AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED MARCH 31, 2011

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, 2011 to March 31, 2011. 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 unaudited condensed consolidated financial statements for the quarter ended March 31, 2011 and related notes thereto. These condensed consolidated financial statements have been prepared using accounting policies consistent with IFRS and in accordance with International Accounting Standard 34 ("IAS 34") – Interim Financial Reporting. A reconciliation of the previously disclosed comparative periods' financial statements prepared in accordance with United States generally accepted accounting principles ("U.S.GAAP") to IFRS is set out in note 16. In this MD&A, the Company also reports certain non IFRS measures such as cash costs per ounce. 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 "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 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.

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

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 extension 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

Category	Zone	Tonnes	Au (g/t)	Au (1000 oz)
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

Category	Zone	Tonnes	Au (g/t)	Au (1000 oz)
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

Category	Tonnes	Au (g/t)	Au (1000 oz)
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

PROJECT MILESTONES ACHIEVED

- Between January and April 2011, 11,592 metres of diamond drilling was completed at the Kalana Mine using two diamond drill rigs. The 2011 work program aims to complete 34,500 metres of drilling with a total budget of $8 million

- In 2010, 13,164 metres of diamond drilling and 28,347 metres of reverse circulation drilling were completed at Kalana, Kalanako and Dabaran. All assay results, including re-assays from the first campaign between February and July 2010, have been received.

- Expenditure in 2009 and 2010 totalled $6.4 million. By end 2011 IAMGOLD plans to have expended approximately $14.4 million, higher than the minimum $11 million required to be spent by August 2012 in terms of the Option Agreement.

- Termite mound sampling on the 387sq.km Kalana permit has been completed. During 2010 approximately 21,000 samples were collected and assay results have been received. During 2011 approximately 4,000 additional samples were collected at priority targets and assay results are expected during the second quarter.

- The main objective is to complete lines of drill holes spaced 50m apart across the Kalana 1 North domain and Kalana 1 South Domain to enable geological cross sections to be generated and a resource study to be completed during 2012. Two diamond drill rigs are working, and a reverse circulation drill rig has been mobilised to site

Highlights

During 2010 and 2011 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. The Kalana Project is described below in three domains, namely Kalana 1 North, Kalana 1 South and Kalana II. These three domains are located within the total Kalana project and can be considered as one potential mine.

Mineralised packages up to 18 metres width have been confirmed by drilling and underground development in the northern area of the Kalana Mine designated as Kalana I North. Recent assay results from the 4th quarter diamond drill program shows extensive mineralised packages extending 250 metres north of No 2 shaft to a depth of 250m below surface across approximately 100m strike.

A new mineralised package of steep, thin, closely spaced veins has been exposed by diamond drilling and underground development between 100m and 250m elevations in this area. Assay results show that this mineralised package has several zones of elevated gold grades, generally associated with flat dipping quartz vein structures that crosscut the package.

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 zone. The results of RC drilling confirm the possibility of these vein packages being an important source of gold mineralisation for an open pit in Kalana 1 North domain.

The diamond drill and RC assay results continue to demonstrate the potential for an open pit in the Kalana 1 South domain, running east-west over 300m and with a strike of at least 300m. During 2011 infill diamond drilling will increase the density of data to enable a mineral resource to be estimated early 2012.

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. Assay results from the 2010 diamond and RC drilling at Kalana II have been received and show the excellent potential for mineralised packages that may lead to a major increase in the existing Mineral Resources at Kalana II.

Assay 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, artisanal workings and geophysical structures.

Results to March 30, 2011

Avnel issued press releases on January 31, 2011, February 22, 2011 and May 26, 2011and this update should be referenced to those documents. **The results reported below are from the diamond drill program completed in the fourth quarter 2010 and the remaining RC drill program completed between May and December 2010**.
The results in this document should be read in conjunction with Figures 1-5 as well as Table 1 (assay results) and Table 2 (drill collar coordinates) posted on Avnel's website www.avnelgold.com. All results are expressed in g/t Au.

KALANA I NORTH

The results from diamond drill holes were reported in the January 31, 2011 press release. In summary the drilling confirmed the potential for:

- a 10m to 20m wide mineralised package known as Vein17 over a strike length of 120m to 250m.
- the extension of mineralisation to the west of the known mineralisation for Kalana I North and the potential for both flat dipping and steep dipping mineralised packages between surface and the 180m level.
- extensions of flat dipping quartz veins to surface north of the existing mine was confirmed by diamond drilling program, along with steep dipping quartz vein structures.

Diamond drill results

Assay results have been received for DD043, DD044 (depth only 30m), DD044A and DD045, that were drilled in the fourth quarter 2010. These 3 holes are located on a drill line from north to south and the drill collars are 100m apart. This drill line includes DD039 that was drilled in mid 2010. Drilling from south to north will test the continuity of the predominant north to south dipping mineralisation characteristic of the Kalana I North domain.
DD043 was drilled from south to north to a hole depth of 302m at an inclination of sixty degrees. DD043 better intersections include 8m at 1.8g/t from 6m, 3m at 1.48g/t from 26m, 3m at 3.32g/t from 70m, 1m at 3.44g/t from 95m, 1m at 3.42g/t from 111m, 1m at 6.71 from 177m, 3m at 5.26g/t from 203m, 4m at 1.63g/t from 210m, 3m at 4.51g/t from 224m and 2m at 7.5g/t from 274m. **Over 250m hole length from surface the total composite was 64m at 1.8g/t.**
DD044A was drilled from south to north to a hole depth of 374m at an inclination of sixty degrees. DD044 better intersections include 16m at 2.24g/t from 18m, 3m at 5.09g/t from 59m, 20m at 2.12g/t from 120m, 3m at 2.7g/t from 148m, 4m at 1.4g/t from 222m, 1m at 17.3g/t from 254m, 4m at 2.02g/t from 268m and 4m at 1.89g/t from 311m.**Over a 250m hole length from surface the total composite was 86m at 1.8g/t**.
DD045 was drilled from south to north to a hole depth of 410m at an inclination of sixty degrees. DD045 was collared in the main diorite and exited into meta-sediments at 100m hole depth. DD045 better intersections include 1m at 3.14 from 26m, 15m at 2.26g/t from 97m, 1m at 3.39g/t from 121m, 3m at 1.94g/t from 142m, 4m at 1.38g/t from 227m and 18m at 1.7g/t from 245m. **Over a hole length of 165m from 100m (exclude diorite) the total composite was 45m at 2.0g/t**

Assay results from these four diamond drill holes reported above show that a mineralised zone running 250m north of No 2 Shaft has significant mineralised packages suitable for bulk mining

RC Drilling Results for Kalana I North

All assay results for the 12 RC holes drilled in Kalana I North have been received.

- 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. Results from RC048 and RC96 were reported on February 22, 2011. RC046 intersected 1m at 2.16g/t from 62m. RC047 intersected 4m at 0.96g/t from 19m and 8m at 3.94g/t from 58m.
- A second east west line of six RC holes (RC040 to RC045) was completed. RC040 intersected 1m at 1.45g/t from 74m. RC041 intersected three 1m mineralised zones at less than 1.0g/t. RC042 intersected 3m at 1.68g/t from 38m, 1m at 2.71g/t from 63m and 1m at 0.84g/t from 82m. RC043 intersected 6m at 0.46g/t from 8m and 1m at 4.57g/t from 29m. RC044 intersected 9m at 1.26g/t from 15m, 2m at 0.81g/t from 33m, 10m at 0.78g/t from 51m and 7m at 0.94g/t from 75m. RC045 intersected 7m at 1.42g/t from 6m, 6m at 2.12g/t from 24m and 9m at 2.18g/t from 91m.

Future RC drilling in 2011 from south to north will test the continuity of the predominantly southerly dipping mineralisation characteristic of the Kalana I North domain.

KALANA I SOUTH

The diamond drill and RC assay results continue to demonstrate the potential for an open pit in the Kalana 1 South domain, running east-west over 300m and with a strike of at least 300m to a depth of 100m.

Diamond drilling Results for Kalana I South

Diamond drill holes DD040, DD041 and DD042 were drilled in the fourth quarter 2010 and assay results have been received.

- DD040 was drilled from south to north at an inclination of 65 degrees to a hole depth of 371m. The hole was collared east of No 1 Shaft and was targeting potential mineralisation outside the known mineral resources below 200m level (in the Kalana 1 North domain). DD040 intersected 5m at 16.46g/t from 52m (Vein 3), 2m at 2.47g/t (Vein 10) from 80m, 2m at 2.55g/t from 126m, 2m at 1.95g/t from 167m and 2m at 2.26g/t from 195m.
- DD041 was drilled from east to west at an inclination of 65 degrees to a hole depth of 718m. The objective was to crosscut the predominantly west-east plunging quartz packages. DD041 intersected 4m at 5.65g/t from 100m and 6m at 3.46g/t from 371m. Below 400m level 12 quartz veins were intersected, generally at less than 1m thickness. At 693m hole depth, an 8m composite at 2.16g/t was intersected.
- DD042 was drilled from east to west at an inclination of 65 degrees to a hole depth of 329m. The objective was to crosscut the predominantly west-east plunging quartz packages. The hole was collared south of the main intrusion and passed through Vein 1 excavations. DD042 intersected 3m at 1.2g/t from 15m, 4m at 10.51g/t from 20m (vein 3), 6m at 2.10g/t from 29m, 7m at 2.27g/t from 112m (Vein 1), 3m at 1.48g/t from 185m and 13m at 2.65g/t from 190 (Vein 20 South). Two quartz veins at 1m thickness were intersected between 239m and 247m. No mineralised zones were intersected between 250m and 329m.

RC Drilling Results for Kalana1 South

18 RC drill holes were completed during 2010 and assay results have been received for all 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 300m.

- 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.
- RC035 intersected 1m at 1.56g/t from 6m and 8m at 1.21g/t from 16m. RC036 intersected 3m at 9.92g/t from 68m. RC037 intersected 2m at 1.24g/t from 31m, 3m at 4.22g/t from 53m and 9m at 0.84g/t from 87m. RC038 intersected 4m at 1.03g/t from 75m and 3m at 6.05g/t from 95m. RC039 intersected 2m at 1.16g/t from 16m, 4m at 1.89g/t from 76m and 2m at 3.86g/t from 84m. These holes show the extensions of Veins 1, 2, 3, 4 and 10 dipping to the east.

KALANA II

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. 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.

RC Drilling Results for Kalana II

Approximately 6000 metres of RC drill holes were completed between May and December 2010. All of the RC assay results have been received from that campaign within the Kalana II structural area. 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, and RC104 to RC111) were drilled to expand information to the north and east. Assay results show there is potential to expand the mineralisation east and north

Better results include the following (new results highlighted):

- 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. ***RC012 intersected 4m at 5.99g/t from 31m, 1m at 1.55g/t from 65m and 7m at 1.36g/t from 86m. RC013 intersected 3m at 0.63g/t from 24m and 9m at 1.04g/t from 51m and 2m at 0.95g/t from 83m***. RC014 intersected 4m at 2.83g/t from 69m. All of these holes were drilled from east to west.
- ***RC098 to RC0103 extended the drill line (RC010-RC014) to the east. RC098 intersected 1m at 2.56g/t from 9m, 2m at 2.15g/t from 60m and 1m at 2.39g/t from 84m. RC099 intersected 3m at 0.98g/t from 72m. RC102 intersected 1m at 7.55g/t from 82m and 1m at 8.33g/t from 105m. RC103 intersected 1m at 2.63g/t from 23m, 3m at 0.81g/t from 31m, 1m at 17.5g/t from 91m and 1m at 4.83g/t from 127m***.
- ***RC104 to RC111 were drilled test the northern extension of the mineralisation. Holes RC104-107 and RC111 were drilled from east to west at an inclination of 55 degrees. RC105 intersected 4m at 2.04g/t from 123m. RC106 intersected 1m at 41.8g/t from 21m and 3m at 1.24g/t from 94m. RC107 intersected 3m at 6.76g/t from 56m. Holes RC108 to RC110 were drilled from south to north at an inclination of 55 degrees. RC108 intersected 1m at 1.2g/t from 14m. RC109 intersected 5m at 4.48g/t from 7m. RC110 intersected 8m at 0.76g/t from 62m.***

KALANAKO

During 2010 138 RC drill holes were completed at Kalanako. A total of 14,460m were drilled. Holes were drilled to an average of 105m hole length at an inclination of 55 degrees. Hole collars were spaced 50m apart. Assay results have been received for 138 holes.

Two mineralised trends, one over 500m and the other over 250m, have been detected from the drill assay results. The potential to explore below the 100m depth may identify the source of these strong mineralised structures.

North-western Area

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 orientation of the mineralized

assay composite intervals. This mineralised structure was identified over a strike of 250m as reported in February 22, 2011 press release.
The mineralised zone was extended 100m to the north where RC115, RC 116 and RC117 were drilled. RC115 intersected 1m at 2.01g/t from 3m. RC116 intersected 5m at 0.77g/t from 43m and 8m at 1.13g/t from 59m. RC117 intersected 1m at 0.81g/t from 6m and 4m at 2.45g/t from 11m.
The mineralised structure has now been identified over a 500m strike.

South eastern area

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. RC083 was drilled between RC003 and RC004 and returned intersections of 8m at 0.94g/t from 72m. RC084 was then drilled from west to east at 55 degrees and intersected 1m at 1.22g/t from 19m
Another drill line 100m south from holes RC003 to RC007 intersected gold mineralisation in holes RC095 to RC098 and RC130. RC095 intersected 7m at 0.62g/t from 92m and 4m at 0.76g/t from 104m. RC096 intersected 15m at 0.59g/t from 19m. RC097 intersected 2m at 1.86g/t from 43m and 1m at 2.05g/t from 63m. RC098 intersected 1m at 11.8g/t from 3m. RC130 (drilled between RC095 and RC096) intersected 17m at 2.54g/t from 54m and 6m at 0.46g/t from 91m. RC102 was drilled beneath an artisanal working and intersected 8m at 1.40g/t from 69m.
Another line 200m south from the above drill line also generated gold intersections along a northwest trending mineralised corridor. RC106 intersected 3m at 1.08g/t from 8m, 1m at 1.56g/t from 51m, 4m at 0.63 g/t from 61m and 10m at 0.56g/t from 69m. RC107 intersected 5m at 0.99g/t from 76m. RC108 intersected 1m at 1.18g/t from 16m, 3m at 1.08g/t from 74m and 3m at 0.77g/t from 83m. RC112 was drilled beneath an artisanal working and intersected 2m at 2.25g/t from 17m and 1m at 1,5g/t from 70m.
The mineralised structure has been identified over a strike of 250m.

Resource Study

The program to date has made significant progress in constructing a detailed and predictive geological model. The drilling to be completed in 2011 is designed to provide information for IAMGOLD to generate a resource estimate. Historically diamond drilling at the Kalana Mine has underestimated the grades of the mineralised packages actually mined. This under evaluation is common to high grade quartz vein mines where the nugget effect is very significant. Recent underground development by Avnel of Vein 20 has again shown that drill hole results underestimate gold grades mined. As part of the resource study it is planned to study the nugget effect at the Kalana Mine using historic data and assess what additional methodology can be applied to the sample and assaying protocols.
Avnel continues to operate the underground mine exploiting exposed quartz veins by narrow stope mining and gravity gold recovery. This continues to produce data that is helpful to evaluate the nugget effect. In addition Avnel is mining exploration raises (including twinning diamond drill holes) and drifts (a total of 600 metres for 2011) for and at IAMGOLD's cost.
Avnel expects to release assay results from the drilling completed between January and April 2011 as data are received and interpretation of results allows. The results will be accompanied by geological cross sections.

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 for 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.

During the first quarter 2011 approximately 6,000 termite mound samples were collected and submitted for sample preparation at the Kalana SGS sample preparation laboratory. The establishment of an exploration camp commenced during the quarter.

Selected Interim Information

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

	Three months ended March 31	
	2011	**2010**
Total Revenue	2,498	3,582
Total Expenses	4,073	4,876
Net Loss	(1,525)	(2,392)
Loss per share	($0.007)	($0.023)
Weighted average shares outstanding	166,662,138	81,792,909

Balance Sheet	**March 31, 2011**	**March 31, 2010**
Working Capital	12,249	(12,895)
Total Assets	32,539	23,892
Equity	26,684	2,915

Results of Operations
Revenue decreased to $2,498,000 in the first quarter of 2011 from $3,582,000 in the first quarter of 2010. This was as a result of a decrease in gold ounces sold from 3,203 ounces in the first quarter of 2010 to 1,806 ounces in the first quarter of 2011 partly offset by the increase in the realised average sales price of gold from $1,116 per ounce in 2010 to $1,380 per ounce in 2011.

Avnel recorded a net loss of $1,525,000 ($0.007 loss per share) for the quarter ended March 31, 2011 compared to a net loss of $2,392,000 ($0.023 loss per share) in the comparative period in 2010. The main contributing factor to the reduced loss in the period was an exchange profit of $49,000 compared to an exchange loss of $963,000 in the comparative period in 2010.

As compared to the balance sheet as at December 31, 2010, Avnel's cash and cash equivalents as at March 31, 2011 reduced by $1,498,000 from $2,106,000 to $608,000. On March 31, 2011 a private placement closed, the net proceeds of which $9,749,000 were not received until April 2011 and have therefore been shown as subscription receivable.

There was a working capital surplus of $12,249,000 as at March 31, 2011 compared to working capital deficit of $12,895,000 as at March 31, 2010. The increase mainly resulted from the debt equitisation and private placement in August 2010 and the March 31, 2011 private placement.

Total assets increased from $24,043,000 as at December 31, 2010 to $32,359,000 at March 31, 2011 due to the private placement on March 31, 2011.

Shareholders' equity also increased to $26,684,000 as at March 31, 2011 from $18,598,000 at the December 31, 2010. This was due to the private placement in March 31, 2011. Additional Paid in Capital increased by $3,765,000 due to the warrants issued with the private placement on March 31, 2011 being fair valued at $3,700,000 and employee share options issued in the period valued at $65,000. The retained deficit increased by $1,133,000 as a result of the net loss made in the first quarter of 2011.

Mining Operations

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

	Three months ended March 31	
	2011	**2010**
Tonnes milled	11,126	13,753
Gold grade - grams per tonne (g/t)	6.1	8.4
Recovery rate - %	82.4	86.0
Gold production - ounces	1,953	3,160
Cost per tonne milled	$270	$228
Operating cost per ounce of gold sold	$1,607	$782
Operating cost per ounce of gold produced	$1,540	$980

Tonnes milled in the first quarter of 2011 were 19% lower than achieved in the first quarter of 2010. Gold production at 1,801 ounces in the first quarter of 2011 was 43% lower than the first quarter of 2010 resulting from the lower tonnes milled together with the lower head grade which reduced from 8.4g/t to 6.1g/t. During the quarter 152 ounces were recovered from the mill during the re-lining of the mill. Total gold production was 1,953 ounces.

The gold grade of underground ore mined of 6.1 g/t in the first quarter of 2011 was 27% lower than 8.4g/t obtained in the first quarter of 2010. The gold grade decreased as mining moved into lower grade reserve blocks but was in line with the plan.

Gold recovery in the first quarter of 2011 decreased to 82.4% from 86.0% as the head grade decreased.

Mine development totalled 453 metres in 2011 compared to 317 metres in 2010 and 166 metres ahead of the mine plan. Ore development increased to 295 metres in 2011 from 210 metres in 2010 as new ore reserve blocks were opened up on 180m level. Exploration development advanced 70 metres as raises were mined to expose the mineralised package at Vein 17.

Development of a winze from 180m level North down to Vein 20 advanced 50m and 10m ore development was completed. The Vein 20 is well developed and mineralised. Development of this Vein is a high priority to expose at least 9,000 tonnes of mine planning reserves. Development of a winze from 180m level down to vein 18 advanced 37m before intersecting the Vein 18. 23m of ore development advanced east from the winze. The Vein 18 is a narrow channel (similar to the Vein mined above 180m level) and is well mineralised with initial grades slightly better than planned.

Operating cost of sales for the quarter of 2011 reduced 17% to $4,059,000 compared with $4,885,000 in the first quarter of 2010 due to lower labour cost and reduced activity. Cash operating cost of $270 per tonne milled in the first quarter of 2011 increased by 18% from the cost in the first quarter of 2010 of $228 per tonne due to lower throughput. Cash operating cost per ounce produced of $1,540 per ounce in the first quarter of 2011 increased from $980 per ounce in the first quarter of 2010 due to lower gold production.

Gold Sales

Gold sales data is as follows:

		Three months ended March 31	
		2011	**2010**
Gold ounces sold	- at spot price	1,806	3,203
Average realized gold price per ounce	- at spot price	$1,380	$1,116
	- total	$1,380	$1,116
Metal revenue - $000			
Total gold sales		2,491	3,573
Silver sales		7	9
Metal revenue		2,498	3,582

Gold spot prices commenced in 2011 at $1,388 per ounce and ended at March 31, 2011 at $1,439 per ounce, with the London AM Fix averaging $1,384 per ounce during the quarter.

Summary of Quarterly Results

Consolidated Statement of Operations for the Quarters Ended

Quarter ended (US$'000)	**Mar 31 2011** Under IFRS	**Dec 31 2010** Under IFRS	**Sep 30 2010** Under IFRS	**June 30 2010** Under IFRS	**Mar 31 2010** Under IFRS	**Dec 31 2009** Under USGAAP	**Sep 30 2009** Under USGAAP	**June 30 2009** Under USGAAP
Revenue	$2,498	$3,138	$3,988	$4,001	$3,582	$4,802	$4,396	$4,738
Net income (loss)	$(1,525)	$(759)	$2,166	$(1,812)	$(2,392)	$(1,989)	$(1,420)	$(1,395)
Income (loss) per share	$(0.007)	$(0.005)	$0.016	$(0.022)	$(0.023)	$(0.025)	$(0.018)	$(0.018)

First Quarter Results

First quarter revenue of $2,498,000 has reduced by 20% compared to revenue of $3,582,000 in the first quarter of 2010 due mainly to reduced gold production. The net loss reduced from $2,392,000 in the first quarter of 2010 to a loss of $1,525,000 in the first quarter of 2011 mainly due to the reduction of depreciation and operating costs resulting from reduced activity. Cash and cash equivalents decreased by $1,498,000 from $2,106,000 at the start of the year. Net proceeds of $9,749,000 were raised from the private placement which closed on March 31, 2011, but the cash was not received until April and therefore has been shown in subscription receivable. Expenditure on property, plant and equipment was $97,000 in the first quarter of 2011, compared to expenditure of $51,000 in the first quarter of 2010. The reduced net loss in the first quarter of 2011 compared to the fourth quarter of 2010 results mainly from exchange losses of $963,000 suffered in the fourth quarter of 2010.

Liquidity, capital resources and going concern

On March 31, 2011 the Company completed a private placement (the "2011 Private Placement") of 25,000,000 units of Avnel (the "Units") at a price of Cdn. $0.40 per Unit (the "Issue Price"). Each Unit consisted of one ordinary share of Avnel and one-half of one ordinary share purchase warrant (each whole warrant a "Warrant"). Each Warrant entitled the holder to purchase one ordinary share of Avnel at a price of C$0.70, at any time for a period of 18 months from the date of issue of the Warrants. Dundee Securities Ltd. was the lead agent and the gross proceeds of the Private Placement were C$10,000,000 and Avnel intends to use these proceeds for general corporate purposes. The Company is debt free and has sufficient funds to meet its liabilities for the next 12 months.

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. 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 March 31, 2011:

Contractual Obligations - $000	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating Leases (1,2)	156	3	153	-	-
Total Contractual Obligations	$ 156	$ 3	$ 153	$ -	$ -

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 £76,500 up until the end of the lease, which at the March 31 2011 exchange rate, is equivalent to $153,000 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 March 31, 2011 is $3,000.

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 of $280,000 and penalties and interest of $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 capitalised mine development costs, at December 31, 2010 was $18.1 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 capitalised development at the mine site leading to a reversion to the original feasibility study.

The carrying value on this basis is supported by the discounted 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. 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 $137,000 in the quarter ended March 31, 2011. 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 major shareholder. The Company incurred $32,000 in rental costs during the quarter ended March 31, 2011. The Company's lease expires in June 2011.

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 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 characterised 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 ("IFRS")
Effective January 1, 2011 Canadian public listed companies are required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010. The three months ended March 31, 2011 is the first reporting period under IFRS. Full disclosure of the Company's accounting policies in accordance with IFRS can be found in Notes 16 to the financial statements. The financial statements also include reconciliations to the previously disclosed financial statements where the comparative periods were prepared under US generally accepted accounting principles.

Critical Accounting Estimates
The consolidated financial statements of the Company have been prepared in accordance with IFRS. 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 discounted 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 arm's 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 a cash flow for the retirement and rehabilitation of the Kalana Gold Mine of $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.

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 June 14, 2011, the Company had issued 191,738,840 common shares.

The following table shows the number of options or rights to purchase common shares of the Company as at June 14, 2011.

2010 Private Placement warrants	44,370,639
2011 Private Placement warrants	15,125,000
IAMGOLD warrants	2,000,000
Meade Compensation Options	2,500,000
Long Term Incentive Plan	3,469,000
Total as at June 14, 2011	**67,464,639**

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. Diamond drilling has progressed ahead of plan during the first quarter and RC drilling is expected to commence in the second quarter. It is anticipated that a new Mineral Resource study will be completed in 2012. Underground exploration development is planned to increase to 600 metres as part of the resource study.

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 Propspect. 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, which 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 the remainder of 2011, Avnel is planning gold production of 5.000 ounces at an average operating cost of approximately $1,380 per ounce of gold produced net of royalties from tonnes milled 27,000 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 150 metres during the remainder of 2011. Development will focus on opening up Vein 18 and Vein 20 below 180m level. Dependent on results, development will continue. Exploration development totalling 565 metres 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 27,000 tonnes at 6.5g/t containing 5,000 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 quarter ended March 31, 2011.

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 June 14, 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.