

**AVNEL GOLD MINING LIMITED  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED SEPTEMBER 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 July 1, 2011 to September 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 September 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 September 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](http://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 subscribed C\$1 million for shares and warrants in Avnel's 2010 private placement acquiring 5 million shares in the company, and subscribed C\$2.5 million for shares and warrants in Avnel's 2011 private placement acquiring 6.25 million shares in the company. On June 15, 2011 IAMGOLD purchased a further 16,250,000 from the Fern Trust. On October 12, 2011 IAMGOLD purchased a further 3,940,000 shares, and if IAMGOLD were to exercise its current holding of Avnel warrants it would own approximately 13.95% of the outstanding common shares.

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**

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

**Table 2: Kalana Gold Mine Inferred Resource — June 2004**

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

**Table 3: Kalana Gold Mine Total Resource — June 2004**

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

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

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**

- Over 60,000 metres of diamond and RC drilling has been completed to date. The 2011 work program aimed to complete 35,000 metres of diamond and RC drilling with a total budget of \$8.0million which has been exceeded as shown in the table below. This has been achieved by end September and IAMGOLD plans to aggressively advance the project in the 4<sup>th</sup> quarter

<b>Location/Drill hole type</b>		<b>2010</b>	<b>Jan-September 2011</b>	<b>Project Total To Date</b>
Kalana Diamond drilling	Metres	<b>12,361</b>	<b>20,253</b>	<b>32,614</b>
Kalana RC drilling	Metres	<b>10,040</b>	<b>9,312</b>	<b>19,352</b>
Kalanako Diamond drilling	Metres	<b>0</b>	<b>5,383</b>	<b>5,383</b>
Kalanako RC drilling	Metres	<b>12,076</b>	<b>0</b>	<b>12,076</b>
Expenditure	US\$	<b>6,400,000</b>	<b>8,900,000</b>	<b>15,300,000</b>

- All drill hole assay results for 2010 drill campaign (35,000 metres drilled) have been received.
- Of the 35,000 metres drilled to-date of the 2011 drill campaign, 19,000 assays have been received with a backlog of 16,000 metres.
- The main objective is to complete lines of drill holes spaced between 50m and 100m apart across the Kalana I North domain, Kalana I South domain and Kalana II domain to enable geological cross sections to be generated and a resource study to be completed during third quarter 2012. One diamond drill rig and one reverse circulation drill rig are on site and commenced drilling in mid September after the rains. Preliminary geological cross sections have been generated for Kalana I North (one cross section) and Kalana I South (five cross sections).

#### **Results to September 30, 2011**

Avnel issued press releases on January 31, 2011, February 22, 2011, May 26, 2011 and October 11, 2011 and this update should be referenced to those documents.

The results in the press release dated October 11, 2001 should be read in conjunction with Figures 1 – 9 as well as Table 1 (Assay Results) and Table 2 (Drill Collar coordinates) posted on Avnel's website [www.avnelgold.com](http://www.avnelgold.com). All results are expressed in g/t Au.

## **KALANA I NORTH**

**Assay results from thirty five diamond drill holes reported show that a mineralised zone, running 400m north of No 2 Shaft and extending over an east west strike of 278 metres, 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. Fifty five diamond drill holes have intersected mineralised zones of varying width and grade. Forty six 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. Nine drill holes were drilled at sixty degree angle from east to west at approximately 100m between drill hole collars. The surface area covered by the drill sections is 278m (east-west) by 400m (north-south).

Assay results have been received for thirty five holes with results for 20 diamond drill holes outstanding. Recent assay results are shown in Table 1. Figure 2 and Figure 2A is a plan showing all assay results to date.

First interpretations (Kalana I North) are reported on the cross-section Figure 7 from Section W412. This is a North-South section looking to the East (see Figure 2 to localize the section). This section is provisional as it is based on data received from ten of the eleven diamond drill holes on this section line.

On the eastern boundary of Kalana 1 North, the potential for steep, vertical vein packages is being tested during the second half of 2011. This area is shown on Figure 3 where RC drilling is in progress.

## **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. It is planned to commence RC drilling in between the existing infrastructure during the fourth quarter 2011.

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 forty diamond drill holes with results for one diamond drill hole outstanding. Recent assay results are shown in Table 1 and Figure 4 is a plan showing all assay results to date.

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. Assay results are shown in Figure 4 and reported in previous press releases (see [www.avnelgold.com](http://www.avnelgold.com)).

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. First interpretations (Kalana I South) are reported on the cross-section Figure 8 from Section S100. This is an East-West section looking to the North (see Figure 4 to localize the section). This section is provisional as it is based on data received from twelve of the thirteen diamond drill holes on this section line.

Two RC drill holes (RC133 and RC134) were drilled to a hole depth of sixty metres at sixty degrees from west to east to provide metallurgical samples from the oxide zone (see Figure 2A). RC133 was drilled sub vertical to the vein 3 mineralised packages that dips from west to east. The hole showed two mineralised composites as shown below:

- From 11m to 28m, 17m at a grade of 1.88g/t and from 34m to 53m, 19m a grade of 3.12g/t

This drill hole demonstrates the continuity of the vein 3 package in the oxide zone.

RC134 was drilled sub vertical to the vein 10 mineralised package that dips from west to east. The hole showed two mineralised composites as shown below:

- From 20m to 26m, 6m at a grade of 1.84g/t and from 33m to 52m, 19m at a grade of 6.25g/t

These drill holes demonstrate the continuity of the vein 3 and vein 10 mineralised packages in the oxide zone. These intersections are not a true width of the mineralised package.

## **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 seven east-west sections and five north-south sections. Eleven 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. Six 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 nine of the eleven diamond drill holes.

Forty seven RC drill holes have been drilled over seven east-west sections and assay results have been received for forty 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 to 130m along the drill hole. Drill collars are approximately 100m between holes. Forty three RC drill holes have been drilled over four north-south sections and assay results have been received for thirty five 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 to 130m 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 Savana 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.

Recent assay results are reported in Table 1. Figure 5 and Figure 5A are plans showing all drill holes and assay results to date.

## **KALANAKO**

**Kalanako is located five kilometres north east of Kalana. Two mineralised trends, one over a distance of 500m and the other over 250m, have been detected from the RC drill assay results. Mineralisation remains open at depth**

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 and previously reported for 138 holes.



As at end July 2011 fourteen diamond drill holes were completed at Kalanako. A total of 3,384 metres were completed in DD001 to DD014. Holes are drilled from east to west at an inclination of sixty degrees. Diamond drilling continued in September 2011.

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 approximately 150 metres, much deeper than that observed at Kalana. Drilling at Kalanako displays numerous high strain zones (shearing and folding), packets of dense laminated quartz vein with sulfides and locally, highly altered and mineralized dioritic intrusives.

Figure 6 is a plan showing all drill holes and assay results to date.

### **Assaying**

The assay turnaround is slower than planned due to work backlog and due to the sampling protocol that requires the full half core to be sample prepped. Approximately 16,000 samples from the 2011 drill program (35,000 metres) that have been sent to SGS laboratory in Bamako are outstanding. IAMGOLD is investigating how to improve the speed of the assay turnaround.

### **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. Assay data from this program should be available by end Quarter 1, 2012 and the resource study complete by Quarter 3, 2012.

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. Approximately 1,000 samples are being prepared to be sent to SGS Laboratory in Ouagadougou, Burkina Faso, for assaying using the Leachwell assay methodology. These one kilogram samples are from mineralised drill hole sample rejects that have been already fire assayed using a 50 gram aliquot sample.

Metallurgical test work has commenced with 7 samples from two RC holes and underground samples (weighing 50-70kgs per sample) to Lakefield Laboratories in Canada. Test results are expected during Quarter 4, 2011

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.

### **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 is 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.

### **Looking Forward**

IAMGOLD expects to complete the drill programs at Kalana and Kalanako in the quarter 1, 2012 to generate the data for the NI 43-101 Resource Study to be completed in Quarter 3, 2012. The objective is to define a minimum resource of 2 million ounces which would entitle IAMGOLD to obtain 51% of the project if it commits to the carrying out of a feasibility study under an agreed work program.

During 2012 IAMGOLD is also planning to possibly commence testing the gold anomaly targets identified by the termite samples and ground geophysics program completed in 2011. Targets include Djirila (previously drilled in 2006 see press release dated May 15, 2006, filed on SEDAR or on the Company's website), Tenintoumanina, Sanekourou, Dabaran (previously drilled in 2007), Sananfarani, Solomanina and Tonda (see Figure 8).

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### **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 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. 13,826 assay results, including 1,388 QAQC samples 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 second quarter and will be operational in the fourth quarter after the rainy season. Expenditure totaled \$753,000 during 2011.

### Selected Interim Information

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2011	2010	2011	2010
Total Revenue .....	4,855	3,988	11,271	11,571
Total Expenses .....	4,742	3,798	12,658	12,245
Net (loss)/profit .....	(280)	2,166	(1,998)	(2,038)
(Loss)/profit per share	(0.002)	0.015	(0.009)	(0.012)
Weighted average shares outstanding	191,739,477	133,338,755	175,039,799	99,197,164
<b>Balance Sheet</b>			<b>Sept 30, 2011</b>	<b>Sept 30, 2010</b>
Working Capital .....			12,722	3,835
Total Assets .....			31,762	24,043
Stockholders' Equity .....			32,659	24,580

### Results of Operations

Metal revenues increased to \$11,271,000 in the nine months to September 2011 from \$10,571,000 in the comparative period in 2010. This was as a result of a decrease in gold ounces sold from 8,970 ounces in the nine months to September 2010 to 7,258 ounces in 2011 more than offset by the increase in the realised average sales price of gold from \$1,176 per ounce in 2010 to \$1,548 per ounce in 2011. Other revenues in 2010 also included \$1,000,000 for the Kalana joint venture option fee.

Avnel recorded a net loss of \$1,998,000 (\$0.009 loss per share) for the nine months ended September 30, 2011 compared to a net loss of \$2,038,000 (\$0.012 loss per share) 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 September 30, 2011 increased by \$8,149,000 from \$2,106,000 to \$10,255,000. This increase was due to a private placement, the net proceeds of which \$9,621,000 were received in April 2011.

There was a working capital surplus of \$12,722,000 as at September 30, 2011 compared to working capital surplus of \$3,835,000 as at September 30, 2010. The increase working capital surplus resulted from the March 31, 2011 private placement.

Total assets increased from \$24,043,000 as at December 31, 2010 to \$31,762,000 at September 30, 2011 due to the private placement on March 31, 2011.

Stockholders' equity also increased to \$32,659,000 as at September 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 \$1,525,000 as a result of the net loss made in the nine months to 2011.

## Mining Operations

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2011	2010	2011	2010
Tonnes milled:				
Underground ore	11,821	12,602	35,869	38,455
Gold grade - grams per tonne (g/t):				
Underground ore	7.60	7.60	7.39	8.03
Recovery rate - %	84.6	85.1	84.6	86.0
Gold production – ounces	2,549	2,620	7,462	8,540
Cost per tonne milled	\$268	\$228	\$261	\$227
Operating cost per ounce of gold sold	\$1,217	\$1,109	\$1,239	\$990
Operating cost per ounce of gold produced	\$1,242	\$1,095	\$1,254	\$1,022

Tonnes milled in the third quarter of 2011 were 6% lower than achieved in the third quarter of 2010. Gold production at 2,549 ounces in the third quarter of 2011 was 3% lower than the third quarter of 2010 resulting from the lower tonnes milled together with the similar head grade of 7.6g/t. Gold totalling 104 ounces was recovered from a mill reline as part of the 2,549 ounces. Gold grade of 7.6g/t was higher than the planned grade of 6.8g/t, mainly due to higher grades from Vein 20 stope.

Gold recovery in the third quarter of 2011 decreased slightly to 84.6% from 86.0% in the second quarter due to lower head grades.

Mine development totalled 425 metres in third quarter 2011 compared to 308 metres in third quarter 2010 and 9 metres ahead of the mine plan. Ore development decreased to 170 metres in third quarter 2011 from 195 metres in second quarter 2011. Ore development focused on exposing Vein 20 mining area with positive results. The vein was exposed west of a fault where no vein was expected. To access Vein 20 down to the 210m elevation, an ore winze was advanced and a new access winze developed from 180m level. This new access winze will intersect Vein 20 in the fourth quarter and will be utilised for mining during 2012.

Exploration development advanced 201 metres as raises were mined to expose the mineralised package adjacent to Vein 17, Vein 18 and Vein 18C. The raises are adjacent to diamond drill holes recently completed by IAMGOLD.

## Gold Sales

	<u>Three months ended Sept 30</u>		<u>Nine months ended Sept 30</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Gold ounces sold – at spot price</b>	2,848	2,429	7,258	8,970
<b>Average realized gold price \$ per ounce</b>	1,698	1,228	1,548	1,176
<b>Metal revenue - \$000</b>				
Total gold sales	4,838	2,982	11,233	10,547
Silver sales	17	6	38	24
<b>Metal revenue</b>	<b>4,855</b>	<b>2,988</b>	<b>11,271</b>	<b>10,571</b>

Gold spot prices commenced in 2011 at \$1,388 per ounce and ended at September 30, 2011 at \$1,620 per ounce, with the London AM Fix averaging \$1,700 per ounce during the quarter.

## Summary of Quarterly Results

### Consolidated Statement of Operations for the Quarters Ended

<b>Quarter ended</b> <b>(US\$'000)</b>	<b>Sept 30</b>	<b>June 30</b>	<b>Mar 31</b>	<b>Dec 31</b>	<b>Sep 30</b>	<b>June 30</b>	<b>Mar 31</b>	<b>Dec 31</b>
	<u>2011</u> <u>Under IFRS</u>	<u>2011</u> <u>Under IFRS</u>	<u>2011</u> <u>Under IFRS</u>	<u>2010</u> <u>Under IFRS</u>	<u>2010</u> <u>Under IFRS</u>	<u>2010</u> <u>Under IFRS</u>	<u>2010</u> <u>Under IFRS</u>	<u>2009</u> <u>Under USGAAP</u>
Revenue	\$4,855	\$3,918	\$2,498	\$3,138	\$3,988	\$4,001	\$3,582	\$4,802
Net income (loss)	\$(280)	\$(193)	\$(1,525)	\$(759)	\$2,166	\$(1,812)	\$(2,392)	\$(1,989)
Income (loss) per share	\$(0.002)	\$(0.000)	\$(0.007)	\$(0.005)	\$0.015	\$(0.017)	\$(0.023)	\$(0.025)

### Third Quarter Results

Third quarter revenue of \$4,855,000 increased by 22% compared to revenue of \$3,988,000 in the third quarter of 2010, due mainly to increased gold sales and higher realised gold prices. Other revenues in 2010 also included \$1,000,000 for the Kalana joint venture option fee.

The net loss for the quarter of \$280,000 compares to a profit of \$2,166,000 in the third quarter of 2010 which arose from an exchange profit of \$2,030,000.

Operating cost of sales for the third quarter of 2011 increased to \$4,056,000 compared with \$3,193,000 in the comparative period in 2010 due mainly to movement in finished goods stock and 10% unfavourable US\$ exchange rate together with higher maintenance and labour costs. Cash operating cost of \$268 per tonne milled in the third

quarter of 2011 increased from \$228 per tonne mainly due to reduced throughput. Cash operating cost per ounce produced of \$1,242 per ounce in the third quarter of 2011 increased from \$1,095 per ounce in 2010.

Cash and cash equivalents increased in the quarter by \$418,000 to \$10,255,000 from \$9,837,000.

### 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 C\$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 Sept 30, 2011:

Contractual Obligations - \$000	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating Leases (1,2)	96	96	-	-	-
Total Contractual Obligations	\$ 96	\$ 96	\$ -	\$ -	\$ -

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 \$96,000 up until the end of the lease.

- (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 September 30, 2011 is \$2,250.

## **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 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 September 30, 2011 was \$17.0 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 \$171,000 in the quarter ended September 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 \$35,000 in rental costs during the quarter ended September 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](http://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 November 11, 2011, the Company had issued 191,743,724 common shares.

The following table shows the number of options or rights to purchase common shares of the Company as at November 11, 2011.

2010 Private Placement warrants	44,365,755
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 November 11, 2011**    **67,459,755**

#### **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 in excess of \$11 million during 2011 (with a total expense since the commencement of the Joint Venture of \$15.3 million). The majority of the expenditure will be on diamond and RC drilling at the Kalana Mine. Diamond drilling has progressed ahead of plan during the first nine months and RC drilling commenced in the third quarter. For the fourth quarter one diamond drill rig and one RC drill rig will continue the drill program at Kalana. 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 diamond drilling will continue at the Kalanako Prospect close to Kalana to follow up initial drill program in 2010 and 2011.

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 and construction of an exploration camp should be completed during the fourth quarter. IAMGOLD plans to commence a further drill program in 2012.

In the fourth quarter of 2011, Avnel is planning gold production of 2,100 ounces from tonnes milled 11,000 tonnes, at an average grade of 6.8g/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 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 allow access for future exploration activity.

The mine plans to advance development 302 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 September 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 November 11, 2011. Additional information about the Company, including the Company's Annual Information Form, is available at [www.avnelgold.com](http://www.avnelgold.com) or the website of the System for Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com).