AVNEL GOLD MINING LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

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

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

REPORT OF THE DIRECTORS

DATE OF INCORPORATION

Avnel Gold Mining Limited ("Avnel or the Company") 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. The Company and its consolidated subsidiaries for financial reporting purposes are referred to herein as the "Group".

FINANCIAL RESULTS

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

DIVIDENDS

The company has not declared any dividends during the year (2011:$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. 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. 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 risks relating to these dependencies are described more fully in the Management Discussion and Analysis.

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.

"Howard B Miller" March 27, 2013

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Director Date

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED DECEMBER 31, 2012

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 judgements 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 2012, which comprise, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidate 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 Report of the Directors 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 2012, 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 27, 2013

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, 2012 and 2011
Expressed in thousands of US Dollars
(except share and per share information)

	Notes	2012 $'000	2011 $'000
Revenue	6	16,804	14,654
Cost of operations			
Production costs	7	13,272	12,318
Depletion and depreciation	14	1,880	1,880
		15,152	14,198
Gross profit		1,652	456
Administration expense	8	3,268	3,048
Operating profit/(loss)		(1,616)	(2,592)
Other income/(expense)			
Net gain/(loss) on other financial derivatives	17*	6,318	(1,647)
Other finance expense	9	(54)	(52)
Interest income		14	52
Foreign exchange loss		128	(638)
		6,406	(2,285)
Profit/(loss) before tax from continuing operations		4,790	(4,877)
Taxation	24	(4)	(2)
Net profit/(loss) from continuing operations		4,786	(4,879)
Other comprehensive income:			
Exchange differences		25	(475)
Total comprehensive profit/(loss)		4,811	(5,354)
Attributable to:			
Equity holders of the parent		7,762	(4,705)
Non-controlling interests		(2,951)	(649)
Basic profit/(loss) per share from continuing operations	10	$0.040	$(0.025)
Diluted profit/(loss) per share from continuing operations	10	$0.040	$(0.025)

Notes;
17*Gain/(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. 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, 2012 and December 31, 2011

Expressed in thousands of US Dollars

	Notes	**December 31, 2012 $'000**	**December 31, 2011 $'000**
NON-CURRENT ASSETS			
Property, plant and equipment	14	16,722	17,692
Total non-current assets		16,722	17,692
CURRENT ASSETS			
Inventories	11	4,227	3,702
Other receivables	12	2,123	961
Cash and cash equivalents	13	7,979	9,371
Total current assets		14,329	14,034
TOTAL ASSETS		31,051	31,726
CURRENT LIABILITIES			
Trade and other payables	15	2,103	1,976
Other derivative financial liability	17*	1,600	1,275
Total current liabilities		3,703	3,251
NON-CURRENT LIABILITIES			
Other derivative financial liability	17*	-	6,643
Provisions	16	3,855	3,623
Total non-current liabilities		3,855	10,266
Net Assets		23,493	18,209
EQUITY			
Common equity:			
Authorised - unlimited number of ordinary shares of no par value Issued and outstanding 191,743,724 (2011:191,743,724)	18	50,550	50,550
Warrant/option reserve	19	6,394	5,921
Other comprehensive income		939	919
Retained deficit		(25,133)	(32,875)
Total shareholders' equity		32,750	24,515
Non controlling interest		(9,257)	(6,306)
Total Equity		23,493	18,209

(signed) *"Howard B Miller"* Howard B Miller	(signed) *"John Kearney"* John Kearney

Chairman Lead Director March 27, 2013

Notes;

17* Share purchase warrants identified as a derivative financial instrument are accounted for as a liability. 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. 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, 2012 and December 31,2011
Expressed in thousands of US Dollars

	Common Equity		Warrant/option	Retained	Foreign exchange reserve		Non –controlling interest	Total
	Shares	Amount	Reserve	Deficit		Total		Equity
		$'000	$'000	$'000	$'000	$'000	$'000	$,000
At December 31, 2010	**166,661,505**	**43,836**	**5,092**	**(28,550)**	**1,299**	**21,677**	**(5,657)**	**16,020**
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)
At December 31, 2011	**191,743,724**	**50,550**	**5,921**	**(32,875)**	**919**	**24,515**	**(6,306)**	**18,209**
Stock based compensation	-	-	473	-		473	-	473
Exchange differences	-	-	-	-	20	20	5	25
Profit/(loss) for the year	-	-	-	7,742	-	7,742	(2,956)	4,786
Total Comprehensive profit/(loss)	-	-	-	7,742	20	7,762	(2,951)	4,811
At December 31, 2012	**191,743,724**	**50,550**	**6,394**	**(25,133)**	**939**	**32,750**	**(9,257)**	**23,493**

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

Avnel Gold Mining Limited

Consolidated Statement of Cash Flows

For the Years Ended December 31, 2012, 2011

Expressed in thousands of US Dollars

	2012 **$’000**	**2011** **$’000**
Cash flows from operating activities:		
Net profit/(loss) for the period	4,786	(4,879)
Adjusted for:		
Finance expense on unwinding of decommissioning provision	54	52
Depletion and Depreciation	1,880	1,880
Stock based compensation	473	198
Tax creditor provision	178	150
Finance (income)/expense	(14)	-
Tax expense	4	2
Other derivative financial liability	(6,318)	1,647
	1,043	(950)
Net changes in working capital items		
Inventories	(525)	(357)
Other receivables	(1,162)	(502)
Trade and other payables	137	(101)
Net cash used in operating activities	**(507)**	**(1,910)**
Cash flows from investing activities:		
Purchases and development of Property, plant and equipment	(885)	(363)
Net cash used in investing activities	**(885)**	**(363)**
Cash flows from financing activities:		
Issue of share capital	-	10,317
Issue costs	-	(779)
Net cash provided by financing activities	**-**	**9,538**
Total (decrease)/increase in cash and cash equivalents	**(1,392)**	**7,265**
Cash and cash equivalents at beginning of period	9,371	2,106
Cash and cash equivalents at end of period	**7,979**	**9,371**

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.

Following the military coup d'état on March 21, 2012 developments in Mali are closely monitored by Avnel. Mr. Roy Meade, Executive Director of Operations based at Kalana reports that mining 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, has remained open. 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 current ongoing operations by the Malian army backed by French and ECOWAS troops will enable elections to be held this year.

Avnel entered into an agreement (the "Option Agreement") with IAMGOLD Corporation ("IAMGOLD") on August 10, 2009 pursuant to which IAMGOLD had the right to earn a 51% interest in Avnel's interest in the Kalana Permit by spending $11 million over a three year period and making two payments to Avnel of $1 million each on August 10, 2009 and August 10, 2010. The IAMGOLD work programme focussed primarily on the evaluation of the Kalana Mine and its environs to examine the potential for a large scale, bulk mineable resource. IAMGOLD substantially completed the drill programs at Kalana and Kalanako by the end of 2012. The objective was to define a minimum resource of 2 million ounces which would entitle IAMGOLD to obtain 51% of the project if it committed to the carrying out of a feasibility study under an agreed work program. Avnel and IAMGOLD agreed to extend the exploration phase of its joint venture arrangements from August 9, 2012 to December 31, 2012. This was further extended to 28 February 2013.
The Option Agreement automatically lapsed on March 1, 2013 as IAMGOLD was unable to produce a Resource Study as defined in the Option Agreement under the timescale allowed.

Under the terms of the Option Agreement, IAMGOLD's cost receivables will be forfeited and all technical data, studies and other documents relating to the exploration activities not previously shared with Avnel (including financial models) will be so delivered to Avnel at no cost. Avnel has been closely working with its consultants, Roscoe Postle Associates, in analysing the database arising from the extensive exploration program conducted by IAMGOLD.

Avnel is examining its options to proceed with the work necessary to complete a pre-feasibility study leading to the development of a new bulk mine at Kalana and the ongoing exploration of its 387sq.km Kalana Permit where new gold prospects at Kalanako and Djirila have been identified.

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.
The warrants expired on September 30, 2012. Dundee Securities Ltd. was the lead agent and the gross proceeds of the Private Placement were C$10,000,000 ($10,290,000) which Avnel will use 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 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. Avnel has applied for and is waiting approval of a further Permit extension.

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 $1.75 million in exploration costs.
IAMGOLD had applied and been granted an exploration permit in respect of the southern 75 sq. Km. The combined permits are referred to as the "Fougadian Exploration Permit".

The Company's significant exploration programme performed by IAMGOLD was completed in the first quarter of 2013 under the terms of the August 2009 Option Agreement. The Company intends to sustain the current underground mining operation as long as economically feasible, without spending significant capital expenditure, until such time as the results of this exploration are completed and assessed to enable the Company to better evaluate future development options for the mine. Until this work is completed and a suitable development plan is identified, output from the mine will continue to be constrained.

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

Liquidity and Going Concern

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

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.

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).

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 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 ten 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.

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, 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.

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.

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 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.

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 with 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% (2011 3%) and changes in discount rates 3% (2011 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.

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.

Future Accounting Policies

The following new standards and amendments to standards and interpretations were not yet effective for the year ended December 31, 2012, and have not been applied in preparing these consolidated financial statements. These are summarised below:

IAS 1 Presentation of items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and therefore has no impact on the Group's financial position or performance.

IAS 27 Separate Financial Statements (as revised 2011)

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

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 was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015.

In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Company will assess the effect in conjunction with the other phases, when the final standard including all phases is issued.

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. The Company does not expect its adoption to have a material impact on the consolidated financial statements.

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. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Company does not expect its adoption to have a material impact on the consolidated financial statements.

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. The Company does not expect its adoption to have a material impact on the consolidated financial statements.

IFRS 13 Fair value measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
This standard becomes effective for annual periods beginning on or after 1 January 2013. The Company does not expect its adoption to have a material impact on the consolidated financial statements.

IFRIC 20 Stripping costs in the production phase of a surface mine

IFRIC 20 provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining in situations where the following benefits accrue to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Company does not expect its adoption to have a material impact on the consolidated financial statements.

6. Revenue

	2012 $'000	2011 $'000
Metal revenue	16,804	14,654
	16,804	14,654

7. Cost of operations

Production costs

	2012 $'000	2011 $'000
Mining	6,464	5,939
Milling	1,840	1,916
Technical services	469	444
Operating overheads	3,734	3,914
Stock movement	60	(526)
Royalties and other selling costs	671	598
Other	34	33
	13,272	12,318

8. Administration expense

	2012	2011
	$,000	$,000
Salaries	1,164	1,108
Stock based compensation	473	198
Consultancy	155	140
Audit	199	277
Legal	95	130
Investor relations	246	304
Travel	183	205
Director fees & insurance	137	144
Office expenses	164	166
Withholding expenses	178	150
Other	274	226
	3,268	3,048

9. Other finance expense

	2012	2011
	$,000	$,000
Finance expense on unwinding of decommissioning provision	54	52
	54	52

10. Profit/(loss) per share

Basic profit/(loss) per share amounts are calculated by dividing net profit/(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 profit/(loss) per share amounts are calculated by dividing the net profit/(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 profit/ (loss) and share data used in the basic and diluted earnings per share computations:

Basic and diluted profit/ (loss) per share

	2012 $'000	2011 $'000
Net profit/(loss) attributable to ordinary equity holders of the parent	7,762	(4,705)
Basic weighted average number of ordinary shares for basic earnings per share	191,743,724	185,554,007
Basic profit/ (loss) per share attributable to ordinary equity holders of the parent	**$0.040**	**$(0.025)**
Effect of dilutive potential ordinary shares granted of warrants and options granted	766,148	-
Diluted weighted average number of ordinary shares for basic earnings per share	192,509,872	185,554,007
Diluted profit/ (loss) per share attributable to ordinary equity holders of the parent	**$0.040**	**$(0.025)**

The 2012 dilutive potential relates to the 2,500,000 Meade options, 170,000 LTIP options and 1,361,292 Broker 2010 warrants. See note 23.
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 2011. The inclusion of share options and warrants would decrease the reported loss per share.

11. Inventories

	2012 $'000	2011 $'000
Metal inventory	1,086	1,146
Materials and supplies	3,141	2,556
	4,227	3,702

Metal inventory consists of 905 oz (2011: 882 oz) of gold held at Kalana mine site and nil oz (2011: nil oz) held to the credit of the company's gold bullion account in Switzerland. The gold is valued at cost of $1,200/oz (2011: $1,300 per oz.)

12. Other receivables

	2012 $'000	2011 $'000
Refundable VAT in Mali	1,936	839
Prepayments and other	187	122
	2,123	961

13. Cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank and in hand	979	4,468
Short term bank deposits	7,000	4,903
	7,979	9,371

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

14. Property, Plant and Equipment

	Mine acquisition costs $'000	Mine Capitalized Development $'000	Mine equipment $'000	UK Office equipment $,000	Total $,000
Cost					
Balance January 1, 2011	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
Additions	-	88	750	47	885
Disposals	-	-	-	(52)	(52)
Exchange adjustments	11	69	34	5	119
Balance December 31, 2012	3,716	20,900	10,779	104	35,499
Accumulated Depreciation					
Balance January 1, 2011	1,682	8,985	4,907	68	15,642
Charged during the 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
Charged during the year	122	698	1,037	23	1,880
Disposals	-	-	-	(52)	(52)
Exchange adjustments	7	42	35	10	94
Balance December 31, 2012	1,840	10,126	6,757	54	18,777
Net Book Value					
December 31, 2012	1,876	10,774	4,022	50	16,722
December 31, 2011	1,994	11,357	4,310	31	17,692
January 1, 2011	2,154	12,297	5,213	20	19,684

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 $1,600 for 2016 obtained from averaging broker forecasts, an inflation rate of 3% and a discount rate of 5%. No impairment resulted in either year.

15. Trade and other payables

	2012	2011
	$,000	$,000
Trade payables	987	800
Accrued expenses	1,116	1,176
	2,103	1,976

16. Provisions

	Withholding Tax Provision	Decommissioning Provision	Total
	$,000	$,000	$,000
At January 1, 2011	1,658	1,763	3,421
Arising during the year	150	-	150
Unwinding of discount rate	-	52	52
At December 31, 2011	1,808	1,815	3,623
Arising during the year	178	-	178
Unwinding of discount rate	-	54	54
Closing balance December 31, 2012	1,986	1,869	3,855

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.

17. Other derivative financial liabilities

	2012 $,000	2011 $,000
Net profit/(loss) on other financial derivatives	6,318	1,647
	6,318	1,647

	Financial Liability $,000
Balance at January 1, 2011	4,078
Additional 12,500,000 warrants issued on March 31, 2011	2,193
Net loss on financial derivative (warrants) at fair value	1,647
Balance at December 31, 2011	7,918
Net (profit) on financial derivative (warrants) at fair value	(6,318)
Balance at December 31, 2012	1,600
Total current – other derivative financial liability	1,600
Total non- current– other derivative financial liability	-

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 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. All warrants expired on September 30, 2012.

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 “Equitatisation”).

The net gain arising in 2012 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 Equitatisation 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 profit/loss is a fair value adjustment only and has no cash effect on the Company.

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 2011warrants. The warrants lapsed on September 30, 2012 without exercise and the resultant gain passed through the profit and loss account. The share purchase warrants issued as part of the 2010 Private Placement and Equitatisation 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 December 31, 2011. The fair value of the warrants decreased to $1,600,000 as a result of a decrease in the share price in 2012 and the resultant gain passed through the profit and loss account.

Warrants issued	**Expiry date**	**No. warrants**	**Fair value at inception**	**Fair value at 31 Dec 2010**	**Fair value at 31 Dec 2011**	**Fair value at 31 Dec 2012**
			US$'000	**US$'000**	**US$'000**	**US$'000**
45c August 10, 2009	August 10, 2012	2,000,000	41	205	199	-
35c August 5, 2010	August 5, 2013	*42,258,692	620	3,873	6,643	1,600
70c March 31, 2011	September 30, 2012	12,500,000	2,193	-	1,076	-
				4,078	**7,918**	**1,600**

* 62,683 35c warrants were exercised in 2011 leaving 42,196,009 warrants at December 31, 2012 to be exercised

Fair value hierarchy

The following table sets out the financial assets and liabilities measured at fair value at December 31, 2012 and at December 31, 2011 by level within the fair value hierarchy:

$'000 31 December 2012	Total	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	7,979	7,979	-	-
Liabilities				
Derivative financial liabilities	1,600	-	1,600	-

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

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, 2012, there were no transfers between level 1 and level 2 fair value measurements.

18. Share Capital

	No.	**$'000**
At 1 January 2011	166,661,505	43,836
Issued during the year	25,082,219	6,714
At 31 December 2011	191,743,724	50,550
Issued during the year	-	-
At 31 December 2012	191,743,724	50,550

Avnel's authorised 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.

19. Warrant/option reserve

	2012	**2011**
	$'000	**$'000**
At 1 January	5,921	5,092
Warrants issued during the year	-	631
Compensation charged during the year	473	198
At 31 December	6,394	5,921

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 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 $473,000 (2011; $198,000).

20. Commitments and operating leases

Future operating leases are as follows:

	2012 $,000	2011 $,000
Within one year	152	68
Within two to five years	369	-
	521	68

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 2016, future minimum payments will amount to £320,000 (2011: £ 41,000) up until the end of the lease, which at the 2012 year end exchange rate, is equivalent to $517,000 (2011: $64,000) per annum.

The Company has entered into an operating lease for an office building in Bamako, Mali. The lease expires in June 2013. The remaining commitment at December 31, 2012 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 2012 IAMGOLD contributed $753,000 (2011:$1,049,000).

21. 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, 2012 is shown in the following table.

	United Kingdom 2012	United Kingdom 2011
Cash and cash equivalents	7,979	9,332
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:

	2012 $'000	2011 $'000
Trade creditors	987	800
Accrued expenses	1,116	1,176
	2,103	1,976

The other derivative financial liability recorded on December 31, 2012 of $1,600,000 (2011: $7,918,000) 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 2012	Weighted Average Interest rate	At 31 December 2011
	%	$'000	%	$'000
Cash and cash equivalents	0.16	7,979	0.81	9,371
Net (debt)/cash	0.16	7,979	0.81	9,371

Foreign Exchange Risk
The Group's cash balances at December 31, 2012 and 2011 consisted of the following currency holdings:

	2012 $'000	2011 $'000
US dollars	7,944	2,472
Canadian Dollars	5	6,852
Sterling	28	8
Central African franc (CFA)	-	39
South African Rand	2	-
	7,979	9,371

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 85% of the operating costs. The CFA is fixed to the Euro and the CFA exchange rate against the US dollar has fluctuated 8% during 2012 from a low of CFA 491 to a high of CFA 529 averaging at CFA 503 to the US dollar. If the CFA strengthened by 10% during the year, the net loss of the Company would increase by approximately $1.14 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.

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 2012, 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 $1.7 million.

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 above.

22. Related Party Transactions

As described in note 20, the Company has entered into an operating lease for office space with Fern. Rent expense amounted to $139,000 (2011: $132,000) and the amount outstanding at December 31, 2012 $517,000 (2011: $64,000). The rental payments are denominated in Sterling so the U.S. Dollar amount payable is subject to fluctuation with the movement in exchange rates between Sterling and the U.S. Dollar.

SOMIKA purchased $777,000 of explosives during 2012 (2011: $662,000) 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.

	2012	**2011**
	$'000	**$'000**
Wages and salaries	1,012	992
Directors' fees	89	89
	1,101	1,081

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

Share options held by key management personnel including executive and non executive directors under the Company's Long Term Incentive Plan to purchase ordinary shares have the following expiry dates and exercise prices:

Issue Date	Expiry date	Exercise price	Number outstanding 2012	Number outstanding 2011
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	500,000
15/11/11	15/11/2021	C$0.60	1,500,000	1,500,000
Total			4,524,000	4,524,000

In addition share options held by Mr. Roy Meade under the Company's CEO Compensation Option Continuation scheme to purchase ordinary shares have the following expiry dates and exercise prices:

Issue Date	Expiry date	Exercise price	Number outstanding 2012	Number outstanding 2011
23/02/05	23/02/2023	US$0.275	2,500,000	2,500,000
Total			2,500,000	2,500,000

The extension of the option expiry date from February 23, 2013 to February 23, 2023, is subject to approval by shareholders at the Company's next Annual General Meeting.

The table below sets out charges during the year and balances at December 31, 2012 between the Company and Group companies that were not wholly owned, in respect of management fees and interest on loans.

$'000 **2012**	Avnel Gold Mining Limited	Avnel Gold Mining Limited	$'000 **2011**	Avnel Gold Mining Limited	Avnel Gold Mining Limited
	Charged in year	Balance Dec 2012		Charged in year	Balance Dec 2011
SOMIKA	5,240	57,383		4,798	53,108
Total	**5,240**	**57,383**		**4,798**	**53,108**

23. Share Base Payment Plans

At 31 December 2012, 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. Options granted under the Plan are subject to the following terms and conditions:

The Company's Stock Option plan was re-approved on May 29, 2008 and again on May 24, 2012.

(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.

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

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

The table below summarizes the options granted and outstanding at December 31, 2012.

	Shares	**Weighted average exercise price**	**Weighted average remaining contractual term**
Stock Option Plan			
Outstanding at December 31, 2011	4,969,000	C$ 0.52	5.8
Expired	400,000	C$ 0.22	-
Outstanding at December 31, 2012	**4,569,000**	**C$ 0.54**	**5.7**

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
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
			5.7		**0.54**				**4,569,000**

(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. The extension of the option expiry date from February 23, 2013 to February 23, 2018, is subject to approval by shareholders at the Company's next Annual General Meeting.

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.

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
				4.0	**0.327**	**1.00**	**40**	**0.381**	**2,500,000**

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, 2012 administration expense includes compensation expense of $473,000 (2011: $198,000) and the corresponding amount has been credited to Warrant/option reserve.

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 19.

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 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:

	As at January 1, 2011	**Forfeited or expired**	**Granted**	**Exercised**	**As at December 31, 2011**
Broker Warrants issued on private placement on August 5, 2010 @ C$0.20	**1,375,944**	-	-	(14,652)	**1,361,292**
Broker Warrant rights on private placement on August 5, 2010 @ C$0.35	**813,338**	-	-	(4,884)	**808,454**
Broker Warrants rights issued on private placement on March 31, 2011 @ C$0.70	**-**	-	875,000	-	**875,000**
Broker Warrants issued on private placement on March 31, 2011 @ C$0.40	**-**	-	1,750,000	-	**1,750,000**
Stock Option Plan	**2,969,000**	-	2,000,000	-	**4,969,000**
Meade Compensation Option	**2,500,000**	-	-	-	**2,500,000**
Options or rights to purchase common shares	**7,658,282**	**-**	**4,625,000**	(19,536)	**12,263,746**

	As at December 31, 2011	**Forfeited or expired**	**Granted**	**Exercised**	**As at December 31, 2012**
Broker Warrants issued on private placement on August 5, 2010 @ C$0.20	**1,361,292**	-	-	-	**1,361,292**
Broker Warrant rights on private placement on August 5, 2010 @ C$0.35	**808,454**	-	-	-	**808,454**
Broker Warrants rights issued on private placement on March 31, 2011 @ C$0.70	**875,000**	(875,000)	-	-	**-**
Broker Warrants issued on private placement on March 31, 2011 @ C$0.40	**1,750,000**	(1,750,000)	-	-	**-**
Stock Option Plan	**4,969,000**	(400,000)	-	-	**4,569,000**
Meade Compensation Option	**2,500,000**	-	-	-	**2,500,000**
Options or rights to purchase common shares	**12,263,746**	**(3,025,000)**	-	-	**9,238,746**

24. Taxation

The Company’s corporate income tax expense for the years ended December 31, 2012 and 2011 are as follows:

Current tax:	**2012** **$’000**	**2011** **$’000**
Corporation tax on profit for the period	-	-
	-	-
Deferred tax	4	2
Tax charge for the period	4	2

The Company’s statutory income tax rate for the years ended December 31, 2012 and 2011 is nil. Reconciliation between the between tax expense and Guernsey’s effective corporation tax rate of 0%:

	2012	**2011**
	$'000	**$'000**
Accounting profit/(loss) before tax	4,790	(4,877)
Profit/(loss) for the period multiplied by effective tax rate 0%	-	-
	-	-
	Nil	Nil

The components of deferred income taxes, net as of December 31 2012 and 2011 are as:

Deferred taxes:	**2012**	**2011**
	$'000	**$'000**
Property, plant and equipment	(451)	(646)
Tax losses and credits	(7,931)	(7,268)
	8,382	7,914
Unrecognised deferred tax assets	(8,382)	(7,914)
Net deferred tax asset	Nil	Nil

Unrecognised tax losses and credits amount to a total of $22.6m of which $8.7m relate to Malian tax losses for the period of 2010 and 2011 which will expire in 3 years, i.e 2013 and 2014 respectively. The remaining tax losses and credits of $13.9m can be carried forward indefinitely.

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, 2012 and 2011.

The provision for income taxes for the years ended December 31, 2012 and 2011 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 2009, 2010 and 2011 was carried out during 2012 and resulted in a partial report received in December 2012 covering only the 2009 year. The inspector is claiming $4.8m including penalties, disputing various tax items including tax allowances on interest, withholding tax on foreign suppliers and VAT exemption. Management believe strongly that the majority of the tax claims are incorrect and will take external advice on these issues when the 2010 and 2011 reports are received from the inspector.

26. Subsequent Events

IAMGOLD Joint Venture

At the end of the exploration period of the IAMGOLD Joint Venture, which was extended by mutual agreement to February 28, 2013, IAMGOLD had spent approximately $32 million on exploration activities at Kalana but had not delivered a resource study which met the vesting threshold, leading the option to automatically lapse. Avnel is examining its options to proceed with the work necessary to complete a pre-feasibility study leading to the development of a new bulk mine at Kalana and the ongoing exploration of its 387sq.km Kalana Permit where new gold prospects at Kalanako and Djirila have been identified.