

**AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010**

The following management's discussion and analysis (the "MD&A") for Avnel Gold Mining Limited ("Avnel" or the "Company") describes the operating and financial results of the Company for the period from January 1, 2010 to December 31, 2010. Avnel was incorporated under The Companies (Guernsey) Laws 1994 to 2001 on February 18, 2005 with the purpose of becoming the holding company for, and to carry on the business of, Avnel Gold, Limited, a Cayman Islands company ("Avnel Cayman"), pursuant to a reorganisation which was completed on February 22, 2005.

This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010 and related notes thereto. The selected financial information and the discussion of results of operations were prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). Reference should be made to Note 15 of the consolidated financial statements of the Company for a reconciliation of Canadian and U.S. GAAP. All amounts in this discussion are expressed in U.S. dollars, unless identified otherwise.

Forward-Looking Statements

This MD&A contains forward-looking statements which are based on the Company's expectations, estimates and projections regarding its business and the gold market and economic environment in which it operates. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections, and other forward-looking statements will not occur. These assumptions may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Therefore, actual results of the Company could differ materially from those discussed in such forward-looking statements as a result of these risks and uncertainties and readers should not place undue reliance on such statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements, where as a result of new information, future events or otherwise, unless required by applicable law.

Cautionary Note Regarding Technical Information

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

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

Overview of the Company

Avnel's principal assets are an 80% indirect interest in Société d'Exploitation des Mines d'Or De Kalana, S.A. ("SOMIKA") and a 100% indirect interest in the Fougadian Exploration Permit, through its subsidiary, Avnel Mali SARL. The State of Mali holds the remaining 20% interest in SOMIKA which owns a long tenure (30 years plus two 10 year extensions) Exploitation Permit over 387.4 square kilometres located in South West Mali ("the Kalana Permit").

Avnel operates the small underground Kalana gold mine located in the far northwest of the Kalana Permit extracting narrow quartz veins and with a gravity only recovery process.

The Kalana Permit was acquired by Avnel in late 2002 following which the existing plant and infrastructure were upgraded. Mining operations were resumed by SOMIKA in January 2004 with commercial production commencing in March 2004.

Avnel entered into an agreement with IAMGOLD Corporation ("IAMGOLD") on August 10, 2009 pursuant to which IAMGOLD has the right to earn a 51% interest in the Kalana Joint Venture 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. IAMGOLD may increase its share of the available interest in the project up to 65% (assuming Avnel elects to participate in the costs of a feasibility study and if it does not so elect 70%). The IAMGOLD work programme is focused initially and primarily on the evaluation of the Kalana Mine and its environs to examine the potential for a large scale, bulk mineable resource. IAMGOLD recently subscribed C\$1 million for shares and warrants in Avnel's private placement (see below under the heading liquidity and going concern) acquiring 5 million shares in the company, being 3% of the outstanding common shares and which together with the warrants acquired and the options previously acquired by IAMGOLD, represents approximately 4.1% of the outstanding shares of Avnel.

On August 5, 2010 the Company completed a private placement (the "Private Placement") of 13,025,000 units of Avnel at a price of C\$0.20 per Unit. Each Unit consisted of one 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 and Avnel will use these proceeds for general corporate purposes. 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 August 10, 2010 IAMGOLD paid the second Kalana Joint Venture option fee of \$1,000,000.

These transactions extinguished all of Avnel's debt and provide the Company with enhanced financial strength through a debt-free balance sheet to continue working with IAMGOLD to advance the Company's goal of fully exploring the upside potential at its Kalana mine and Permit.

Avnel's strategic objective, through SOMIKA, is to commercially exploit underground reserves at the Kalana Gold Mine, whilst exploring for commercially viable opportunities for the exploitation of a bulk mineable deposit.

Kalana Main Project

The objective of the Kalana Main Project is to (i) capture the very large geological database generated in paper form by SONAREM into a digital database, and (ii) re-interpret that data to assess the potential for gold mineralization outside of the flat dipping quartz vein structures mapped and assayed by SONAREM and SOGEMORK and (iii) optimise a future drill program to enhance the existing mineral resource base. These quartz vein structures host substantially all of the Kalana Gold Mine's mineral resources, reported in the National Instrument 43-101 compliant 2005 Snowden Technical Report filed on SEDAR. Avnel has continued underground exploration by development and diamond drilling and this data will be included in the database. Underground mining has exposed numerous quartz vein, stockworks and mineralization in the metasediments that had not been incorporated by SONAREM and SOGEMORK into their geological model of the deposit.

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

- As the target was perceived by SONAREM and SOGEMORK to consist of flatly dipping veins, more than 98% of their drilling was vertical or sub-vertical. The joint venture between Ashanti Gold Fields Ltd.

("Ashanti") and Johannesburg Consolidated Investments Ltd. which studied the mine between 1995 and 1996 and the surrounding area also drilled predominantly vertical holes.

- With SONAREM and SOGEMORK's perception that only the high grade free milling quartz veins could be profitably mined, they analysed the quartz veins and their immediate hanging and foot walls with the result that only a portion of the core was analysed and incorporated into their geological model.
- All drilling by SONAREM and SOGEMORK was core drilling but the core was not kept, although it was meticulously logged. Ashanti drilled two twin holes (one vertical and one inclined) which had good correlation with the SONAREM and SOGEMORK holes that they twinned.
- As SONAREM and SOGEMORK were only targeting free milling gold, they neglected the oxide cap (except for the Kalana I pit) and the potential for mineralization in the wallrocks with disseminated sulphides, stockworks and other quartz vein structures.

The focus of the Kalana Main Project is to expand the NI 43-101 Compliant Mineral Resource through exploration by drilling and underground development, leading to the potential for bulk mining by both surface and underground mining. The major portion of the reported Mineral Resources lies in several discrete, flat dipping quartz veins within a constrained footprint of 600m by 700m. This Resource can be expanded by increasing the footprint to the west and east of the constraining faults by additional development and drilling in areas where SOGEMORK had drilled a limited number of holes. The resource can also be expanded by the inclusion of lower grade quartz veinlets and stockworks located between the flat dipping veins, that have been exposed by underground development and drilling. This will lead to wider mineralised packages suitable for bulk mining. The potential for steep dipping quartz veins had been identified by SOGEMORK but was not included in the Mineral Resource. Development and drilling has confirmed there is potential to include these in future Mineral Resources. A zone of disseminated gold mineralisation is located to the west and north-west of the diorite stock in the central and northern side of the main Kalana deposit. This zone is related to steeply dipping faults and shears. This type of gold mineralisation is lower grade and does not form part of the Kalana Gold Mine resource. The potential extensions of these disseminated zones has been observed in underground development and drilling

A priority objective under the IAMGOLD JV is the Kalana Main Project together with prospective targets in the immediate vicinity of the Kalana Gold Mine.

Classified Mineral Resource Estimates from the Company

2004 Classified Mineral Resource Estimates from Snowden

In July 2004, Snowden undertook a review of the Kalana Gold Mine resource estimate completed by Snowden in 1997. The June 2004 resource estimate is presented in accordance with National Instrument 43-101 and set out in detail in the 2005 Snowden Technical Report. The resource was classified as follows:

- *Measured resources.* Where the quartz veins have been opened by mining (Veins 1 and 3) and face or pit sampling is available for grade and thickness estimation, grade and tonnage can be estimated with a high level of confidence. Geological and grade continuity is confirmed;
- *Indicated resources.* The drill spacing by SOGEMORK is generally about 50 m by 50 m and Snowden considers this close spacing to be adequate to estimate grade, thickness and tonnage with a reasonable level of confidence for this type of deposit (Veins 1, 3, and 14 to 21). Continuity of mineralization, grade and structure is assumed; and
- *Inferred resources.* The two deep veins (Veins 22 and 23), plus the stockwork from 240 m to 265 m has a drillhole spacing greater than 75 m by 75 m, as the majority of the drilling has stopped short, and are classified as inferred resources. The tonnage and grade are estimated at a low level of confidence, and the geological and grade continuity are inferred.

The classified mineral resource for measured and indicated categories for 2004 is summarized in the tables below.

Table 1: Kalana Gold Mine Measured and Indicated Resource — June 2004

<u>Category</u>	<u>Zone</u>	<u>Tonnes</u>	<u>Au (g/t)</u>	<u>Au (1000 oz)</u>
Underground				
Measured	Veins (1 and 3)	111,800	19.6	70
Indicated	Veins (1, 3, 14 to 21) and Stockwork	1,828,200	12.7	744
Total Underground		1,940,000	13.1	814
Open Pit				
Indicated	Veins (1, 2, 3, 18 and 19) and Stockwork	863,600	6.8	190
Total Open Pit		863,600	6.8	190
Total Tailings and Sand Stockpiles		243,800	2.0	16
Total Underground, Open Pit And Tailings		3,047,400	10.4	1,020

Table 2: Kalana Gold Mine Inferred Resource — June 2004

<u>Category</u>	<u>Zone</u>	<u>Tonnes</u>	<u>Au (g/t)</u>	<u>Au (1000 oz)</u>
Underground				
Inferred	Veins (22 and 23) and Stockwork	429,000	6.2	85
Open Pit				
Inferred	Veins (22 and 23) and Stockwork	1,832,000	2.8	164
Total Inferred		2,261,000	3.4	249

Table 3: Kalana Gold Mine Total Resource — June 2004

<u>Category</u>	<u>Tonnes</u>	<u>Au (g/t)</u>	<u>Au (1000 oz)</u>
Measured	355,600	7.5	86
Indicated	2,691,800	10.8	934
Total Measured plus Indicated	3,047,400	10.4	1,020
Inferred	2,261,000	3.4	249

The Snowden resource has not been materially depleted by mining.

2010 Classified Mineral Reserve Estimates from the Company

The Company has classified the mineral reserves in two areas. The first is the reserves that can be mined from the existing infrastructure down to the 180m elevation. The second area is the reserves that can be mined from the mineral resources between the 180m and 300m elevations.

As described in this MD&A, the Company has decided to optimize the potential of the Kalana Gold Mine and its environs by further exploration drilling that may lead to a large, bulk mining operation. Underground development and diamond drilling has shown that gold mineralization occurs outside of the narrow, high grade quartz veins that make up the majority of the underground mineral resources as defined in 2004 by Snowden as described in the 2005 Snowden Technical Report. The Kalana Main Project seeks to evaluate this potential to increase mineral resources to enhance the economics of the Kalana Gold Mine.

The classified mineral reserves for proved and probable reserves as of December 2010 for underground mineralization, as prepared by the Company, is summarized in the table below and are presented in accordance with the standards prescribed in National Instrument 43-101 and were prepared under the supervision of Roy Meade, an Executive Director of the Company, and a "Qualified Person" as defined in National Instrument 43-101.

Kalana Gold Mine Classified Reserve Estimate – December 2010

Category	Tonnes	Grade	Contained Ozs	% Recovery	Recovered Ozs
Existing Infrastructure					
Probable-underground	41,000	6.6	8,870	84	7,000
Sub Total	41,000	6.6	8,870	84	7,000
180-300m elevation					
Probable	395,000	14.5	184,000	86	158,000
Total	436,000	13.8	192,000	86	165,000

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

The 2011 mine plan is based on a planning reserve of 38,000 tonnes at a grade of 6.5g/t containing 8,000 ounces. These planning reserves are included in the table above as they have been exposed by development in 2010 and planned development in 2011.

Exploration

SOMIKA

IAMGOLD continued with the exploration program to meet the requirements of the Joint Venture Agreement. During the fourth quarter total expenditure was \$2,342,000 with the cumulative to date expenditure being \$6,604,000. IAMGOLD also paid Avnel the \$1.0million second joint venture fee in August 2010.

PROJECT MILESTONES ACHIEVED

- An initial drilling campaign was completed between February and August 2010. The campaign included 40 diamond drill holes covering 9,821 metres and 11,646 metres of RC drill holes

- A second drill campaign commenced in October 2010 and 3,343 metres of diamond drill holes and 16,037 metres of RC drill holes were completed by December 2010. Some assays for the diamond drill holes and RC drill holes are pending. Assay results have been reported in Avnel's press releases dated January 31, 2011 and February 22, 2011 and are available at www.avnelgold.com.
- Re-assaying of all diamond drill holes from the first campaign was completed in January 2011. Re-assaying of approximately 40% of RC drill holes was completed by mid February. All RC drill hole re-assays will be completed in March 2011.
- Termite mound geochemical sampling over the northern 60 km² priority zone and over the remainder of the Kalana Permit has been completed. A total of approximately 21,000 samples have been collected and assay results received for 18,000 samples.
- Geophysical data collection over the whole Kalana Permit and the Fougadian permit.
- Collection of over 5,000 grab samples from the underground workings in the Kalana Mine and first pass assaying of these samples has been completed.
- Avnel has appointed Strathcona Mineral Services as its technical advisor to the advanced exploration programme being conducted by IAMGOLD Corporation

Highlights

During 2010, diamond drilling and RC drilling has shown the potential for bulk mining at Kalana. IAMGOLD has made significant progress in constructing a detailed and predictive geologic model on the Kalana project. This will allow the optimum design of an appropriately oriented drilling campaign in 2011 to evaluate mineral resources.

Mineralised packages up to 18 metres width have been confirmed by drilling and underground development in the northern area of the Kalana Mine. North of the existing underground workings, vertical and flat dipping quartz veins have been intersected between surface and 100m elevation that may provide early access to bulk mineable ore within the saprolite. The initial results of RC drilling confirm the possibility of these vein packages being an important source of gold mineralisation for an open pit. A new mineralised package of steep, thin, closely packed veins has been exposed by diamond drilling and underground development between 100m and 180m elevations.

Initial results from diamond and RC drill holes at Kalana II, east of the existing mine, are providing a better understanding of the potential mineralisation than previously interpreted. In the February 22 2011 press release, results from some of the 2010 RC drilling at Kalana II have been reported and show the potential for mineralised packages that may lead to a major increase in the existing Mineral Resources at Kalana II.

Initial results from the 2010 RC drill holes at Kalanako, a satellite prospect located 3 kilometres north east of Kalana, are very encouraging. The results indicate that at least two mineralised zones exist, striking north-west as indicated by the geochemical anomaly and, artisanal workings' geophysical structures.

Re-assaying of diamond drill core and RC drill samples

On October 18, 2010, Avnel issued a press release reporting it had been informed by IAMGOLD, the Company's joint venture partner for the Kalana exploration programme, that sample preparation protocols had not been consistently followed by SGS, the independent laboratory engaged in the programme, during parts of 2010. The issue was intensively investigated by SGS and IAMGOLD and remedial action has been initiated and is close to completion. Investigations revealed that some sample material for pulverisation was lost during the sample preparation phase, and that drill samples were found discarded on the project site. IAMGOLD report that the QA/QC protocols were properly applied to pulverised samples, but that the loss of sample material distorted the

representivity of those samples. The investigation and re-assay data indicates that mineralised zones had been possibly selected to remove visible gold from the sample.

All assay results for diamond drilling and RC drilling reported between February and October 2010 have been rejected.

The SGS laboratory at Kalana was closed temporarily and was re-commissioned in November 2010 when more experienced SGS personnel were seconded to the laboratory and additional equipment installed. Some samples from drill holes in the second campaign are now being prepared in the SGS laboratory at Kalana.

All reverse circulation and diamond drilling samples from the first drill campaign are being re-analysed at SGS's sample preparation laboratory in Bamako and analytical laboratory in Kayes. The remaining half core of the diamond drill holes was submitted for sample preparation and assaying. All drill cores had already been photographed and logged, thereby providing a geological record of the core. The RC cuttings were prepared for sample preparation by using samples split from the archived, original field samples. It was IAMGOLD's objective that all the re-assaying would be completed before the end of 2010. All diamond drill re-assays were completed by mid January 2011 and all re-assays of the RC drill samples will now be completed in the first half of 2011.

The results from the first 4,500 samples indicate that the re-assays are generally higher than the original assays of the diamond drill holes, probably due to the loss of material during the sample preparation process. A significant number of mineralized intervals display better results with numerous examples showing higher grades.

The QA/QC data for the re-assay material in general provide comfort for the results received, and the overall accuracy of the assays received is good. The correlation of assay values to mineralised zones identified by visible gold, quartz veins and geological observations has improved with the re-assays.

Due to the sample preparation problem identified in October 2010, there is a backlog of sample assay results from the 2011 drilling programs. It is planned to report all assay results in the first half of 2011.

DIAMOND AND RC DRILLING

The mine has been split into three domains based on the dip and strike of the quartz veins. These domains are known as Kalana I North, Kalana I South and Kalana II, located east of the current mine operations. Within these domains, the predominant strike and direction of quartz vein packages are shown. In Kalana I North veins are dipping predominately south. This is repeated in the Kalana II domain. In the Kalana I South domain the predominant dip direction is east.

KALANA I NORTH

Vein 17 Mineralisation Package

Six holes (DD006, 007, 008, 026, 027 and 028) were drilled to test possible extensions of Vein 17 down dip and to the east of a major fault. DD027 and DD028 showed that flat dipping quartz veins such as Vein 17 extend approximately 120 metres east into an area where previous geological models indicated none existed. DD006, 007, 027 and 028 confirmed that Vein 17 is a high grade quartz vein within a mineralised package, as shown in previous geological models. Underground development and stoping on 150m and 180m levels have exposed Vein 17. DDH006 returned 18m at 2.5g/t in this Vein 17 mineralized package close to the bulk sample from the underground development. DD027 returned 10m at 2.3g/t and DD028 returned 8m at 2.46g/t, 10m at 0.57g/t and 3m at 3.71g/t in the same mineralised package. Visible gold was observed in all three holes, although the assay results did not show high grades as observed in stoping operations. These results indicate that borehole assay results will generally undervalue these high grade, nugget quartz mineralised zones. This has been further supported in recent mine development where a twenty degree inclined winze of 75m assayed 4.5g/t over 75m of development. The inclined area is estimated to be equivalent to 15m vertical thickness. This has been historically recognised in similar mineralised deposits and within the existing Kalana Mine.

These drill holes have intersected the Vein 17 package in a limited area and additional drilling is planned to expand the mineralised package to the west and south.

A RC drill hole, RC095, was drilled from south to north, close to DD006, to a hole depth of 100m at an inclination of sixty degrees. RC095 intersected 6m at 0.46g/t from 17m, 7m at 1.69g/t from 63m and 3m at 0.67g/t from 73m. These mineralised packages were identified in DD006 (4m at 0.78g/t from 18m, 5m at 1.60g/t from 63m and 3m at 0.67g/t from 73m).

West of existing mine workings

The western area of Kalana North I was tested by four diamond drill holes (DD029, DD030, DD031 and DD032). All 4 holes were drilled north at sixty degrees inclination. DD001 was drilled 34 degrees east of north at a sixty degree inclination. All these holes show mineralisation extending approximately 50m west of the current underground mining areas. DD029 intersected 11m at 2.08g/t from 16m and 10m at 2.57g/t from 59m. These mineralised zones may be the same as exposed by underground development on 100m level. DD031 and DD032 intersected several mineralised zones of 3m to 8m widths within 80m of surface.

DD001 was collared west of the Kalana Mine and drilled north-east to a hole depth of 329 metres. The hole was targeting an area north of existing mine development to test the up dip extension of the Vein 19 and 19A and Vein 20 Mineral Resources. This area has been partially tested by underground diamond drilling by SOMIKA in 2008 and long intersections of low grade were assayed. IAMGOLD is planning to examine and possibly re-assay the remaining half core of these diamond drill holes. Multiple grains of visible gold were observed throughout the drill hole DD001. The hole traversed a zone of vertical, thin quartz veins that have not previously been reported. Development during the third quarter on 180m level exposed this drill hole and a zone of vertical, thin quartz veins. Grab sampling returned 1.55g/t over 19m and 0.66g/t over 18m. Assay results confirmed that the hole is well mineralised as shown in Table 2. Results include 8m at 2.48g/t from 51m, 2m at 13.2g/t from 101m (possibly Vein 17), 8m at 1.73g/t from 132m, 6m at 2.47g/t from 171m and 10m at 4.54g/t from 192m.

DD039 was collared south of the Kalana diorite intrusion and drilled north at sixty degrees through the diorite to a final hole depth of 480 metres. The hole is 200m west of the drill line for DD029 to DD032. The hole traversed 224 metres of diorite. Beyond the diorite the hole intersected twelve metres of hornfels, strongly altered and silicified with sulphides. The remainder of the hole showed quartz veins and stockwork, with areas of strong alteration and breccias zones.

North of existing Mineral Resources

An east-west drill line of six holes (DD033 to DD038) was completed north of the known Mineral Resources. Holes were drilled from east to west dipping at sixty degrees. The holes were testing reported vertical structures in previous exploration and interpretation of geophysical data. The holes intersected vertical quartz vein structures as well as flat dipping quartz vein zones.

Drill holes DD036, 037 and 038 intersected mineralised zones within the 100m of surface. DD036 intersected 5m at 0.67g/t from 63m and 9m at 0.75g/t from 96m. DD037 intersected 5m at 7.94g/t from 22m, 2m at 10.68g/t from 59m and 1m at 2.68g/t from 66m. DD038 intersected 20m at 1.03g/t from 5m and 6m at 1.85g/t from 49m. These intersections may represent the extension of veins from known veins in the mine northwards towards surface.

An east-west drill line of four RC holes (RC-KA046, 047, 048 and 096) was completed along the same east-west line as DD033 to DD038. KA096 twinned DD037 and was drilled to a hole depth of 100m at an inclination of sixty degrees. 31m of this hole was mineralised with intersections of 12m at 0.96g/t from 19m, 7m at 0.77g/t from 38m and 8m at 7.05g/t from 67m and 2m at 4.14g/t from 87m. These mineralised zones were intersected in DD037. RC048 intersected 1m at 4.24g/t from 1m and 6m at 0.56g/t from 96m. No assay results are available for RC046 and RC047.

A second east west line of six RC holes (RC040 to RC045) was completed and assay results are awaited. Future drilling from south to north will test the continuity of the predominant north to south dipping mineralisation characteristic of the Kalana I North domain.

KALANA 1 SOUTH

An east-west drill line of six holes (DD020 to DD025) was completed south of the underground mine. Holes were drilled from East to West dipping at sixty degrees. Both vertical and flat dipping quartz veins and stockworks were intersected. The mineralisation within the veins was observed to be weak and this is reflected in the assay results.

This drill line above was extended to the east with three holes (DD018, DD019 and DD019A). Holes were drilled from east to west dipping at sixty degrees. These holes were testing the inferred Mineral Resources at Kalana III, which is now part of the Kalana I South domain. DD018, 019 and 019A intersected quartz veins that may be extensions of the Vein 1, 2 and 4 with visible gold observed. DD018 intersected 4m at 13.2g/t from 27m. DD019A intersected 13m at 1.91g/t from 83m. DD019 was drilled to 83m and abandoned due to stuck rods. .

A north-south line of four holes (DD002, 003, 004 and 005) was completed. The holes were drilled from south to north at sixty degrees. These holes were testing a zone south of the Kalana diorite intrusion where Avnel completed three underground diamond drill holes in 2008 with long intersections of lower grade mineralisation. Avnel diamond drill hole H1 collared at 100m elevation was drilled at 75 degree inclination at a bearing of 230 degrees to the southwest. Over a drill hole length of 176m, 95m was mineralised. IAMGOLD is planning to examine and possibly re-assay the remaining half core of these drill holes. The IAMGOLD drill line partially passed through the mineralisation packages shown in H1.

DD003, 004 and 005 intersected quartz vein packages associated with Veins 1 and 3 in the Kalana Mine. DD003 intersected 3m at 6.21g/t from 42m and 2m at 1.3g/t from 149m. DD004 intersected 12m at 3.96g/t from 116m and 9m at 1.97g/t from 197m. DD005 intersected 4m at 2.29g/t from 19m, 4m at 2.36g/t from 94m and 2m at 2.62g/t from 102m.

18 RC drill holes were completed during 2010 and assay results have been received for 13 drill holes. The extension of flat dipping, mineralised packages to the east towards Kalana II domain were intersected, showing the potential for an open pit running west-east over a dip distance of approximately 300m and a strike distance of approximately 150m.

An east-west drill line of 10 RC holes (RC032 to RC039; RC082 to RC083) was completed during 2010. The holes were drilled from east to west dipping at an inclination of 55 degrees with a drill hole length of 100m. Drill collars were spaced at 50m. Assay results have been received for RC032, RC033, RC034, RC082 and RC083. RC032 intersected 6m at 6.71g/t from 94m. RC033 intersected 9m at 6.4g/t from 63m. RC034 intersected 2m at 1.44g/t from 34m and 11m at 99.6g/t from 43m (including 2m at 540g/t from 45m). RC082 intersected 17m at 1.09g/t from 16m. RC083 intersected 7m at 1.54g/t from 114m. These holes show the extensions of Veins 1, 2, 4 and 10 dipping to the east.

South of the drill line above, 8 RC holes (RC084 to RC091) were drilled during 2010. The holes were drilled from east to west dipping at an inclination of 55 degrees with a drill hole length of 100m. Drill collars were spaced at 50m. Assay results have been received for all 8 drill holes. RC085 intersected 4m at 2.82g/t from 16m. RC088 intersected 1m at 2.45g/t from 42m. RC090 intersected 1m at 8.56g/t from 10m. RC091 was mineralised over 23m. It intersected 5m at 0.61g/t from 15m, 9m at 0.32g/t from 44m, 4m at 1.88g/t from 84m and 5m at 1.21g/t from 94m. Additional drilling is required to understand the mineralisation in the southern area of the Kalana 1 South domain.

KALANA II

Kalana II is located east of the Kalana Mine and is associated with east west striking diorite.

An east-west drill line of five diamond drill holes, DD013, 014, 015, 016 and 017, were drilled from east to west at sixty degrees. The holes intersected brecciated quartz vein, quartz stockwork and diorites.

A north-south drill line of four holes (DD009 to DD012) was completed over the Kalana II area. Holes were drilled from South to North at sixty degrees. The holes tested the extension of mineralisation north and south of the east-west striking diorite intrusion. The results confirm the existence of an extensive mineralised zone down to 100m below surface. Additional drilling will enable the mineralisation to be modelled.

Approximately 6000 metres of RC drill holes was completed between May and December 2010. Re-assay results have been received for 95% of holes drilled in the May-July 2010 campaign within the Kalana II structural domain.

A surface area of 300m by 400m was drilled with four south-north lines spaced 100m apart with drill collars at 50m spacing. Holes were drilled to 100m hole length at an inclination of 55 degrees. One drill line of 5 RC holes was initially completed drilled east-west to 100m hole length at an inclination of 55 degrees. Based on the observations of visible gold and early assay results, additional holes (RC092 to RC094, RC098 to RC102, RC104 to RC111) were drilled to expand information to the north and east.

Better results include the following:

- RC057 intersected 16m at 9.88g/t from 39m. RC058 intersected 8m at 1.39g/t from 54m.
- RC063 intersected 2m at 3.76g/t from 15m. RC064 intersected 3m at 2.41g/t from 20m and 8m at 3.66g/t from 60m.
- RC066 intersected 9m at 2.05g/t from 11m. RC067 intersected 2m at 8.54g/t from 40m
- RC070 intersected 10m at 2.06g/t from 66m. RC071 intersected 5m at 1.74g/t from 26m. RC073 intersected 6m at 1.01g/t from 46m and 16m at 4.78g/t from 110m. RC075 intersected 11m at 1.97g/t from 85m.
- RC079 intersected 4m at 1.15g/t from 25m. RC080 intersected 9m at 1.81g/t from 74m. RC081 intersected 2m at 1.75g/t from 16m and 4m at 10.2g/t from 57m.
- RC092 intersected 1m at 4.51g/t from 14m and 6m at 1.38g/t from 89m. RC093 intersected 3m at 17.2g/t from 71m. RC094 intersected 2m at 6.46g/t from 54m. All of these holes were drilled from east to west.
- RC010 intersected 2m at 2.0g/t from surface and 6m at 2.28g/t from 18m. RC011 intersected 3m at 1.12g/t from 1m, 3m at 0.94g/t at 22m, 3m at 1.73g/t from 77m and 3m at 1.62g/t from 84m. RC014 intersected 4m at 2.83g/t from 69m. All of these holes were drilled from east to west.

The results confirm the existence of an extensive mineralised zone down to 100m below surface over a surface area of 300m by 400m. Additional drilling will enable the mineralisation to be modelled. As shown in Figure 4, RC drill holes in the second drilling campaign have increased the density of drill data over Kalana II and two lines were added to test possible extensions to the east and north.

KALANAKO

The Kalanako Prospect lies 3 kilometres north east of Kalana. The area has a strike of over 3 km and a width of 1 km where Russian drilling delineated a historical non-compliant C1 + C2 resource of 600,000 tonnes @ 3.6 g/t over

a foot print of 400 metres by 200 metres. This Prospect has a strong magnetic signal correlating with a strong geochemical signal.

IAMGOLD completed a 138 RC hole drill program during 2010 for a total of 14,460m. Holes were mainly orientated east to west at 50m collar spacings and average depth of 105m. Visible gold was observed in 81 holes when the RC cuttings were panned during the sample preparation process. Assay results have been received for 45 holes.

Results from the north-western area display a northwest strike with 10m to 15m true thickness. The dip of the mineralised structure appears to be steep (80 to 85 degrees) and consistent with the different thicknesses of the composites. This mineralised structure was identified in the following holes:

RC035 intersected 9m at 1.18g/t from 86m; RC036 intersected 16m at 2.3g/t from 6m and 7m at 1.31g/t from 26m; RC045 intersected 1m at 16.7g/t from 4m; RC046 intersected 13m at 2.7g/t from 40m; RC048 intersected 4m at 3.53g/t from 63m; RC050 intersected 6m at 2.63g/t from 46m. These holes are on three drill lines spaced 50m apart giving a strike of approximately 100m. Two holes, RC080 and RC081, were drilled to follow up the intersection reported on RC036. RC080 was drilled from east to west and RC081 was drilled from west to east. RC080 intersected 26m at 5.28g/t from 64m and RC081 intersected 17m at 2.36g/t from 44m.

On the next drill line, 50m south, two good intersections were reported. RC058 intersected 7m at 1.58g/t from 73m and 4m at 4.69g/t from 85m. RC059 intersected 6m at 2.11g/t from 41m.

The first drill line started from the east targeting a zone of northwest striking artisanal workings. Good results were reported from 3 holes over a distance of 200m. RC003 intersected 8m at 1.37g/t from 92m. RC004 intersected 3m at 1.18g/t from 13m, 8m at 3.72g/t from 29m and 6m at 1.97g/t from 49m. RC007 intersected 19m at 1.83g/t from 63m.

Fougadian Exploration Permit

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

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

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

Two diamond drill holes were completed to a depth of 190 metres in order to provide information on the bedrock structure that can be used to optimise the orientation of the RC drilling programme. 48 inclined RC drill holes totalling 5422 metres were completed on a grid pattern during the second quarter, covering only a small portion of the Avnel 1 anomaly. The holes were drilled in a heel-to-toe fashion to ensure complete coverage across the width of the anomaly. As the budget was inadequate to fully test this large anomaly, the holes were drilled along pairs of lines spaced 200m apart, one pair in the north and a second pair 800m further to the south. Because of encouraging geological indications, an additional three holes were drilled to the south of the latter set of lines. In summary, out of the 50 holes drilled 15 (30%) intersected values above 1g/t Au. An airborne geophysics study was completed in the fourth quarter 2009. The study covered the total Fougadian Exploration Permit. The study generated new

information on magnetic, radiometric and topographic data. The Company believes that the study will improve the quality of previous surveys as the line spacing 50m and height flown 25m is superior to previous work. The interpretation of the results is ongoing.

On December 6, 2010 the Company announced that it had entered into a joint venture arrangements agreement (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. The Fougadian Permit held by Avnel previously comprised 150 sq. km. to the south of and abutting the Kalana Exploitation Permit. Avnel relinquished the southern half of its ground in accordance with the Malian Mining Code and was granted a new exploration licence on the northern half on March 23, 2010. IAMGOLD has applied and received an exploration permit in respect of the southern 75 sq. km. The combined permits are referred to as 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.

Selected Annual Information

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

	2010	2009	2008
Metal Revenue	13,709	19,420	17,800
Other Revenue.....	1,000	1,000	-
Total Revenue.....	14,709	20,420	17,800
Total Expenses.....	16,694	26,575	19,077
Net Loss.....	(2,842)	(7,895)	(3,457)
Loss per share	\$(0.02)	\$(0.10)	\$(0.05)
Weighted average shares outstanding	116,150,355	79,122,803	71,068,219
 Balance Sheet			
Working Capital surplus/(Deficiency).....	3,835	(11,264)	(639)
Total Assets	23,384	25,530	31,843
Long Term Debt.....	-	-	10,941
Shareholders' Equity	18,553	5,139	12,665

Results of Operations

Revenue has decreased to \$14,709,000 in 2010 from \$20,420,000 in 2009. This was as a result of a decrease in gold ounces sold from 19,853 ounces in 2009 to 11,227 ounces in 2010 partly offset by the increase in the average sales price of gold from \$976 per ounce in 2009 to \$1,218 per ounce in 2010. In both 2010 and 2009, other revenue of \$1,000,000 was recognised representing the two IAMGOLD Joint Venture option fees payable in those periods.

Avnel recorded a net loss of \$2,842,000 (\$0.02 loss per share) for the year ended December 31, 2010 compared to a net loss of \$7,895,000 (\$0.10 loss per share) in 2009. Lower depreciation costs were one of the main contributing factors to the decrease in the net loss in 2010 compared to 2009. This resulted from the Company's decision to include mineral reserves between the 180m level and 300m level which had been excluded in December 2008, together with significantly lower production in 2010.

As compared to the balance sheet as at December 31, 2009, Avnel's cash and cash equivalents as at December 31, 2010 increased slightly by \$79,000 from \$2,027,000 to \$2,106,000. Cash provided by financing of \$2,097,000 was used by operating activities \$1,594,000 and net capital expenditures \$461,000.

There was a working capital surplus of \$3,835,000 as at December 31, 2010 compared to working capital deficiency of \$11,264,000 as at December 31, 2009, with the main factors being the August 2010 private placement and debt equitisation.

Total assets decreased from \$25,530,000 as at December 31, 2009 to \$23,384,000 at the end of 2010 with the net value of property, plant and equipment decreasing by \$1,432,000.

All short term debt \$13,986,000 was equitised in August 2010. Shareholders' equity increased to \$18,553,000 as at December 31, 2010 from \$5,139,000 at the end of 2009. This was due to the short term debt being equitised and the private placement in August 2010 partly offset by the losses in 2010. Additional Paid in Capital increased by \$776,000 due to the warrants issued in August 2010 being fair valued at \$730,000 and employee share options valued at \$46,000. The retained deficit increased by \$2,842,000 as a result of the net loss made in 2010.

Mining Operations

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

	<u>2010</u>	<u>2009</u>
Tonnes milled:		
Underground ore	50,238	49,348
Total	<u>50,238</u>	<u>49,348</u>
Gold grade - grams per tonne (g/t):		
Underground ore	7.7	12.1
Total	<u>7.7</u>	<u>12.1</u>
Recovery rate - %	86.1	86.6
Gold production - ounces	10,727	16,677
Cost per tonne milled	\$235	\$279
Operating cost per ounce of gold sold	\$1,073	\$788
Operating cost per ounce of gold produced	\$1,103	\$826

Tonnes milled in 2010 were 2% higher than the production achieved in 2009. Gold production at 10,727 ounces in 2010 was 36% lower than 2009 reflecting the significantly lower head grade reducing from 12.1g/t to 7.7g/t.

The gold grade of underground ore mined of 7.7 g/t in 2010 was 36% lower than 12.1g/t obtained in 2009. The gold grade decreased as mining moved into lower grade reserve blocks.

Gold recovery in 2010 decreased to 86.1% from 86.8% as the head grade decreased.

Mine development totalled 1,216 metres in 2010 compared to 651 metres in 2009. Ore development increased to 696 metres in 2010 from 472 metres in 2009 as new ore reserve blocks were opened up on 150m and 180m level.

Ore development was focused on opening up mine reserves at Veins 17, 18, and 18C on 180m level, which is the lowest operating level at No 2 Shaft. The majority of the ore development focused on Vein 17 between 150m and 180m elevations. This was successful in opening up ore reserves to the east and enabled mining to continue through 2010 and into 2011. The 180m level haulage was extended to the north to target potential reserves at Vein 19 and Vein 19A. The development exposed lower grade, narrow steep veins that are not economic for the current underground mine. Based on diamond drill holes drilled during 2010, a winze was started to intersect Vein 20 approximately 20m below the 180m elevation. This may provide ore for mining in 2011. Development below 180m level continued on Veins 18C and Vein 18. These have opened up relatively small ore blocks at grades of 7.0g/t for mining in 2011.

Operating cost of sales for the year ended December 31, 2009 reduced 25% to \$12,454,000 compared with \$16,658,000 in 2009 due to lower labour cost and favourable exchange rates. Cash operating cost of \$235 per tonne milled in 2010 reduced by 16% from the cost in 2009 of \$279 per tonne due to higher efficiency. Cash operating

cost per ounce produced of \$1,103 per ounce in 2010 increased from \$826 per ounce in 2009 due to lower gold production, as the mine grade decreased 36%

Gold Sales

Gold sales data is as follows:

		<u>2010</u>	<u>2009</u>
Gold ounces sold	- at spot price	11,227	15,103
	- under forward contracts	-	4,750
	- total	<u>11,227</u>	<u>19,853</u>
Average realized gold price per ounce	- at spot price	\$1,218.31	\$981.06
	- under forward contracts	-	\$960.06
	- total	\$1,218.31	\$976.17
Metal revenue - \$000			
Gold sales if all sales were at spot prices		\$13,677	\$19,118
Net effect of forward sales		-	262
Total gold sales		<u>13,677</u>	<u>19,380</u>
Silver sales		32	40
Metal revenue		<u>\$13,709</u>	<u>\$19,420</u>

Gold spot prices commenced in 2010 at \$1,121.5 per ounce and ended at \$1,405.5 per ounce, with the London AM Fix averaging \$1,224.5 per ounce during the year.

Summary of Quarterly Results

Consolidated Statement of Operations for the Quarters Ended

Quarter ended	Dec 31	Sep 30	June 30	Mar 31	Dec 31	Sep 30	June 30	Mar 31
(US\$'000)	<u>2010</u>	<u>2010</u>	<u>2010</u>	<u>2010</u>	<u>2009</u>	<u>2009</u>	<u>2009</u>	<u>2009</u>
Revenue	\$3,138	\$3,988	\$4,001	\$3,582	\$4,802	\$4,396	\$4,738	\$6,484
Net income (loss)	\$(773)	\$2,153	\$(1,821)	\$(2,401)	\$(1,989)	\$(1,420)	\$(1,395)	\$(3,091)
Income (loss) per share	\$(0.005)	\$0.016	\$(0.022)	\$(0.029)	\$(0.025)	\$(0.018)	\$(0.018)	\$(0.041)

Fourth Quarter Results

Fourth quarter revenue of \$3,138,000 has reduced by 35% compared to revenue of \$4,802,000 in the fourth quarter of 2009 due mainly to reduced gold production. Net loss reduced from \$1,989,000 in the fourth quarter of 2009 to \$773,000 in the fourth quarter of 2010 mainly due to the reduction of depreciation and operating costs. Cash and cash equivalents decreased by \$970,000 from \$3,076,000 at the start of the fourth quarter to \$2,106,000 at December 31. Cash used by operating activities in the fourth quarter of 2010 was \$561,000 and net expenditure on property, plant and equipment was \$306,000, compared to cash provided of \$647,000 and expenditure on property, plant and equipment of \$374,000 in the fourth quarter of 2009. The reduction in net income from the third quarter of 2010 is mainly driven by a reduction of foreign exchange gains from \$2,030,000 recognised in the third quarter to

\$503,000 in the fourth quarter, and other revenue of \$1,000,000 from the IAMGOLD Joint Venture option fee recognised in the third quarter.

Liquidity and going concern

On August 5, 2010, the Company completed a private placement of 13,025,000 units of Avnel (the "Private Placement") 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. The gross proceeds of the Private Placement were C\$2,605,000 and Avnel intends to use these proceeds for general corporate purposes. IAMGOLD participated in the Private Placement purchasing 5,000,000 units being 3% of the outstanding common shares. On August 10, 2010, IAMGOLD paid the second option fee of \$1,000,000.

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 same unit price for the Private Placement. These transactions eliminated all of Avnel's debt and provide the Company with enhanced financial strength through a debt-free balance sheet to continue working with IAMGOLD to advance the Company's goal of fully exploring the upside potential at its Kalana mine and Permit.

On March 18, 2011 the Company announced a best efforts private placement (the "2011 Private Placement") of up to 25,000,000 units of Avnel (the "**Units**") (inclusive of the Agent's option to sell additional units) at a price of Cdn. \$0.40 per Unit (the "**Issue Price**"). Each Unit will consist of one ordinary share of Avnel and one-half of one ordinary share purchase warrant (each whole warrant a "**Warrant**"). Each Warrant will entitle 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. is the lead agent for the Private Placement and may form a syndicate of agents (the "**Agents**"). The Company has granted the Agents an option, exercisable up to the closing of the offering of Units under the Private Placement, to sell up to an additional 15% of Units at the Issue Price (the "**Agents' Option**").

The gross proceeds of the Private Placement are expected to be approximately C\$10,000,000 (inclusive of the Agent's option to sell additional units). Avnel intends to use these proceeds for general corporate purposes.

The Company's current cash flow forecast has identified a future cash shortfall. The continuing operations of the Company are dependent on its ability to generate future cash flows from its mining operations or obtain additional financing and there is a risk that additional financing will not be available on a timely basis or on acceptable terms. Management are actively looking at re-financing options to address this issue and expect that the 2011 Private Placement will be closed on or around March 31, 2011 and the proceeds of which will meet all identified shortfalls in full. Management believe that this or other financing options will continue to be available to enable the Company to continue to operate as a going concern. In the event that the Company is unable to secure additional financing, the Company will not be able to continue as a going concern, and material adjustments would be required to the carrying value of the assets and liabilities and the balance sheet classifications used.

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 costs as well as obtaining new sources of finance. With the world economy moving slowly out of recession, sources of finance are still difficult to obtain and are expensive.

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 current underground

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.

Contractual Obligations

The Company has the following contractual obligations at December 31, 2010:

Contractual Obligations - \$000	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating Leases (1,2)	184	6	178	-	-
Total Contractual Obligations	\$ 184	\$ 6	\$ 178	\$ -	\$ -

Notes:

- (1) The Company has entered into operating leases for office space and equipment with a company related to the Fern Trust, a major shareholder of the Company. Pursuant to these leases which expire in June 2012, future minimum payments will amount to £115,000 up until the end of the lease, which at the 2010 year end exchange rate, is equivalent to \$178,000 per annum.
- (2) The Company has entered into an operating lease for an office building in Bamako, Mali. The lease expires in June 2011. The remaining commitment as at December 31, 2010 is \$6,000.

Contingent Liability

Malian Taxation

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

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

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

Malian Labour Tribunal

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

Mining Properties

The carrying value of the Company's property, plant and equipment, including mining properties and capitalized mine development costs, at December 31, 2010 was \$17.5 million. The carrying value of these assets is not necessarily indicative of the realisable value of such assets if they were to be offered for sale at this time.

As of December 31, 2010, management carried out assessments of the carrying value of the Company's mining assets and does not consider that there has been any impairment in value of such assets.

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

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

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

Management has assumed that each scenario is equally likely. If either a) or b) occurred then an impairment may be required, but on the basis that the probability weighted scenario in c) occurs, there is sufficient headroom for no impairment to be required at December 31, 2010. This is supported by recent external indicators of market value for the Kalana Gold Mine, if it were offered for sale.

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

Related Party Transactions

SOMIKA purchases explosives from African Explosives Limited ("AEL"). Mr. Ibrahim Kantao is a director of the Company, SOMIKA and AEL and is also the Director-General of AEL Mali SARL. Such purchases amounted to \$556,000 in the year ended December 31, 2010. The Company has an ongoing supply agreement with AEL Mali SARL.

The premises occupied by Avnel and Kalana Mine Services in London are leased from a company associated with the Fern Trust, a significant shareholder. The Company incurred \$123,000 in rental costs during the year ended December 31, 2010. The Company's lease expires in June 2012.

Business Risks

The risks associated with Avnel and the effect on future operating results and financial position of the Company are set out in detail under the section entitled “Risk Factors” in the Company’s Annual Information Form dated March 29, 2011 (the “AIF”), which section is incorporated by reference into and forms an integral part of this MD&A. A copy of the AIF can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Going concern

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

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

Exploration, Development and Operating Risk

The Company faces risks associated with underground mining such as rock conditions, water, geological faults, variable vein widths, dilution, power supply and equipment failures. The international mining industry is facing a shortage of skilled personnel and the Company faces risks in attracting and retaining skilled employees. The Company operates in a remote location in Mali and is reliant on the transport systems to deliver equipment and materials which are purchased in South Africa or Europe. There is a risk that such equipment and materials may not always be available on site when required.

Gold Prices

The Company also faces risk in respect of its exposure to gold prices. 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, and future serious price declines could cause continued development of and commercial production of our properties to be impracticable.

Hedging Activities

All gold revenues and a portion of operating costs are in U.S. dollars.

The Company may engage in hedging agreements or activities to minimize the effect of declines in gold prices on its operating results. While these hedging activities may protect the Company against low gold prices, they may also limit the price that the Company can realise on the gold it produces where the market price of gold exceeds the gold price in such forward sales or option contracts. As a result, the Company may be prevented from realising possible revenues in the event that the market price of gold exceeds the price stated in such forward sales or option contracts.

The Company’s local costs are paid for in CFA which is fixed to the Euro. Currency exchange rate fluctuations against the US dollar may increase the Company’s costs and the Company may engage in hedging activities to protect the Company’s costs. The Company to date has not hedged its foreign exchange risk relating to its non-U.S. dollar expenses.

Capital Requirements

Avnel will require significant capital in order to fund its operating costs, to service existing and future indebtedness and to carry out plans to develop the Kalana Gold Mine and the Kalana Permit. As well, a portion of Avnel’s activities will be directed towards the search for, and development of, new mineral deposits which will require significant capital investment to achieve commercial production from any successful exploration efforts. Avnel will require additional financing from external sources to meet such requirements. There can be no assurance that such financing will be available to Avnel or, if it is, that it will be offered on acceptable terms. If additional financing is

raised through the issuance of equity or convertible debt securities of Avnel, the interests of shareholders in the net assets of Avnel may be diluted. Any failure of Avnel to obtain required financing on acceptable terms could have a material adverse effect on Avnel's financial condition, results of operations and liquidity and require Avnel to cancel or postpone planned capital investments.

Insurance and Uninsured Risks

Due to Malian law, which states that insurance should be contracted only with local Malian insurance companies, Avnel has not had property insurance coverage since July 31, 2009. The Company has been in negotiation with its UK insurance brokers and Malian insurance companies to place the insurance with a Malian insurance company and re-insure the risk in Europe. The Company has to date not been able to obtain re-insurance. Avnel does not maintain political risk insurance.

Environmental Risks and Hazards

The Company is committed to environmental protection, to safe operations and to the control of environmental risks. The Company adheres to the requirements of the Malian Government and has adopted policies and procedures as expected in the mining industry. The Company is committed to maintaining the aforementioned risks at levels as low as can be reasonably achieved, taking into account social and economic factors, and that continued improvement in environmental and health and safety performance be achieved. Certain hazardous materials are presently stored on the Kalana Gold Mine site, including diesel fuel, arsenic trioxide and sulphide concentrates tailings that remain from the SOGEMORK operations in the 1980s.

Governmental Regulation

All phases of Avnel's operations are subject to environmental regulation in the jurisdiction in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Avnel's operations. Environmental hazards may exist on the property which are unknown to Avnel at present and which have been caused by previous or existing owners or operators of the properties.

Global financial risk

Recent global financial conditions have been characterized by increased volatility and several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by both the rapid decline in value of sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. These factors may impact the ability of the Company to obtain equity or debt financing in the future on terms favourable to the Company. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Common Shares may be adversely affected.

Recent Accounting Pronouncements

As of the balance sheet date, there were no new accounting pronouncements not yet adopted that are expected to materially affect the Company other than the implementation of International Financial Reporting Standards, discussed below.

International Financial Reporting Standards

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

The Company developed a three phase changeover plan to adopt IFRS as follows:

- Phase 1 – Scope and Plan: This first phase involved the development of an initial project plan and structure, the identification of differences between IFRS and existing US GAAP, and an assessment of their applicability and the expected impact on the Company. *This phase has been completed.*

- Phase 2 – Design and Build: The second phase includes the detailed review, documentation and selection of accounting policy choices relating to each IFRS standard. In this phase, accounting policies will be finalised, first-time adoption exemptions and exceptions will be considered, and draft financial statements and note disclosures will be prepared. *This phase has been substantially completed.*

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

The Company is in the process of completing phase 3 of the changeover plan working closely with its auditors.

The company has identified the areas of highest potential to impact to the Company are asset retirement obligations, provisions, impairment of assets and disclosures as well as selection of applicable transition exemptions under the provision of IFRS 1 “First Time Adoption”.

Transition Elections (under IFRS1 “First Time Adoption”)

The Company has identified the following optional exemptions that it expects to apply in its opening IFRS financial statements at December 31, 2010:

- *Property Plant and Equipment:* No transitional elections will be taken as the Company will retain assets at historical cost rather than to recognise the assets at fair value.
- *Business Combinations:* The Company will not retrospectively restate any business combination; IFRS 3 will be applied to acquisitions after January 1, 2010.

IFRS Accounting Policy Impact

- *Asset Retirement Obligation (ARO):* Under US GAAP, ARO is measured as the estimated fair value of the retirement expenditures expected to be incurred applying a credit-adjusted risk-free rate which is not re-measured as a result of changes in the discount rate. Under IFRS, ARO is measured as the best estimate of the expenditure to be incurred and requires the use of current discount rates at each re-measurement date.
- *Provisions:* Under US GAAP, a provision is required to be recorded in the financial statements when required payment is considered “likely” and can be reasonably estimated. Under IFRS, the threshold for recognition of provisions is lower than US GAAP as provisions must be recognised if required payment is “probable”.
- *Impairment of assets:* If there is an indication that an asset may be impaired, an impairment test must be performed. Under US GAAP undiscounted cash flows are compared to their carrying value and written down to fair value. Under IFRS, an entity is required to assess whether there is any indication that an asset may be impaired. If such a condition exists the entity shall estimate the recoverable amount of the asset which requires the carrying value of the asset to the higher of value in use or fair value less cost to sell.

The Company believes that there will be no material impact on its primary financial statements from the Company adopting the above accounting policies.

The Company has also reviewed its current accounting systems along with its internal control process and concluded that they would not need significant modification as a result of the Company’s conversion to IFRS.

Critical Accounting Estimates

The consolidated financial statements of the Company have been prepared in accordance with U.S. GAAP. Management is required to make various estimates and judgements in determining the reported amounts of assets and liabilities, revenues and expenses for each period presented and in the disclosure of commitments and

contingencies. Management considers the following critical accounting policies reflect its more significant estimates and judgements used in the preparation of the consolidated financial statements.

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

All costs, other than acquisition costs, are expensed prior to the establishment of proven and probable reserves. Gains or losses resulting from the sale or abandonment of properties are included in operations. Acquisition and development costs associated with properties brought into production are charged to operations using the units of production method based on estimated proven and probable reserves which can be recovered. Costs of start-up activities and on-going costs to maintain production are expensed as incurred. Production facilities and equipment are stated at cost and are amortized over the estimated proven and probable reserves which can be recovered from the related property.

The Company evaluates the carrying value of its properties and equipment when events or changes in circumstances warrant and tests for recoverability of the long life asset value. With respect to properties, a test for recoverability is performed to determine if the estimated future cash flows exceed the carrying amount of the asset. Measurement of any impairment loss is determined by the estimated fair value of the assets based on the best information available, including comparable asset values in the market and the use of valuation techniques. Any estimates of future cash flows are subject to risks and uncertainties and it is reasonably possible that changes in estimates could occur which may affect the expected recoverability of investments in mining properties. The carrying value of the Company's estimate of mineral resource has been estimated as at in excess of the net book value of the Company's assets at the balance sheet date using comparative market value of resources, taken from recent mine transactions conducted at arms length between willing parties. Based on these estimates management believe that no impairment to the carrying values exist at the balance sheet date. The company has not recorded any impairment losses in any of the periods.

The fair value of a retirement or rehabilitation obligation is recognised as an asset and a liability in the period when it is incurred. The liability is discounted and an accretion expense is recognised using the credit-adjusted risk free rate in effect when the liability is incurred. The retirement asset is included in mining properties and charged to operations using the units of production method based upon estimated proven and probable reserves which can be recovered.

During 2006, the Company commissioned an environmental report by an independent party. This estimated an increase in estimated cash flow for the retirement and rehabilitation of the Kalana Gold Mine from \$1,000,000 to \$2,236,000. The environmental liability is based on the work required to be carried out on the tailings facilities to ensure stabilisation of the facility and re-vegetation of the tailings surface area, the capping of the underground shafts and the reclamation of plant, workshops and buildings where appropriate. The area disturbed by mining operations will then be re-vegetated. There will then be an ongoing monitoring of the water quality and re-vegetation programmes.

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

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

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

Disclosure of Outstanding Share Data

As at March 29, 2011, the Company had issued 166,667,203 common shares.

The following table shows the number of options or rights to purchase common shares of the Company as at March 29, 2011.

Private Placement warrants	44,442,276
IAMGOLD warrants	2,000,000
Meade Compensation Options	2,500,000
Long Term Incentive Plan	3,469,000
Total as at March 29, 2011	52,411,276

Outlook

Through the Joint Venture with IAMGOLD, Avnel is implementing an aggressive exploration program at the Kalana Mine to follow up the drilling program in 2010, reported above. IAMGOLD expects to incur expenditure of \$8 million during 2011. The majority of the expenditure will be on diamond and RC drilling at the Kalana Mine. The budget allows for 34,500 metres and two diamond drills rigs and one RC drill rig will be utilised during the year. Assay results from the drill programs in the fourth quarter 2010 are outstanding. It is anticipated that a new Mineral Resource study will be completed in the first quarter 2012.

In addition drilling will continue at the Kalanako Prospect close to Kalana to follow up initial drill program in 2010.

In 2011 IAMGOLD is planning to complete additional termite mound sampling at priority targets identified as gold/arsenic anomalies at Djirila, Solomanina and Dabaran. To improve the local knowledge of structures and geology at these targets, an IP program will also be carried out on these targets, as well as at the Kalanako Prospect. IAMGOLD has purchased an auger drill that will be used to test targets during 2011 prior to RC drilling in 2012.

In 2011 IAMGOLD, the joint venture partner with Avnel, will commence exploration on the Fougadian Permit, that lies south and abuts the Kalana Permit. A termite mound sampling program is planned for the first half of 2011 and a drill program is possible later in 2011.

For 2011, Avnel is planning gold production of 6,700 ounces at an average operating cost of approximately \$1,380 per ounce of gold produced net of royalties from tonnes milled 38,000 tonnes, at an average grade of 6.5g/t. This plan is very sensitive to grade, gold price and costs. The plan assumes development will open up Vein 20 at an assumed grade of 7.5g/t. Initial ore development on Vein 20 in the second quarter will provide data to confirm this grade. The company intends to sustain the operation as long as feasible whilst the exploration program progresses. This is important to reduce the social impact on the community and to cover the costs of underground pumping. Once underground mining operations are temporarily stopped, the mine will be placed on care and maintenance. The underground water pumping system will remain in operation to prevent flooding of the mine and access for future exploration activity.

The mine plans to advance development 436 metres during 2011. Development will focus on opening up Vein 17 east of the fault and Veins 20 below 180m level. Dependent on results, development will continue. Exploration development to provide information to support the exploration drilling program is planned on 150m and 180m levels. It is forecast that the mineable reserves available from the current mine infrastructure are approximately 38,000 tonnes at 6.5g/t containing 8,000 ounces. This assumes that development of Vein 20 below 180m level will be

successful. This will allow mining to average 3,800 tonnes per month to September 2011 with production decreasing in the fourth quarter.

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

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure controls and procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that material items requiring disclosure by the Company are identified and reported in a timely manner.

Based on current securities legislation in Canada, management, including the Chief Executive Officer, ("CEO") who is also acting as interim Chief Financial Officer ("CFO") of the Company, evaluated the design and effectiveness of the Company's disclosure controls and procedures as of December 31, 2010, and concluded that such disclosure controls and procedures were operating effectively at that date. There were no significant changes to the Company's disclosure controls process during the year ended December 31, 2010.

It should be noted that, while the Company's CEO believes that the Company's disclosure controls and procedures provide a reasonable level of assurance and that they are effective, it is not expected that the disclosure controls and procedures can prevent all errors or mistakes. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal controls over financial reporting

Management is responsible for designing, establishing and maintaining a system of internal controls over financial reporting to provide reasonable assurance that the financial information prepared by the Company for external purposes is reliable and has been recorded, processed and reported in an accurate and timely manner.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities. The Audit Committee fulfills its role of ensuring the integrity of the reported information through its review of the interim and annual financial statements.

Due to the small size of the Company, there are certain aspects of the Company's internal control systems that are not ideal. This is not uncommon in a company the size of Avnel. Due to the limited number of staff at Avnel, it is not feasible or cost effective to achieve complete segregation of duties.

The Company's management, including the CEO, who is also acting as the CFO, have evaluated the design and effectiveness of internal controls over financial reporting as at December 31, 2010, and concluded that the Company's internal control over financial reporting was effective during the year 2010.

The Company's management believe that any internal controls over financial reporting, including those systems determined to be effective and no matter how well conceived and operated, have inherent limitations and can provide only reasonable, not absolute, assurance that the objectives of the control system are met with respect to financial statement preparation and presentation. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized

override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

There are inherent limitations in the effectiveness of internal controls over financial reporting, including the possibility that misstatements may not be prevented or detected. Accordingly, even effective internal controls over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of internal controls can change with circumstances.

Additional Information

This MD&A has been prepared as of March 29, 2011. Additional information about the Company, including the Company's Annual Information Form, is available at www.avnelgold.com or the website of the System for Electronic Document Analysis and Retrieval at www.sedar.com.