net realisable value, where realisable value is the estimated selling price in the ordinary course of the business, less estimated costs of completion and the estimated costs necessary to make the sale. There were no material amounts of gold in work in progress or held in sand and ore stockpiles. Materials and supplies are stated at average cost. An annual review for obsolescence is carried out by management.

**Other receivables**

Other receivables are recognised at fair value and are non interest bearing and are generally on 30-90 day terms.

**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 unit-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. Property plant and equipment costs include production facilities and equipment, vehicles and office equipment. Production facilities and equipment are stated at cost and are amortised over the estimated proven and probable reserves which can be recovered from the related property. The 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 five years. Maintenance and repairs are charged to expense as incurred. Gains or losses on dispositions are included in operations.

**Avnel Gold Mining Limited**  
**Notes to the Consolidated Financial Statements**  
**Year ended December 31, 2011**  
Tabular amounts expressed in thousands of US Dollars

**Impairment of Property, Plant and Equipment**

The Company assesses each cash generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less cost to sell and value in use. These assessments require the use of estimates and assumptions such as long term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value of mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Management has assessed its cash generating units as being an individual mine site, which is the lowest level for which cash inflows are largely independent of those of other assets.

**Financial liabilities**

The Group's financial liabilities which include trade and other payables, bank overdrafts and loans and borrowings, are recognised initially at fair value and in the case of loans plus directly attributable transaction costs.

*Trade and other payables*

Trade and other payables amounts represent liabilities for goods and services provided to the Company prior to the end of the period which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition.

*Loans*

Loans include the value of embedded derivatives. On June 2005 a convertible loan was issued to the value of \$10,941,000. The contract has a foreign exchange embedded derivative that requires bifurcation. The embedded derivative has been separated and carried at fair value through profit and loss. The convertible loan was fully equitised on August 5, 2010. IFRS requires that shares issued for the extinguishment of liabilities are measured at their fair value. Any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments and the value of the warrants derivative financial instruments issued is included in the entity's profit or loss for the period.

*Financial liabilities at fair value through profit and loss*

Warrant contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Warrant contracts that require to settlement via a variable amount of cash or other financial asset for a fixed number of own equity shares are classified as a derivative financial liability. The liability is measured at fair value with the changes in fair value recorded in the Statement of Comprehensive Income at each period end.

**Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is passed through the income statement.

*Decommissioning provision*

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing production of a mining property. Such costs arising from decommissioning of plant and other site preparation work, discounted to their net present values, are provided for in full as soon as the obligation to incur costs arises and can be reliably estimated. On recognition of a provision, an addition is made to property, plant and equipment; this addition is then charged against profits on a unit of production basis over the life of the mine. Decommissioning provisions are updated for changes in cost estimates as well as to life of mine reserves, with resulting adjustments made to both the provision balance and the net book value of the associated non-current asset.

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*Withholding tax provision*

A withholding tax provision arises when Malian costs are paid externally and financed by an intercompany loan. On repayment of the intercompany loan withholding tax will be incurred.

**Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset.

Finance leases which transfer to the Group substantially all the risks and benefits of the leased item are capitalised at the commencement of the lease at the lower of fair value or minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the lease liability and finance charges are recognised in finance costs in the income statement.

Operating lease payments are recognised as an operating expense in the income statement on a straight line basis over the lease term.

**Revenue Recognition**

Revenue from the sale of gold is recognised upon delivery and when title passes.

**Income Taxes**

Current income tax liabilities comprise those obligations to fiscal authorities in the countries in which the Group's subsidiaries operate and generate taxable income.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amount of assets and liabilities in the consolidated financial statements with their respective tax bases. Deferred tax liabilities are provided in full; deferred tax assets are recognised when there is sufficient probability of utilisation. 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 recognised in the consolidated financial statements when management view that they are likely to occur.

**Foreign Currency**

The functional currency of the entities within the Group is the US dollar, as the currency which most affects revenue, costs and financing. The Group's reporting currency is also the US dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at reporting period end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

**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 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.

**Stock Based Compensation**

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

**Equity-settled transactions**

The cost of equity-settled transactions is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date

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reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions, for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 10).

**Earnings/loss per Common Share**

The Company presents basic and diluted earnings/loss per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average of common shares outstanding for the effects of all dilutive potential common shares, which comprise of warrants and share options.

**Fair value Measurements**

The Company 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 summarised 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

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**5. Judgements in applying accounting policies and sources of estimation uncertainty**

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) which 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. These estimates and assumptions are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience. Actual results could differ from those estimates. The key areas are summarised below:

**Functional Currencies**

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

**Carrying values of property, plant and equipment**

The Group periodically makes judgements as to whether its property, plant and equipment may have been impaired, based on internal and external indicators. Any impairment is based estimates of future cash flows.

**Mineral resources and ore reserves**

Quantification of mineral resources requires a judgement on the reasonable prospects for eventual economic extraction. Quantification of ore reserves requires a judgement on whether mineral resources are economically minable. These judgements are based on assessment of mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors involved, in accordance standards prescribed in National Instrument 43-101. These factors are a source of uncertainty and changes could result in an increase or decrease in mineral resources and ore reserves. This would in turn affect certain amounts in the financial statements such as depreciation and closure provisions, which are calculated on projected life of mine figures.

**Provisions and contingent liabilities**

Judgements are made as to whether a past event has led to a liability that should be recognised in the financial statements or disclosed as a contingent liability. Quantifying any such liability often involves judgements and estimations. These judgements are based on a number of factors including the nature of the claim or dispute, the legal process and potential amount payable, legal advice received, previous experience and the probability of a loss being realised. Each of these factors is a source of estimation uncertainty.

**Restoration, Rehabilitation and environmental provisions**

The Group reviews its mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates (3% (2010 3%)) and changes in discount rates (3% (2010 3%)). These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the statement of financial position by either increasing or decreasing the rehabilitation liability and rehabilitation asset if the initial estimate was originally recognised as part of an asset measured in accordance with IAS 16 *Property, Plant and Equipment*. Any reduction in the rehabilitation liability and therefore any deduction from the rehabilitation asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss.

If the change in estimate results in an increase in the rehabilitation liability and therefore an addition to the carrying value of the asset, the entity is required to consider whether this is an indication of impairment of the asset as a whole and test for impairment in accordance with IAS 36. If for mature mines, the revised mine assets net of rehabilitation provisions exceeds the recoverable value, that portion of the increase is charged directly to expense. Rehabilitation obligations that arose as a result of the production phase of a mine should be expensed as incurred.



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**Other derivative financial liabilities**

The calculation of the fair value of other derivative financial instruments requires judgements, estimates and assumptions related to the risk-free rate and volatility. These inputs are taken from active markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

**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.

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

**IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income**

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

**IAS 27 Separate Financial Statements (as revised in 2011)**

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

**IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)**

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

**IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements**

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

**IFRS 9 Financial Instruments: Classification and Measurement**

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

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**IFRS 10 Consolidated Financial Statements**

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

**IFRS 11 Joint Arrangements**

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will impact the financial position of the Group. This is due to the cessation of proportionate consolidating the joint venture in Showers Limited (see note 6) to equity accounting for this investment. This standard becomes effective for annual periods beginning on or after 1 January 2013.

**IFRS 12 Disclosure of Involvement with Other Entities**

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

**New and amended standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- IAS 24 *Related Party Disclosures (amendment)* effective 1 January 2011
- IAS 32 *Financial Instruments: Presentation (amendment)* effective 1 February 2010
- IFRIC 14 *Prepayments of a Minimum Funding Requirement (amendment)* effective 1 January 2011
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

**IAS 24 Related Party Transactions (Amendment)**

IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

**IAS 32 Financial Instruments: Presentation (Amendment)**

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the

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Group does not have these type of instruments

**IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment)**

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements in Euroland, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

**Improvements to IFRSs**

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group. Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group

- IFRS 3 *Business Combinations* (The measurement options available for non-controlling interest (NCI)).
- IFRS 7 *Financial Instruments — Disclosures* (Simplify the disclosures provided by reducing the volume of disclosures around collateral)
- IAS 1 *Presentation of Financial Statements* (Clarifies that an entity's presentation analysis of each component of other comprehensive income)
- IFRS 3 *Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 *Consolidated and Separate Financial Statement*
- IAS 34 *Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC 13 *Customer Loyalty Programmes* (determining the fair value of award credits)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

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**6. Revenue**

	<u>2011</u>	<u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>
Metal revenue	14,654	13,709
Other income	-	1,000
	<u>14,654</u>	<u>14,709</u>

The \$1,000,000 shown in 2010, as other income, is in relation to the IAMGOLD Joint Venture option fee.

**7. Cost of operations**

*Production costs*

	<u>2011</u>	<u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>
Mining	5,939	5,468
Milling	1,916	1,697
Technical services	444	457
Operating overheads	3,914	3,738
Stock movement	(526)	280
Royalties and other selling costs	598	568
Other	33	142
	<u>12,318</u>	<u>12,350</u>

**8. Administration expense**

	<u>2011</u>	<u>2010</u>
	<u>\$,000</u>	<u>\$,000</u>
Salaries	1,108	746
Audit	277	228
Legal	130	198
Investor relations	304	233
Travel	205	235
Director fees & insurance	144	134
Office expenses	166	146
Withholding expenses	150	143
Other	564	315
	<u>3,048</u>	<u>2,378</u>

**9. Other finance expense**

	<u>2011</u>	<u>2010</u>
	<u>\$,000</u>	<u>\$,000</u>
Finance expense on unwinding of decommissioning provision	52	50
Interest expense	-	321
	<u>52</u>	<u>371</u>

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**10. Loss per share**

Basic loss per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average of number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the loss and share data used in the basic and diluted earnings per share computations:

**Basic and diluted loss per share**

	<u>2011</u> <u>\$'000</u>	<u>2010</u> <u>\$'000</u>
Net loss attributable to ordinary equity holders of the parent	(4,705)	(4,429)
Weighted average number of ordinary shares for basic earnings per share	185,554,007	116,150,355
	<b>\$(0.025)</b>	<b>\$(0.038)</b>

Share options and warrants could potentially dilute earnings per share in future periods but were not included in the calculation as they were anti-dilutive in both periods. The inclusion of share options and warrants would decrease the reported loss per share.

**11. Inventories**

	<u>2011</u> <u>\$'000</u>	<u>2010</u> <u>\$'000</u>	<u>2009</u> <u>\$'000</u>
Metal inventory	1,146	625	905
Materials and supplies	2,556	2,720	2,595
	<u>3,702</u>	<u>3,345</u>	<u>3,500</u>

Metal inventory consists of 882 oz (2010: 625 oz) of gold held at Kalana mine site and nil oz (2010: nil oz) held to the credit of the company's gold bullion account in Switzerland. The gold is valued at cost of \$1,300/oz (2010: \$1,000 per oz.)

**12. Cash and cash equivalents**

	<u>2011</u> <u>\$'000</u>	<u>2010</u> <u>\$'000</u>	<u>2009</u> <u>\$'000</u>
Cash at bank and in hand	4,468	606	2,027
Short term bank deposits	4,903	1,500	-
	<u>9,371</u>	<u>2,106</u>	<u>2,027</u>

The short term bank deposits are held with Barclays Bank Plc. treasury for a period less than a month.

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**13. Property, Plant and Equipment**

	<u>Mine acquisition costs \$'000</u>	<u>Mine Capitalized Development \$'000</u>	<u>Mine equipment \$'000</u>	<u>UK Office equipment \$'000</u>	<u>Total \$'000</u>
<b>Cost</b>					
Balance January 1, 2010	3,455	20,361	9,700	82	33,598
Additions	-	285	170	6	461
Disposals	-	-	(384)	-	(384)
Exchange adjustments	381	636	634	-	1,651
Balance December 31, 2010	3,836	21,282	10,120	88	35,326
Additions	-	158	189	16	363
Exchange adjustments	(131)	(697)	(314)	-	(1,142)
Balance December 31, 2011	3,705	20,743	9,995	104	34,547
<b>Accumulated Depreciation</b>					
Balance December 31, 2009	1,575	8,084	4,249	59	13,967
Expense during the year	105	889	992	9	1,995
Disposals	-	-	(347)	-	(347)
Exchange adjustments	2	12	13	-	27
Balance December 31, 2010	1,682	8,985	4,907	68	15,642
Expense for year	93	761	1,016	10	1,880
Exchange adjustments	(64)	(360)	(238)	(5)	(667)
Balance December 31, 2011	1,711	9,386	5,685	73	16,855
<b>Net Book Value</b>					
December 31, 2011	1,994	11,357	4,310	31	17,692
December 31, 2010	2,154	12,297	5,213	20	19,684
January 1, 2010	1,880	12,277	5,451	23	19,631

An impairment test was carried out at each balance sheet date based on a feasibility study prepared externally for management using a forecast gold price of \$1,200 for 2016 obtained from averaging broker forecasts, an inflation rate of 3% and a discount rate of 5%. No impairment resulted in either year.

**14. Trade and other payables**

	<u>2011 \$'000</u>	<u>2010 \$'000</u>	<u>2009 \$'000</u>
Trade payables	800	855	1,036
Accrued expenses	1,176	1,219	2,692
Interest payable to related parties	-	-	173
Short-term debt	-	-	13,551
	1,976	2,074	17,452

The short term debt of the Company consisted of shareholder loans and term loans provided by Elliott and Fern, the major shareholders of Avnel.

At June 30, 2005 an aggregate principal amount of \$19,255,000 of the Shareholder Loans, together with accrued interest thereon in the amount of \$2,627,000, was converted into equal amounts of common shares and convertible loan notes with an aggregate principal amount of

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\$10,941,000. Upon maturity, the Company could elect to repay the outstanding principal amount in common shares at Cdn\$0.898299 per share if the 40-day weighted average trading price of the common shares prior to the conversion date was equal to the Canadian Dollar equivalent of \$1.20. The convertible loan notes were fully equitised on August 5, 2010. Refer to Note 22(g) for further details. On January 8, 2010, 1,130,438 shares were issued in settlement of \$173,000 of interest accrued on the convertible debt at December 31, 2009.

The Company also had term loans, included in short term loans, provided by Elliott and the Fern Trust with an aggregate principal of \$879,673 and a bridge loan amounting to \$2m with an affiliate of Elliott. These loans were fully equitised on August 5, 2010 and interest was charged at a rate of 8% per annum, payable bi-annually.

**15. Provisions**

	<u>Withholding Tax Provision</u>	<u>Decommissioning Provision</u>	<u>Total</u>
	<u>\$,000</u>	<u>\$,000</u>	<u>\$,000</u>
At January 1, 2010	1,515	1,713	3,228
Arising during the year	143	-	143
Unwinding of discount rate	-	50	50
At December 31, 2010	<u>1,658</u>	<u>1,763</u>	<u>3,421</u>
Arising during the year	150	-	150
Unwinding of discount rate	-	52	52
Closing balance December 31, 2011	<u><u>1,808</u></u>	<u><u>1,815</u></u>	<u><u>3,623</u></u>

**Decommissioning provision**

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 timing of the decommissioning work is 2018.

The Company has used a discount rate of 3.0% for future cash flows in arriving at the fair value of its asset retirement and rehabilitation obligations. The Company considers that 3.0% is an appropriate discount rate. It is possible that the closure plan will change if a new open pit mine is developed. This will be dependent on ongoing exploration and a future feasibility study.

**Withholding tax provision**

The long term tax creditor relates to withholding tax which may arise in Mali when SOMIKA's inter-company loan is repaid to Avnel Gold Mining Limited. Management are unable to determine the timing of the settlement of the provision at this date.

**16. Other derivative financial liabilities**

	<u>2011</u>	<u>2010</u>
	<u>\$,000</u>	<u>\$,000</u>
Net loss on other financial derivatives	<u>1,647</u>	<u>3,882</u>
	<u><u>1,647</u></u>	<u><u>3,882</u></u>

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	<u><b>Financial Liability</b></u>
	\$,000
Balance at January 1, 2010	11
Additional 42,258,692 warrants issued on August 5, 2010	620
Net loss on financial derivative (warrants and convertible debt) at fair value	<u>3,447</u>
Balance at December 31, 2010	<u>4,078</u>
Additional 12,500,000 warrants issued on March 31, 2011	2,193
Net loss on financial derivative (warrants) at fair value	<u>1,647</u>
	<u><u>7,918</u></u>
Total current – other derivative financial liability	<u>1,275</u>
Total non-current – other derivative financial liability	<u><u>6,643</u></u>

On March 31, 2011 the Company completed a private placement (the “2011 Private Placement”) of 25,000,000 units of Avnel at a price of Cdn. \$0.40 per Unit. Each Unit consisted of one ordinary share of Avnel and one-half of one ordinary share purchase warrant (each whole warrant a "Warrant"). Each Warrant entitles the holder to purchase one ordinary share of Avnel at a price of C\$0.70, at any time for a period of 18 months from the date of issue of the Warrants.

On August 5, 2010 the Company completed a private placement (the "2010 Private Placement") of 13,025,000 units of Avnel at a price of C\$0.20 per Unit. Each Unit consisted of one ordinary share of Avnel and one-half of one ordinary share purchase warrant (each whole warrant a "Warrant"). Each Warrant entitles the holder to purchase one ordinary 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. 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 (the “Equitisation”).

The net loss arising on derivative financial liabilities primarily relates to the revaluation, in accordance with IFRS, of share purchase warrants issued as part of the 2011 Private Placement and the 2010 Private Placement Equitisation described above. The proceeds of the issue of the Units were allocated on a fair value basis between the shares and warrants issued. The warrants issued require settlement for an amount in Canadian dollars, a currency different to the Company’s functional currency of US dollars, and therefore do not meet the definition of an equity instrument. The share purchase warrants are therefore carried on the balance sheet as other derivative financial instruments. IFRS requires that shares issued for the extinguishment of liabilities are measured at their fair value at each period end. Any difference between the carrying amount of the financial liability extinguished and the measurement of the initial amount of the equity instrument and the value of the other derivative financial instrument issued is included in the Company’s Statement of Comprehensive Income for the period. This reported accounting loss is a fair value adjustment only and has no cash effect on the Company.

The net loss in 2010 also includes a loss of \$435,000 related to the fair value of the derivative associated with the convertible debt. Refer to note 22 for further details.

The fair value of the warrants granted in each period is calculated using a binomial pricing model to allow for dilution. The share purchase warrants issued as part of the 2011 Private Placement were initially valued at \$2,193,000 assuming a volatility of 93% and a risk free rate of 1.83% and an expected 1.5 year life, and decreased to \$1,076,000 at December 31, 2011 as a result of a decline in the value of the warrant following a decrease in the share price from the date of issue of the 2011 warrants. The share purchase warrants issued as part of the 2010 Private Placement and Equitisation were initially valued at \$620,000, assuming a volatility of 57% and a risk free rate of 1.73% and an expected 3 year life, and increased to \$6,643,000 at



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December 31, 2011 as a result of an increase in the fair value of the warrants following an increase in the share price from the date of issue of the 2010 warrants.

<b>Warrants issued</b>	<b>Expiry date</b>	<b>No. warrants</b>	<b>Fair value at inception</b>	<b>Fair value at 31 Dec 09</b>	<b>Fair value at 31 Dec 2010</b>	<b>Fair value at 31 Dec 2011</b>
			<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
45c August 10, 2009	August 10, 2012	2,000,000	41	11	205	199
35c August 5, 2010	August 5, 2013	42,258,692	620	-	3,873	6,643
70c March 31, 2011	September 30, 2012	12,500,000	2,193	-	-	1,076
				<b>11</b>	<b>4,078</b>	<b>7,918</b>

**Fair value hierarchy**

The following table sets out the financial assets and liabilities measured at fair value at December 31, 2011 and at December 31, 2010 by level within the fair value hierarchy:

\$'000 31 December 2011	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	9,371	9,371	-	-
<b>Liabilities</b>				
Derivative financial liabilities	<u>7,918</u>	-	7,918	-

\$'000 31 December 2010	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	2,106	2,106	-	-
<b>Liabilities</b>				
Derivative financial liabilities	4,078	-	4,078	-

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

The derivative financial liabilities are classified as level 2 of the fair view hierarchy because the share purchase warrants contracts are valued using techniques that are based upon quoted prices in an active market.

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, 2011, there were no transfer between level 1 and level 2 fair value measurements.

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**17. Share Capital**

	No.	\$'000
At 1 January 2010	80,762,954	28,435
Issued during the year	85,989,551	15,401
At 31 December 2010	<u>166,661,505</u>	<u>43,836</u>
Issued during the year	25,082,219	6,714
At 31 December 2011	<u>191,743,724</u>	<u>50,550</u>

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 March 31, 2011 the Company completed a best efforts private placement (the "2011 Private Placement") of 25,000,000 units of Avnel (the "Units") at a price of Cdn. \$0.40 per Unit (the "Issue Price"). Each Unit consisted of one ordinary share of Avnel and one-half of one ordinary share purchase warrant (each whole warrant a "Warrant"). Each Warrant entitled the holder to purchase one ordinary share of Avnel at a price of C\$0.70, at any time for a period of 18 months from the date of issue of the Warrants. Dundee Securities Ltd. was the lead agent and the gross proceeds of the Private Placement were C\$10,000,000 (\$10,290,000).

A further 82,219 shares were issued during the year relating to the exercise of warrants issued in connection with the 2010 Private Placement in August 2010.

**18. Warrant/option reserve**

	<u>2011</u>	<u>2010</u>
	\$'000	\$'000
At 1 January	5,092	4,857
Issued during the year	829	235
At 31 December	<u>5,921</u>	<u>5,092</u>

The warrant/option reserve includes warrants issued to brokers as part of private placements undertaken by the Company as well as stock based compensation options issued to employees.

The fair value of the broker warrants granted on March 31, 2011 in relation to the Private Placement is calculated using a binominal pricing model to allow for dilution. The broker warrants have been valued at \$631,000 assuming a volatility of 93% and a risk free rate of 1.8% and an expected 1.5 year life. The broker warrants issued in 2010 were valued at \$189,000.

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 \$198,000 (2010; \$46,000).

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**19. Commitments and operating leases**

Future operating leases are as follows:

	<u>2011</u>	<u>2010</u>
	<u>\$,000</u>	<u>\$,000</u>
Within one year	68	6
Within two to five years	-	178
	<u>68</u>	<u>184</u>

The Company has entered into an operating lease for office space with a company related to Fern. Pursuant to these leases which expire in June 2012, future minimum payments will amount to £41,000 (2010: £ 115,000) up until the end of the lease, which at the 2011 year end exchange rate, is equivalent to \$64,000 (2010: \$178,000) per annum.

The Company has entered into an operating lease for an office building in Bamako, Mali. The lease expires in June 2012. The remaining commitment at December 31, 2011 is \$4,000.

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. In 2011 IAMGOLD contributed \$1,049,000.

**20. Financial risk management**

The Group is exposed to credit, liquidity, interest rate, exchange, and commodity price risk. The Group's senior management oversees the management of these risks and is supported by the Group's policies and procedures which are approved by the Board. It is the Group's policy that no trading in derivatives for speculation is undertaken.

**Credit Risk**

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, 2011 is shown in the following table.

	<u>United Kingdom</u>	<u>United Kingdom</u>
	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	9,332	2,078
Number of counterparties	1	1

**Liquidity Risk**

The Group constantly monitors the cash outflows from day to day business and monitors longer term liabilities to ensure that liquidity is maintained.

At the balance sheet date the Group's short term financial liabilities, all of which are due within three months, are as follows:

	<u>2011</u>	<u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>
Trade creditors	800	855
Accrued expenses	1,176	1,219
	<u>1,976</u>	<u>2,074</u>

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The other derivative financial liability recorded on December 31, 2011 of \$7,918 (2010: \$4,078) relates to warrants issued by the company which will be settled in shares and therefore is not included in the liquidity table above as there will be no cash outflow.

**Interest Rate Risk**

	Weighted Average Interest rate	At 31 December 2011	Weighted Average Interest rate	At 31 December 2010
	%	\$'000	%	\$'000
Cash and cash equivalents	0.81	9,371	-	2,106
Net (debt)/cash	0.81	9,371	-	2,106

**Foreign Exchange Risk**

The Group's cash balances at December 31, 2011 and 2010 consisted of the following currency holdings:

	<u>2011</u> <u>\$'000</u>	<u>2010</u> <u>\$'000</u>
US dollars	2,472	271
Canadian Dollars	6,852	1,789
Sterling	8	18
Central African franc (CFA)	39	28
	<u>9,371</u>	<u>2,106</u>

The Group may be exposed to transaction foreign exchange risk due to its transactions not being matched in the same currency. The Group has no currency hedging in place.

Local currency costs in Mali, West Africa account for approximately 80% of the operating costs. The CFA is fixed to the Euro and the CFA exchange rate against the US dollar has fluctuated 14% during 2011 from a low of CFA 436 to a high of CFA 497 averaging at CFA 472 to the US dollar. If the CFA strengthened by 10% during the year the net loss of the Company would increase by approximately \$1.0 million. It should be noted that the adverse impact on costs of a weakening US dollar is likely to be mitigated by an increase in the gold price as gold sales are denominated in US dollars. Some of the proceeds from the private placement in March 2011 have been held in Canadian dollars, the Canadian dollar weakened 2% against the US dollar in 2011.

By February 2012, the Canadian dollar had strengthened by 2% against the US dollar and the majority of the Canadian dollar funds were translated to US dollars, the Group's functional currency.

**Commodity Price Risk**

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

In 2011, the entire Group's gold was sold at spot prices. If the gold spot price had reduced by 10% the Group's loss would have increased by \$1.5 million.

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**Capital Management Policy**

The Group's policy when managing its capital is to safeguard its accumulated capital (cash and cash equivalents) in order to fund the ongoing operations and the future development of the Kalana Permit. To safeguard capital and mitigate risk the Group invests its surplus capital in highly liquid, highly rated institutions. The Group reviews its cash flow forecasts very closely to make sure its capital policy is achieved. The Group's cash position is shown below.

**21. Related Party Transactions**

As described in note 19, the Company has entered into an operating lease for office space with Fern. Rent expense amounted to \$132,000 (2010: \$123,000) and the amount outstanding at December 31, 2011 \$64,000 (2010: \$177,500). 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 \$662,000 of explosives during 2011 (2010: \$556,000) from African Explosives Limited ("AEL"). Mr. Ibrahim Kantao, a director of Avnel and SOMIKA, is also the Director-General of AEL Mali.

*Remuneration of key management personnel*

In accordance with IAS 24- Related party transactions, key management personnel, including all executive and non executive directors, are those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

	<u>2011</u> <u>\$'000</u>	<u>2010</u> <u>\$'000</u>
Wages and salaries	992	681
Directors' fees	89	73
	1,081	754

*Key Management's interest in the Long Term Incentive Plan (LTIP)*

Share options held by the Company's LTIP to purchase ordinary shares have the following expiry dates and exercise prices:

Issue Date	Expiry date	Exercise price	Number outstanding 2011	Number outstanding 2010
31/08/05	19/8/2015	C\$0.76	899,000	899,000
13/08/08	06/08/2018	C\$0.45	1,500,000	1,500,000
09/11/10	09/11/2015	C\$0.28	125,000	125,000
01/01/11	31/12/2016	C\$0.35	500,000	-
15/11/11	15/11/2021	C\$0.60	1,500,000	-
Total			4,524,000	2,524,000

Share options held by the Company's CEO Compensation Option Continuation scheme (see note 23) to purchase ordinary shares have the following expiry dates and exercise prices:

Issue Date	Expiry date	Exercise price	Number outstanding 2011	Number outstanding 2010
23/02/05	23/02/2013	US\$0.275	2,500,000	2,500,000
Total			2,500,000	2,500,000

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The table below sets out charges during the year and balances at 31 December 2011 between the Company and Group companies that were not wholly owned, in respect of management fees and interest on loans.

\$'000 <b>2011</b>	Avnel Gold Mining Limited	Avnel Gold Mining Limited	\$'000 <b>2010</b>	Avnel Gold Mining Limited	Avnel Gold Mining Limited
	Charged in year	Balance Dec 2011		Charged in year	Balance Dec 2010
SOMIKA	4,798	53,108		4,356	49,016
<b>Total</b>	<b>4,798</b>	<b>53,108</b>		<b>4,356</b>	<b>49,016</b>

**22. IFRS (International Financial Reporting Standards)**

IFRS 1 First time Adoption of International Financial Reporting Standards sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position dated January 1, 2010:

a) *Business Combinations*

IFRS 1 allows the first-time adopter to not apply IFRS3 *Business Combinations* retrospectively to business combinations that occurred before the date of the transition to IFRS. The Company has taken advantage of this election and has not applied IFRS3 to business combinations that occurred on or before January 1, 2010.

b) *Non-controlling interests*

Under USGAAP loss making non controlling interests could be excluded from the consolidated financial statements. Under IFRS all non controlling interests have to be shown from the date of transition.

c) *Cumulative translation differences*

IFRS 1 allows a first-time adopter to not comply with IAS 21 *The Effects of Changes in Foreign Exchange Rates* from cumulative translation differences that existed at the date of transition to IFRS. The Company has chosen to apply this election and has eliminated the cumulative translation difference and adjusted retained earnings at the date of transition to IFRS.

d) *Share-based payment transactions*

IFRS 1 encourages first-time adopters to apply IFRS 2 *Share Based Payments* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

The Company has applied the following specific guidelines that a first-time adopter must follow:

e) *Estimates*

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP. The Company's IFRS estimates as of January 1, 2010 are consistent with its US GAAP for the same date.

While the adoption of IFRS has not changed the Company's actual cashflows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to understand these changes, the Company's US GAAP statement of consolidate

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income and statement of financial position for the year ended December 31, 2010 have been reconciled to IFRS.

*f) Provision for environmental rehabilitation*

Under IFRS the provision for environmental rehabilitation must be adjusted for changes in the discount rate whereas under US GAAP the affects of changes to the discount rate is not allowed. The change has been added to the provision with the offsetting value added to property plant and equipment.

*g) Other financial liabilities*

Other current liability loans include the value of embedded derivatives. On June 2005 a convertible loan was issued to the value of \$10,941,000. The contract has a foreign exchange embedded derivative that requires bifurcation and is a new transition adjustment that has been identified. The embedded derivative has been separated and carried at fair value through profit and loss. The adjustment takes the balance sheet as recorded under US GAAP and results in the correct presentation and measurement under IFRS. This was incorrectly accounted for under US GAAP following introduction of EITF 07-05 which would have required the same bifurcation. The convertible loan was fully equitised on August 5, 2010.

Additionally, the fair value of the warrants issued at the balance sheet date was estimated valuing the warrants using a binomial pricing model to allow for dilution. The fair value at 31 December 2011 was \$7,918,000 (2010: \$4,078,000, 2009: \$11,000). As the warrants are denominated in Canadian dollars, a currency other than the functional currency (US dollars) of the Group, they are considered a derivative financial liability under IFRS, and are measured at fair value with changes in fair value recorded through profit and loss in the Statement of Comprehensive Income. The adjustment takes the balance sheet amounts as recorded under US GAAP and results in the correct presentation and measurement under IFRS. This was incorrectly accounted for under US GAAP following introduction of EITF 07-05 which would have required the same accounting treatment.

*h) Property plant and equipment*

Due to the adjustment required to property plant and equipment described in note (f) above the depreciation will differ from the US GAAP statements. In addition exchange differences on property, plant and equipment held in subsidiaries with functional currencies other than US dollars have been translated at the period end exchange rate with the movement recognised in other comprehensive income. This was incorrectly accounted for under US GAAP following FAS 52 which would have required the same accounting treatment.

*i) Accounts payable, accrued liabilities and provisions*

IFRS – a provision is a liability of uncertain timing or amount. Provisions are disclosed separately from liabilities and accrued liabilities and require additional disclosure.

US GAAP – Accounts payable, accrued liabilities and provisions are disclosed on the statement of financial position as a single line item.

*j) Presentation*

The presentation of the cash flow statement in accordance with IFRS differs from the presentation of the cash flow statement in accordance with US GAAP.

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**Opening consolidated statement of financial position at**  
**January 1, 2010**  
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	<b>USGAAP</b>	<b>IFRS/other adj</b>	<b>IFRS</b>
	<b><u>Jan 2010</u></b>	<b><u>Jan 2010</u></b>	<b><u>Jan 2010</u></b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	18,907	724(f)	19,631
Total non-current assets	18,907	724	19,631
<b>CURRENT ASSETS</b>			
Inventories	3,500	-	3,500
Other receivables	1,096	-	1,096
Cash and cash equivalents	2,027	-	2,027
Total current assets	6,623	-	6,623
<b>TOTAL ASSETS</b>			
	25,530	724	26,254
<b>CURRENT LIABILITIES</b>			
Trade and other payables	3,901	-	3,901
Loans	13,986	(435)(g)	13,551
Total current liabilities	17,887	(435)	17,452
<b>NON-CURRENT LIABILITIES</b>			
Provisions	2,504	724(f)	3,228
Other derivative financial liability	-	11(g)	11
Total non-current liabilities	2,504	735	3,239
<b>Net Assets</b>	<b>5,139</b>	<b>424</b>	<b>5,563</b>
<b>EQUITY</b>			
Common stock:			
Authorised - unlimited number of ordinary shares of no par value Issued and outstanding 80,762,954	28,435	-	28,435
Warrant/option reserve	4,898	(41)	4,857
Retained deficit	(28,184)	5,362	(22,822)
Accumulated other comprehensive income	(10)	10	-
<b>Total stockholders' equity</b>	<b>5,139</b>	<b>5,331</b>	<b>10,470</b>
Non controlling interest	-	(4,907)(b)	(4,907)
<b>Total Equity</b>	<b>5,139</b>	<b>424</b>	<b>5,563</b>



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Consolidated statement of comprehensive income for the  
year December 31, 2010  
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(except share and per share information)

	USGAAP	IFRS/other adj	IFRS
	<u>Dec 2010</u>	<u>Dec 2010</u>	<u>Dec 2010</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<b>Revenue</b>	14,709	-	14,709
Cost of sales	12,460	(110)(f)	12,350
Depletion and depreciation	1,856	139 (f, h)	1,995
	14,316	29	14,345
<b>Gross profit</b>	393	(29)	364
Administration expense	2,378	-	2,378
<b>Operating (loss)/profit</b>	(1,985)	(29)	(2,014)
<b>Other income/(expense)</b>			
Net loss on other financial derivatives		(3,882) (g)	(3,882)
Other finance expense	(321)	(50)(f)	(371)
Foreign exchange loss	(536)	-	(536)
	(857)	(3,932)	(4,789)
<b>Loss before tax</b>	(2,842)	(3,961)	(6,803)
<b>Taxation</b>	-	-	-
<b>Net loss</b>	(2,842)	(3,961)	(6,803)
<b>Other comprehensive income</b>	-	1,624(h)	1,624
<b>Total comprehensive income</b>	(2,842)	(2,337)	(5,179)
<b>Attributable to:</b>			
<b>Equity holders of the parent</b>	(1,762)	(2,667)	(4,429)
<b>Non-controlling interests</b>	(1,080)	330	(750)
<b>Basic loss per share</b>	(0.015)	(0.022)	(0.038)
<b>Weighted average shares outstanding</b>	116,150,355	116,150,355	116,150,355

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Closing consolidated statement of financial position at  
December 31, 2010

Expressed in thousands of US Dollars

	<b>USGAAP Dec 2010</b>	<b>IFRS/other adj Dec 2010</b>	<b>IFRS Dec 2010</b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	17,475	2,209(f, h)	19,684
<b>Total non-current assets</b>	<b>17,475</b>	<b>2,209</b>	<b>19,684</b>
<b>CURRENT ASSETS</b>			
Inventories	3,345	-	3,345
Other receivables	458	-	458
Cash and cash equivalents	2,106	-	2,106
<b>Total current assets</b>	<b>5,909</b>	<b>-</b>	<b>5,909</b>
<b>TOTAL ASSETS</b>	<b>23,384</b>	<b>2,209</b>	<b>25,593</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	2,074	-	2,074
<b>Total current liabilities</b>	<b>2,074</b>	<b>-</b>	<b>2,074</b>
Provisions	2,757	664(f)	3,421
Other derivative deferred liability	-	4,078(g)	4,078
<b>Total non-current liabilities</b>	<b>2,757</b>	<b>4,742</b>	<b>7,499</b>
<b>Net Assets</b>	<b>18,553</b>	<b>(2,533)</b>	<b>16,020</b>
<b>EQUITY</b>			
Common stock:			
Authorised - unlimited number of ordinary shares of no par value Issued and outstanding 166,661,505	43,915	(79)	43,836
Warrant/option reserve	5,674	(582)	5,092
Other comprehensive income	-	1,299 (h)	1,299
Retained deficit	(31,036)	2,486	(28,550)
<b>Total stockholders' equity</b>	<b>18,553</b>	<b>3,124</b>	<b>21,677</b>
Non controlling interest	-	(5,657)	(5,657)
<b>Total Equity</b>	<b>18,553</b>	<b>(2,533)</b>	<b>16,020</b>

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**23. Share Base Payment Plans**

At 31 December 2011, the Company has two share based payments plans, they are as follow::

**(i) The Stock Option Plan**

On February 23, 2005, the board of directors of Avnel 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.

The re-approval of the scheme will be placed before shareholders at the Company's AGM on May 24, 2012.

Options issued during the year are as follows and were calculated using the following criteria

<b>Issue date</b>	<b>Exercise price</b>	<b>Number of options</b>	<b>% Volatility</b>	<b>Interest free rate</b>
January 1, 2011	C\$0.35	500,000	77%	3.5%
November 15, 2011	C\$0.60	1,500,000	75%	3.25%

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The table below summarizes the options granted and outstanding at December 31, 2011.

	<u>Shares</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual term</u>
<b>Stock Option Plan</b>			
<b>Outstanding at December 31, 2010</b>	2,969,000	C\$ 0.50	5.8
<b>Granted</b>	2,000,000	C\$ 0.52	-
<b>Outstanding at December 31, 2011</b>	<b>4,969,000</b>	<b>C\$ 0.52</b>	<b>5.8</b>

A summary of the fair values of the options outstanding is shown below:

Date of grant	Vesting period (years)	Date of vesting	Expected life (years)	Risk free rate %	Exercise price C\$	Share price at grant C\$	Volatility %	Fair value C\$	Number outstanding
31/08/05	0.0	31/08/05	10.0	4.0	0.76	1.00	40	0.64	899,000
13/08/08	0.0	13/08/08	10.0	4.0	0.45	0.15	40	0.39	1,500,000
17/08/10	0.0	17/08/10	2.4	2.5	0.22	0.185	57	0.05	400,000
09/11/10	0.0	09/11/10	5.0	2.5	0.28	0.28	57	0.14	170,000
01/01/11	0.0	01/01/11	6.0	3.5	0.35	0.315	77	0.21	170,000
01/01/11	1.0	01/01/12	6.0	3.5	0.35	0.315	77	0.21	170,000
01/01/11	2.0	01/01/13	6.0	3.5	0.35	0.315	77	0.21	160,000
15/11/11	0.5	24/05/12	10.0	3.25	0.60	0.52	75	0.39	1,500,000
			<b>5.8</b>		<b>0.52</b>				<b>4,969,000</b>

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

On February 23, 2005, Avnel granted to Roy Meade, Chief Executive Officer of Avnel, an option (the "Meade 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 US\$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 Meade 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 Meade Compensation Option will terminate in the event he leaves employment of Avnel at his own volition prior to the exercise date. The Meade 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 Meade 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 Meade 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.

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**Meade Compensation Option**

Date of grant	Vesting period (years)	Date of vesting	Expected life (years)	Risk free rate %	Exercise price C\$	Share price at grant C\$	Volatility %	Fair value C\$	Number outstanding
23/02/05	0.3	30/06/05	8.0	4.0	0.327	1.00	40	0.381	833,333
23/02/05	1.0	23/02/06	8.0	4.0	0.327	1.00	40	0.381	833,333
23/02/05	2.0	23/02/07	8.0	4.0	0.327	1.00	40	0.381	833,334
				<b>4.0</b>	<b>0.327</b>	<b>1.00</b>	<b>40</b>	<b>0.381</b>	<b>2,500,000</b>

**Summary of Options Granted**

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

Risk-free interest rate	2.5% - 4.2%
Expected option term	10 years
Expected volatility	40% - 77%
Expected dividend yield	Nil%

The maximum expected option term of ten years has been used as Avnel does not have any previous history of issuing options and has no reason to conclude that a shorter term is more appropriate. 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 40-77%. This figure was accepted by Avnel, and has been used to calculate the fair value of options as there was insufficient trading data for the Company's shares.

Using these assumptions the total value of the options granted amounts to \$2,633,042. For the year ended December 31, 2011 administration expense includes compensation expense of \$198,000 (2010: \$46,000) and the corresponding amount has been credited to Warrant/option reserve.

The fair value of the warrants granted on March 31, 2011 to non-employees in relation to the Private Placement has been calculated using a binominal pricing model to allow for dilution. The warrants have been valued at \$2,824,000 assuming a volatility of 93% and a risk free rate of 1.8% and an expected 1.5 year life, and the value has been added to additional paid in capital.

**Warrants issued to brokers**

Warrants were issued to brokers as compensation for their services in the equity issuance described note 1. Each Broker Warrant gives the holder the option to purchase one Unit, defined in note 1.

These warrants issued to the brokers fall within the scope of IFRS 2 as the warrant issuance to the brokers represents an equity based payment to non-employees. As the fair value of the equity instrument can be reliably measured, this is the fair value recognised by Avnel, and is recorded within warrant reserves, see note 18.

In connection with the private placements on August 5 2010 the Company issued 1,626,675 warrants and 813,338 rights to the brokers. Each warrant entitles the holder to purchase one ordinary share of Avnel at a price of C\$0.20 and each right entitles the holder to purchase one ordinary share of Avnel at the price of C\$0.35 at any time for a period of 36 months from the date of issue of the Warrants.

In connection with the private placement on March 31, 2011, 1,750,000 warrants and 875,000 rights were issued to the brokers. Each warrant entitles the holder to purchase one ordinary share of Avnel at a price of

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C\$0.40 and each right entitles the holder to purchase one ordinary share of Avnel at the price of C\$0.70 at any time for a period of 18 months from the date of issue of the Warrants.

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

	<b>As at January 1, 2010</b>	<b>Forfeited or expired</b>	<b>Granted</b>	<b>Exercised</b>	<b>As at December 31, 2010</b>
Warrants issued through the IPO on June 30, 2005	<b>6,518,713</b>	<b>(6,518,713)</b>	-		-
Broker Warrant issued on private placement Aug 5, 2010 @ C\$0.20			1,626,675	(250,731)	<b>1,375,944</b>
Broker Warrant rights on private placement on August 5, 2010 @ C\$0.35	-		813,338	-	<b>813,338</b>
Convertible Loan Note`	<b>12,747,260</b>	(12,747,260)		-	-
Stock Option Plan	<b>2,599,000</b>	(200,000)	570,000	-	<b>2,969,000</b>
Meade Compensation Option	<b>2,500,000</b>		-	-	<b>2,500,000</b>
<b>Options or rights to purchase common shares</b>	<b>24,364,973</b>	<b>(19,465,973)</b>	<b>3,010,013</b>	(250,731)	<b>7,658,282</b>
	<b>As at December 31, 2010</b>	<b>Forfeited or expired</b>	<b>Granted</b>	<b>Exercised</b>	<b>As at December 31, 2011</b>
Broker Warrants issued on private placement on August 5, 2010 @ C\$0.20	<b>1,375,944</b>		-	(14,652)	<b>1,361,292</b>
Broker Warrant rights on private placement on August 5, 2010 @ C\$0.30	<b>813,338</b>		-	(4,884)	<b>808,454</b>
Broker Warrants rights issued on private placement on March 31, 2011 @ C\$0.70	-		875,000	-	<b>875,000</b>
Broker Warrants issued on private placement on March 31, 2011 @ C\$0.40	-		1,750,000	-	<b>1,750,000</b>
Stock Option Plan	<b>2,969,000</b>		2,000,000	-	<b>4,969,000</b>
Meade Compensation Option	<b>2,500,000</b>		-	-	<b>2,500,000</b>
<b>Options or rights to purchase common shares</b>	<b>7,658,282</b>		<b>4,625,000</b>	(19,536)	<b>12,263,746</b>

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**24. Taxation**

The Company's corporate income tax expense for the years ended December 31, 2011 and 2010 are as follows:

Current tax:	<u>2011</u>	<u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>
Corporation tax on profit for the period	-	-
Deferred tax	2	-
Tax charge for the period	<u>2</u>	<u>Nil</u>

The Company's statutory income tax rate for the years ended December 31, 2011 and 2010 is nil. Reconciliation between the between tax expense and Guernsey's effective corporation tax rate of 0%:

	<u>2011</u>	<u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>
Accounting loss before tax	(4,879)	(6,803)
Loss for the period multiplied by effective tax rate	-	-
0%	(-)	(-)
	<u>Nil</u>	<u>Nil</u>

The components of deferred income taxes, net as of December 31 2011 and 2010 are as:

Deferred taxes:	<u>2011</u>	<u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>
Property, plant and equipment	(646)	(338)
Tax losses and credits	(7,268)	(4,266)
	7,914	4,604
Unrecognised deferred tax assets	(7,914)	(4,604)
Net deferred tax asset	<u>Nil</u>	<u>Nil</u>

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, 2011 and 2010.

The provision for income taxes for the years ended December 31, 2011 and 2010 result in effective tax rates of 0% and 0%, respectively.

**25. 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

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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 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 disputed the decision and consider that all legal processes were followed by the Company. The Company lodged an appeal against the decision and in January 2012 and was upheld. The Company is awaiting the written judgement.

**26. Subsequent Events**

Following the military coup d'etat on March 21, 2012 developments in Mali are being closely monitored by Avnel. Mr. Roy Meade, Executive Director of Operations based at Kalana reports that mining and exploration activities at the mine site are continuing as normal and conditions in the surrounding communities are completely calm. The road between the Kalana Mine Site and the capital, Bamako, remains open. Communications remain open as normal and arrangements are being investigated to ensure continuity of supply of locally procured consumables such as diesel (mainly for exploration). The mine, which is operating normally, operates on grid power and there have been no interruptions to electric power supply to date. We are optimistic that the issues giving rise to, and arising from the coup d'etat will be resolved by peaceful dialogue.