AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2013

The following management's discussion and analysis (the "MD&A") for Avnel Gold Mining Limited ("Avnel" or the "Company") describes the operating and financial results of the Company for the period from January 1, 2013 to March 31, 2013. 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. The Company and its consolidated subsidiaries for financial reporting purposes are referred to herein as the "Group".

This MD&A should be read in conjunction with the audited consolidated financial statements for the quarter ended March 31, 2013 and related notes thereto. 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 (the "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'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.

Avnel entered into an agreement (the "Option Agreement") with IAMGOLD Corporation ("IAMGOLD") on August 10, 2009 pursuant to which IAMGOLD had the right to earn a 51% interest in Avnel's interest in the Kalana Permit by spending $11 million over a three year period and making two payments to Avnel of $1 million each on August 10, 2009 and August 10, 2010. The IAMGOLD work programme focussed primarily on the evaluation of the Kalana Mine and its environs to examine the potential for a large scale, bulk mineable resource. The Option Agreement automatically lapsed on March 1, 2013 as IAMGOLD did not produce a Resource Study as defined in the Option Agreement within the timescale allowed.

Avnel has engaged Dundee Securities Limited as its exclusive financial advisor in assisting Avnel in exploring all options available to maximise the value of the Kalana Project and shareholder value.

Kalana Permit Exploration

IAMGOLD spent approximately $32.0 million on the Kalana Main Project between the periods, mid-August 2009 to February 28, 2013. Under the terms of the Option agreement IAMGOLD's cost receivable has been forfeited to Avnel. Avnel has received an extensive geological database after the completion of 127,000 metres of drill holes at the Kalana Mine that has added value to the future development of a bulk mineable deposit. At the Kalanako prospect, IAMGOLD completed 27,000 metres of drilling. IAMGOLD reported that 14 gold anomaly targets were identified on the Kalana Permit that are worthy of additional exploration.

Avnel has been working with its consultants Roscoe Postle Associates ("RPA") and Snowden in analysing the database arising from the exploration program conducted by IAMGOLD. The final drill assay results (15,340 assays) and the geological logging were received from IAMGOLD during the first quarter. RPA has progressed the interpretation of the geological model and expects to complete the model in May 2013.

IAMGOLD and RPA identified the technical challenge to evaluate grade associated with the high content of free milling gold (nuggets) in the Kalana Mine. Historically gold grades from drill holes have under estimated mined grades at Kalana.

IAMGOLD conducted a limited number of metallurgical tests to address the under estimation of gold in drill hole samples. The main variable was a larger sample weight than the standard 50 gram fire assay used for all assays reported to date.

In 2011 metallurgical test work was carried out with seven samples from two RC holes and underground samples (weighing 50-70kgs per sample) sent to Lakefield Laboratories in Canada. IAMGOLD have reported that the seven Kalana 50 kg metallurgical test samples mostly showed a significantly higher grade than the 50 gram fire assay results.

In 2012 a total of fifty bulk metallurgical samples were submitted for heavy concentrate analysis by using the Knelson concentrator at the SGS laboratory in Johannesburg. IAMGOLD reported that 50g fire assay results underestimate grade when the FA grade is 4g/t or higher. In the range 1g/t to 4g/t the FA and the bulk sample assays report similar results. In the range below 1g/t there appears to be some limited upgrade in bulk sample assays compared to 50g FA results.

IAMGOLD reported initial indications are that the bulk samples analysed in Johannesburg and metallurgical samples previously analysed in Canada display the same behaviour as illustrated by the “Poisson effect” during sub-sampling with the global under-estimation of grade using a classical FA 50g approach.

RPA have recommended that higher grade assays from the 2010-2012 drill program might benefit from re-assaying by a more exhaustive assay method. RPA recommend that a screens metallic assay on a 1kg sample be implemented.

Avnel has appointed Snowden to review the sampling procedures utilised at Kalana deposit which demonstrates a high coarse gold nugget effect. Dr Simon Dominy, from Snowden, an expert in this field, has reviewed the nature of the coarse gold mineralisation at Kalana and has reported that alternative assay protocols may be more suitable to optimise the coarse gold mineralisation present in the Kalana deposit. Snowden will complete the study in May 2013 and work with Avnel to design possible alternative protocols. Options for improved protocols include the use of screen fire assays, LeachWELL bottle roll and laboratory-scale gravity processing of samples.

It is expected that an exploration project update will be released shortly.

First Quarter Exploration

Somika Exploration Permit

In the first quarter of 2013, $1.9m cost were incurred by IAMGOLD mainly relating to RC and DD drilling completed in the fourth quarter of 2012 and the final drill assay results received in the first quarter 2013 . Assay results for two RC drill holes are still awaited.

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, with the commencement date December 2009. 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 was for 3 years and Avnel has committed to expenditures of $1.9 million over this period. As at December 31, 2012 expenditure totalled US$1.8 million.

The Permit expired in December 2012. Avnel is applying for a two year extension of the permit and is confident this will be granted during the second quarter, 2013. It is IAMGOLD’s responsibility to obtain the necessary renewal at its cost.

Joint Venture Arrangements Agreement Fougadian Permits

In 2010, Avnel Gold and IAMGOLD entered into 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 as described below.

The Fougadian Exploration 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 applied for an exploration permit in respect of the southern 75 sq. km and this was granted on June 20, 2012. The combined permits are referred to as the "Fougadian Exploration Permit".

Following the military coup in Mali in March 2012, IAMGOLD halted the planned drilling program. A ground geophysics program was completed over the Maramele target by SAGAX. 192 line kilometers were completed and results received. The results confirm the previous interpretation as reported above.

Avnel is waiting for a 2013 detailed work program and budget from IAMGOLD. IAMGOLD closed its Bamako office in January 2013. The office re-opened in April and staff started preparation for the exploration program for 2013.

IAMGOLD is proposing to complete an air core drill program to further define the optimum targets within the Maramale anomaly prior to an RC drill program.

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

	Three months ended March 31	
	2013	**2012**
Total Revenue	4,197	5,034
Total Expenses	4,257	5,052
Other Income	1,280	4,632
Net Profit	1,220	4,614
Net Profit from continuing operations attributable to owners of the parent	1,230	5,529
Net Profit per share attributable to owners of the parent	$0.006	$0.029
Basic weighted average shares outstanding	191,743,724	191,739,477

Balance Sheet	**March 2013**	**December 2012**
Working Capital surplus	12,393	12,226
Total Assets	29,896	31,051
Shareholders' Equity	33,992	32,750

Results of Operations

Metal revenues reduced to $4,197,000 in the quarter to March 31, 2013 from $5,034,000 in the quarter to March 31, 2012. This was as a result of reduced gold ounces sold from 2,980 ounces in the quarter to March 31, 2012 to 2,551 ounces in the quarter to March 31, 2013 and a reduction in the realised average sales price of gold from $1,684 per ounce in quarter to March 31, 2012 to $1,641 per ounce in quarter to March 31, 2013.

Total expenses reduced from $5,052,000 in the quarter to March 31, 2012 to $4,257,000 in the quarter to March 31, 2013, arising from finished goods movement. Operating costs per ounce of gold produced for the quarter to March 31, 2013 increased from $1,153/oz to $1,169/oz.

Avnel recorded a net profit of $1,220,000 ($0.006 attributable profit per share) for the quarter to March 31, 2013, compared to a net profit of $4,614,000 ($0.029 attributable loss per share) in the comparative period in 2012. Included in the first quarter of 2013, is an accounting finance gain on the fair value of derivative financial instruments of $1,600,000, arising from a reduction in the Company's share price from December 31, 2012. This compared to a profit of $4,597,000 in the quarter to March 31, 2012. These fair value accounting gains reported have no cash effect on the Company.

As compared to the balance sheet as at December 31, 2012, Avnel's cash and cash equivalents as at March 2013, decreased by $580,000 from $7,979,000 to $7,399,000. This decrease was mainly due to $559,000 of working capital movement.

There was a working capital surplus of $12,393,000 as at March 31, 2013 compared to working capital surplus of $12,226,000 as at December 31, 2012. The working capital figure reported at December 31, 2012exclude the other derivative financial liability reported on the Company's balance sheet which had no cash liability to the Company.

Total assets reduced from $31,051,000 as at December 31, 2012 to $29,896,000 at March 31, 2013.

Total stockholders' equity also increased to $33,992,000 as at March 31, 2013 from $32,750,000 at December 31, 2012. The retained deficit reduced by $1,641,000 as a result of the net profit made in the quarter to March 31, 2013.

Mining Operations

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

	Three months ended March 31	
	2013	**2012**
Tonnes milled	12,524	11,254
Gold grade - grams per tonne (g/t)	8.2	8.6
Recovery rate - %	83.8	89.3
Gold production - ounces	2,769	2,769
Cost per tonne milled	$258	$284
Operating cost per ounce of gold sold	$1,109	$1,176
Operating cost per ounce of gold produced	$1,169	$1,153

Tonnes milled in the quarter to March 31, 2013, were 11% higher than achieved in comparative period in 2012. Gold production at 2,769 ounces in the quarter to March 31, 2013 remained the same as the quarter to March 31, 2012 resulting from the higher tonnes milled offset by lower head grade of 8.2g/t and reduced recovery of 83.8% in the quarter to March 31, 2013 compared to 8.6g/t and 89.3% in the quarter to March 31, 2012. The decrease in gold recovery is due to less gravity gold being recovered from Vein 1 and Vein 17 adjacent to the diorite. Some of the free milling gold is very fine and cannot be recovered by a Knelson concentrator in the gravity circuit.

Mine development totalled 355 metres in the first quarter of 2012 compared to 332 metres in the first quarter of 2012 and was 128 metres ahead of the mine plan. Ore development increased to 342 metres in the first quarter of 2013 from 260 metres in the first quarter of 2012. Ore development focused on opening Vein 18D and Vein 20 below 180m level. Above 150m level ore development opened up Vein 1 for mining during 2013.

During the quarter 9m (budget 60m) were advanced as part of the exploration program for the mine. This development has been stopped due to IAMGOLD not proceeding with the Joint Venture. SOMIKA will evaluate the need to continue with this development.

Gold Sales

Gold sales data is as follows:

		Three months ended March 31	
		2013	2012
Gold ounces sold	- at spot price	2,551	2,980
Average realized gold price per ounce	- at spot price	$1,641	$1,684
Metal revenue - $000			
Total gold sales		4,185	5,018
Silver sales		12	16
Metal revenue		4,197	5,034

Gold spot prices commenced in 2013 at $1,694 per ounce and ended at March 31, 2013 at $1,598 per ounce, with the London PM Fix averaging $1,630 per ounce during the year.

Summary of Quarterly Results

Consolidated Statement of Operations for the Quarters Ended

Quarter ended (US$'000)	Mar 31 2013	Dec 31 2012	Sept 30 2012	June 30 2012	Mar 31 2012	Dec 31 2011	Sept 30 2011	June 30 2011
Total Revenue	4,197	3,950	3,427	4,393	5,034	$3,383	$4,855	$3,918
Net profit/(loss) from continuing operations	1,220	(807)	(1,280)	2,259	4,614	(891)	5,168	(739)
Net Profit/ (loss) from continuing operations attributable to owners of the parent	1,230	142	(83)	2,174	5,529	(1,448)	4,601	(620)
Net Profit/(loss) per share attributable to owners of the parent	$0.006	$0.000	($0.000)	$0.011	$0.029	$(0.008)	$0.024	$(0.003)

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. 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 warrants expired on September 30, 2012. As a result of the private placement completed on March 31, 2011, the Company raised significant capital and is now able to fund its mining operations for the foreseeable future.

Avnel's cash and cash equivalents as at March 31, 2013 reduced by $580,000 from $7,979,000 to $7,399,000. Capital expenditure in the quarter to March 31, 2013 was $21,000 compared to $312,000 in the first quarter of 2012.

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.

The Company intends to sustain the current underground operation as long as economically feasible, without spending significant capital expenditure, until such time as the results of this exploration are completed and assessed to enable the Company to better evaluate future development options for the mine. Until this work is completed and a suitable development plan is identified, output from the mine will continue to be constrained.

Contractual Obligations

The Company has the following contractual obligations at December 31, 2012:

Contractual Obligations - $000	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating Leases (1,2)	453	141	277	35	-
Total Contractual Obligations	453	141	277	35	-

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 2016, future minimum payments will amount to $451,000 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, 2013. The remaining commitment as at March 31, 2013 is $2,000.

Contingent Liability

Malian Taxation

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

Mining Properties

The carrying value of the Company's property, plant and equipment, including mining properties and capitalised mine development costs, at March 31, 2013 was $15.7 million and at December 31, 2012 was $16.7 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 March 31, 2013, 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 has 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.

By their very nature, there can be no assurance that these estimates will actually be reflected in the future operations. The ultimate value 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 $177,000 in the quarter ended March 31, 2013 compared to $191,000 in the quarter to March 31, 2012. 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 $36,000 in rental costs during the quarter ended March 31, 2013 compared to $32,000 in the quarter to March 31, 2012. The Company's lease expires in June 2016.

Remuneration of key management personnel

In accordance with IAS 24- Related party transactions, key management personnel, including all executive and non executive directors, are those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

	3 Months March 2013 $'000	3 Months March 2012 $'000
Wages and salaries	245	244
Directors' fees	22	22
	267	266

Key Management's interest in equity based compensation plans

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

Issue Date	Expiry date	Exercise price	Number outstanding March 31,2013	Number outstanding December 31,2012
31/08/05	19/8/2015	C$0.76	899,000	899,000
13/08/08	06/08/2018	C$0.45	1,500,000	1,500,000
09/11/10	09/11/2015	C$0.28	125,000	125,000
01/01/11	31/12/2016	C$0.35	500,000	500,000
15/11/11	15/11/2021	C$0.60	1,500,000	1,500,000
Total			4,524,000	4,524,000

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

Issue Date	Expiry date	Exercise price	Number outstanding March 31,2013	Number outstanding Dec 31, 2012
23/02/05	23/02/2023	US$0.275	2,500,000	2,500,000
Total			2,500,000	2,500,000

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

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 27, 2013 (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 of the Company for the year ended December 31, 2012, 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 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.

Foreign exchange Risk/Gold Hedging

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

The Company may engage in hedging agreements or activities to minimise 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 future 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
The following new standards and amendments to standards and interpretations were not yet effective for the period ended March 31, 2013, and have not been applied in preparing these consolidated financial statements. These are summarised below:

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

IFRS 9 *Financial Instruments: Classification and Measurement*
IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015.

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

Critical Accounting Estimates
The consolidated financial statements of the Company for the period ended March 31, 2013, 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. It is possible that the closure plan will change if a new open pit mine is developed. This will be dependent on ongoing exploration and a future feasibility study.

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 May 14, 2013, 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 May 14, 2013.

2010 Private Placement warrants	44,365,755
Meade Compensation Options	2,500,000
Long Term Incentive Plan	4,619,000
Total as at May 14, 2013	**51,484,755**

Outlook

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Avnel has appointed Snowden Mining Industry Consultants to review the gold sampling procedures for the Kalana deposit. Following their report Avnel, in conjunction with its technical consultants, will consider the possibility to re-assay the 2010-2012 drill hole assays using a new sampling protocol in order to better capture the course mineralisation in the deposit.

Avnel has been closely working with its consultants, Roscoe Postle Associates, in analysing the database arising from the extensive exploration program conducted by IAMGOLD. Roscoe Postle Associates will continue to develop the geological model for the Kalana deposit for review with Avnel in June 2013.

Avnel has strengthened its management team by appointing Dr Olivier Femenias as Group Geological Manager. Dr Femenias was previously the IAMGOLD Project Geologist responsible for the exploration program at Kalana from 2009 to 2012. He has an intimate knowledge of the Kalana Project and the 14 gold anomaly targets on the Kalana Permit. Dr Femenias was awarded a PhD in geology (Honors with jury’s congratulations) by the University of Brussels and the University of La Rochelle in 2003. He was Assistant Professor at Brussels University from 2006 to

2009. Dr Femenias has an outstanding academic background married to extensive field experience at the Kalana Project.

For the remainder of 2013, Avnel is planning gold production of 6,400 ounces from 34,000 tonnes of ore milled, at an average grade of 6.8g/t. This plan is very sensitive to grade, gold price and costs. The plan assumes that the major ore sources will be Vein 20 and Vein 18D which will be fully developed during the first quarter 2013. Lower grade ore is planned to be mined from Veins 17 and 1 based on the gold price of $1,500 per ounce. The Company intends to sustain the operation as long as feasible while 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 permit access for future exploration activity.

The mine plans to advance development 486 metres during the remainder of 2013. Development will focus on opening up Vein 18D below the 180m level and Vein 20 below the 180m level. Dependent on results, development will continue.
It is forecast that the mineable reserves available from the current mine infrastructure are approximately 52,000 tonnes at 6.8g/t containing 11,000 ounces. This assumes that ongoing development of Vein 20 and Vein 18D below 180m level will be successful. This will allow mining to average 3,800 tonnes per month to May 2014.

Current Events in Mali

Following the military coup d'etat on March 21, 2012 developments in Mali are closely monitored by Avnel. Mr. Roy Meade, Executive Director of Operations based at Kalana, reports that mining activities at the mine site are continuing as normal and conditions in the surrounding communities are completely calm. The road between the Kalana Mine Site and the capital, Bamako, has remained open. The mine, which is operating normally, operates on grid power and there have been no interruptions to electric power supply to date. We are optimistic that the current ongoing operations by the Malian army backed by French and ECOWAS troops will enable elections to be held this year.

Avnel was pleased participate with five companies operating gold mines in Mali in a humanitarian aid donation

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") and the Chief Financial Officer ("CFO") of the Company, evaluated the design and effectiveness of the Company's disclosure controls and procedures as of December 31, 2012, and concluded that such disclosure controls and procedures were operating effectively at that date. There were no significant changes to the Company's disclosure controls process during the quarter ended March 31, 2013.

It should be noted that, while the Company's CEO and CFO 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 and the CFO, have evaluated the design and effectiveness of internal controls over financial reporting as at December 31, 2012, and have concluded that the Company's internal control over financial reporting was effective during the year 2012.

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 May 15, 2013. 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.