AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED JUNE 30, 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 April 1, 2011 to June 30, 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 June 30, 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 financial statements for the quarter to June 30, 2010, prepared in accordance with United States generally accepted accounting principles ("U.S.GAAP") to IFRS is set out in note 16 of the financial statements. 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. 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 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 June 2011, 18,472 metres of diamond drilling was completed at the Kalana Mine using two diamond drill rigs. 1,535 metres of diamond drilling was also completed at the Kalanako prospect during the second quarter 2011. One diamond drill rig was used for this program. The 2011 work program aims to complete 46,000 metres of diamond and RC 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. Expenditure to June 2011 totalled $4.7 million.

- 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 were received during the second quarter. Interpretation of the results confirms that significant gold anomalies exist including Djirila that has been drill tested.

- 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. Three diamond drill rigs are working, and a reverse circulation drill rig has been mobilised to site in July. Preliminary geological cross sections have been generated for Kalana 1 North (one cross section) and Kalana 1 South (five cross sections).

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. Assay results from the diamond drill program shows extensive mineralised packages extending 250 metres north from No 2 shaft to a depth of 250m below surface across approximately 150m 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 diamond drilling and RC drilling confirm the possibility of these vein packages being a 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 200m to a depth of 120m. During the second half of 2011 infill reverse circulation drilling will increase the density of data to enable a mineral resource to be estimated in 2012. There is potential to extend the mineralisation to the north by 150m towards the existing mine infrastructure at No 1 Shaft. It is planned to commence RC drilling in between the existing infrastructure during the fourth quarter.

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. . Diamond drilling and RC drilling during the second half of 2011 will increase the density of data and enable a geological cross section to be interpreted.

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. A diamond drill program has commenced in quarter 2, 2011to provide geological information to enable a preliminary model to be developed.

Results to June 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.

KALANA I NORTH
Assay results from twenty six diamond drill holes reported show that a mineralised zone running 400m north of No 2 Shaft has significant mineralised packages suitable for bulk mining.

Kalana 1 North has been drilled systematically over six north-south sections and two east-west sections. Forty seven diamond drill holes have intersected mineralised zones of varying width and grade. Thirty nine holes were drilled at a sixty degree angle from south to north at fifty metres between drill hole collars to intersect the predominantly north-south plunging vein structures. Eight drill holes were drilled at sixty degree angle from east to west at approximately 100m between drill hole collars.

Assay results have been received for twenty six holes with results for 21 diamond drill holes outstanding.

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 200m to a depth of 120m.
During the second half of 2011 infill RC drilling will increase the density of data to enable a mineral resource to be estimated in 2012. There is potential to extend the mineralisation to the north by 150m towards the existing mine infrastructure at No 1 Shaft. It is planned to commence RC drilling in between the existing infrastructure during the fourth quarter

Kalana 1 South has been drilled systematically over five east-west sections and four north-south sections. Forty one diamond drill holes have intersected mineralised zones of varying width and grade. Thirty three holes were drilled at a sixty degree angle from east to west at fifty metres between drill hole collars to intersect the predominantly west-

east plunging vein structures. Eight diamond drill holes were drilled at sixty degree angle from south to north at approximately 100m between drill hole collars.

Assay results have been received for thirty eight diamond drill holes with results for 3 diamond drill holes outstanding.

Eighteen RC drill holes have been drilled over two east-west sections and assay results have been received for eighteen holes. The RC drill holes are drilled at between fifty five and sixty degrees angle from east to west to a depth of 100m along the drill hole. Drill collars are approximately 50m between holes.
The surface area covered by the drill sections is 540m (east-west) by 250m (north-south).

Geological modelling has progressed well with 5 cross sections partially complete

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 planned in 2011 will enable the mineralisation to be modelled.

Kalana II has been drilled systematically over five east-west sections and five north-south sections. Nine diamond drill holes have intersected mineralised zones of varying width and grade. Five holes were drilled at a sixty degree angle from east to west at 100 metres between drill hole collars to intersect the predominantly west-east plunging vein structures. Four diamond drill holes were drilled at sixty degree angle from south to north at approximately 100m between drill hole collars.

Assay results have been received for all nine diamond drill holes.

Thirty one RC drill holes have been drilled over five east-west sections and assay results have been received for all thirty one drill holes. The RC drill holes are drilled at between fifty five and sixty degrees angle from east to west to a depth of 100m along the drill hole. Drill collars are approximately 100m between holes. Twenty eight RC drill holes have been drilled over four north-south sections and assay results have been received for all twenty eight drill holes. The RC drill holes are drilled at between fifty five and sixty degrees angle from south to north to a depth of 100m along the drill hole. Drill collars are approximately 100m between holes.

The surface area covered by the drill sections is 300m (east-west) by 400m (north-south).

Geological interpretation and modelling is in progress. Preliminary interpretation indicates two mineralised domains (named Savanna and Superette) dipping from surface to the east. During the second half of 2011 several diamond drill holes and RC drill holes are planned to provide additional geological and assay information. Based on an increased density of data geological modelling will proceed.

All assay results have been reported in quarter 1 2011.

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.

During the second quarter four diamond drill holes were completed at Kalanako and one diamond drill hole was in progress. A total of 1,535 metres were completed in DD001, DD002, DD003 and DD004.

The diamond drill holes will provide geological information to assist the interpretation of the mineralised zones identified by the 2010 RC drill hole program. No diamond drill assay results have been received.

The depth of saprolite and saprock is between 150m and 200m, much deeper than that observed at Kalana. In fresh rock there is evidence of shearing and tight folding that is also not observed at Kalana.

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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 were used to generate preliminary geological cross sections. Results of drilling between May and July 2011 will be released in September 2011

QAQC

Sample protocol entailed the splitting of the core by diamond core saw by IAMGOLD staff at the Kalana mine site. Half of the sample preserved at the Kalana mine site and the other half separated by the metre and dispatched to the SGS analytical facilities in Bamako, a well recognized assay lab in West Africa. Each meter sample was dried, crushed, pulverized to 85% passing 75 micron, and then split using a cone splitter. Approximately 200 grams of the pulverised sample was placed in sealed packets and sent to the SGS assay laboratory in Kayes, Mali. Samples were analyzed for gold using a 50g fire assay. Rejects are returned to the Kalana Mine site and stored by IAMGOLD staff.

As part of the QAQC program, control samples are added. These control samples include standards, blanks and duplicates.

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 half 2011 approximately 12,300 termite mound samples were collected and submitted for sample preparation at the Kalana SGS sample preparation laboratory. The prepared samples were submitted to SGS fire assay laboratory in Kayes. 7,000 assay results have been received and validated. The gold values obtained on the "Avnel 1" anomaly are the highest seen on both Fougadian and SOMIKA permits. IAMGOLD believe the anomaly is linked with a rooted geological structure. Avnel completed limited drilling over the Avnel 1 anomaly in 2008 as reported above.
The establishment of an exploration camp commenced during the quarter and will be operational in the fourth quarter after the rainy season. Expenditure totaled $483,000 during 2011.

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Total Revenue	3,918	4,001	6,416	7,583
Total Expenses	3,843	3,571	7,916	8,447
Net Loss	(193)	(1,812)	(1,718)	(4,204)
Loss per share	(0.000)	(0.017)	(0.007)	(0.039)
Weighted average shares outstanding	191,737,095	81,893,392	179,263,857	81,843,428

Balance Sheet	June 30, 2011	June 30, 2010
Working Capital	12,516	(14,262)
Total Assets	31,990	23,438
Stockholders' Equity	32,996	6,993

Results of Operations

Revenue decreased slightly to $3,918,000 in the second quarter of 2011 from $4,001,000 in the second quarter of 2010. This was as a result of a decrease in gold ounces sold from 3,338 ounces in the second quarter of 2010 to 2,605 ounces in the second quarter of 2011 offset by the increase in the realised average sales price of gold from $1,196 per ounce in 2010 to $1,499 per ounce in 2011.

Avnel recorded a net loss of $193,000 ($0.000 loss per share) for the quarter ended June 30, 2011 compared to a net loss of $1,718,000 ($0.007 loss per share) in the comparative period in 2010. The main contributing factor to the reduced loss in the period was a reduced exchange loss of $285,000 compared to an exchange loss of $2,106,000 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 June 30, 2011 increased by $7,731,000 from $2,106,000 to $9,837,000. On March 31, 2011 a private placement closed, the net proceeds of which $9,621,000 were received in April 2011.

There was a working capital surplus of $12,516,000 as at June 30, 2011 compared to working capital deficit of $14,262,000 as at June 30, 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 $23,438,000 as at December 31, 2010 to $31,990,000 at June 30, 2011 due to the private placement on March 31, 2011.

Stockholders' equity also increased to $32,996,000 as at June 30, 2011 from $24,580,000 at December 31, 2010. This was due to the private placement in March 31, 2011. The retained deficit increased by $1,191,000 as a result of the net loss made in the first half of 2011.

Mining Operations

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Tonnes milled:				
Underground ore	12,922	12,280	24,048	25,853
Gold grade - grams per tonne (g/t):				
Underground ore	8.29	8.06	7.28	8.24
Recovery rate - %	86.0	86.7	84.6	83.1
Gold production – ounces	2,960	2,760	4,913	5,920
Cost per tonne milled	$246	$225	$257	$227
Operating cost per ounce of gold sold	$1,009	$742	$1,254	$947
Operating cost per ounce of gold produced	$1,075	$1,000	$1,260	$989

Tonnes milled in the second quarter of 2011 were 5% higher than achieved in the second quarter of 2010. Gold production at 2,960 ounces in the second quarter of 2011 was 7% higher than the second quarter of 2010 resulting from the higher tonnes milled together with the higher head grade which increased 3% from 8.06g/t to 8.29g/t. Gold grade of 8.28g/t was higher than the planned grade of 6.37g/t, mainly due to higher grades from Vein 18 and Vein 20 stopes.

Gold recovery in the second quarter of 2011 decreased slightly to 86.0% from 86.7%.

Mine development totalled 326 metres in quarter 2 2011 compared to 232 metres in 2010 and 227 metres ahead of the mine plan. Ore development increased to 195 metres in 2011 from 99 metres in 2010 as new mining areas were opened below 180m level. Exploration development advanced 112 metres as raises were mined to expose the mineralised package above Vein 17. The raises are adjacent to diamond drill holes recently completed by IAMGOLD.

Development results have been positive resulting in a forecast increase in potential mining areas as discussed in the outlook section

Operating cost of sales for the second quarter of 2011 increased 8% to $3,843,000 compared with $3,571,000 in the second quarter of 2010 due to higher maintenance and labour costs, and a 5% weakening of the US dollar against the CFA. Cash operating cost of $246 per tonne milled in the second quarter of 2011 increased by 9% from the cost in the second quarter of 2010 of $225 per tonne. Cash operating cost per ounce produced of $1,075 per ounce in the second quarter of 2011 increased from $1,000 per ounce in the second quarter of 2010 due to lower gold production.

Gold Sales

	Three months ended June 30		Six months ended June 30	
	2011	**2010**	**2011**	**2010**
Gold ounces sold – at spot price	2,605	3,338	4,410	6,541
Average realized gold price $ per ounce	1,499	1,196	1,450	1,157
Metal revenue - $000				
Total gold sales	3,904	3,992	6,395	7,566
Silver sales	14	9	21	17
Metal revenue	3,918	4,001	6,416	7,583

Gold spot prices commenced in 2011 at $1,388 per ounce and ended at June 30, 2011 at $1,439 per ounce, with the London AM Fix averaging $1,504 per ounce during the quarter.

Summary of Quarterly Results

Consolidated Statement of Operations for the Quarters Ended

Quarter ended (US$'000)	June 30 2011 Under IFRS	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
Revenue	$3,918	$2,498	$3,138	$3,988	$4,001	$3,582	$4,802	$4,396
Net income (loss)	$(193)	$(1,525)	$(759)	$2,166	$(1,812)	$(2,392)	$(1,989)	$(1,420)
Income (loss) per share	$(0.000)	$(0.007)	$(0.005)	$0.016	$(0.017)	$(0.023)	$(0.025)	$(0.018)

Second Quarter Results

Second quarter revenue of $3,918,000 has reduced by 2% compared to revenue of $4,001,000 in the second quarter of 2010 due mainly to reduced gold production offset by higher realised gold prices. The net loss reduced from $1,812,000 in the second quarter of 2010 to a loss of $193,000 in the second quarter of 2011 mainly due to the reduction of exchange loss. Cash and cash equivalents increased by $7,731,000 to $9, 837,000 from $2,106,000 at the start of the year. Net proceeds of $9,621,000 were raised from the private placement which closed on March 31, 2011.Expenditure on property, plant and equipment was $97,000 in the first half of 2011, compared to expenditure of $117,000 in the first half of 2010. The reduced net loss in the second quarter of 2011 compared to the first quarter of 2011 results mainly from increased gold sales and gold prices.

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. 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 June 30, 2011:

Contractual Obligations - $000	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating Leases (1,2)	135	135	-	-	-
Total Contractual Obligations	$ 135	$ 135	$ -	$ -	$ -

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 £82,300 up until the end of the lease, which at the June 30 2011 exchange rate, is equivalent to $132,000 per annum.

(2) The Company has entered into an operating lease for an office building in Bamako, Mali. The lease expires on June 30, 2012. The remaining commitment as at June 30, 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 and at June 30, 2011 was $17.4 million respectively. 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 $159,000 in the quarter ended June 30, 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 June 30, 2011. 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 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 were 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 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 August 15, 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 August 15, 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 August 15, 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 half and RC drilling is expected to commence in the second half. 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 was completed during the first half of 2011 as reported above 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 4,200 ounces at an average cash operating cost of approximately $1,564 per ounce of gold produced net of royalties from tonnes milled 23,000 tonnes, at an average grade of 7.0g/t. This plan is very sensitive to grade, gold price and costs. The plan assumes development will open up Vein 20 at an assumed mining grade of 7.5g/t. Initial ore development and mining of Vein 20 in the second quarter has provided data to estimate with confidence 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 283 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 435 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 39,000 tonnes at 7.0g/t containing 9,000 ounces. This assumes that ongoing development of Vein 20 below 180m level will be successful. This will allow mining to average 3,800 tonnes per month to May 2012
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 June 30, 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 August 12, 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.