AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 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 December 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 year ended December 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. Forward-looking statements in this MD&A include, among other things, statements about the potential financing, development and operation of an open-pit mine based on the preliminary economic assessment of the Kalana Main Project, the completion of a pre-feasibility study and feasibility study on the Kalana Main Project and the continued operation of, and production at, the existing Kalana Gold Mine. 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 Mineral Resource Estimate and Preliminary Economic Assessment regarding the Kalana Main Project is summarised or extracted from technical reports prepared by Snowden Mining Industry Consultants (Pty) Ltd ('Snowden") entitled "Kalana Mineral Resource Estimate and Preliminary Economic Estimate" dated 31 March 2014. The Technical Report was prepared by Allan Earl, Executive Consultant, and Ivor Jones , Executive Consultant, each of whom is an independent "Qualified Person" as such term is defined in National Instrument 43-101 –Standards of Disclosure for Mineral Projects. The full text of the Technical Report is available for review on the System for Electronic Document Analysis (SEDAR) located at www.SEDAR.com.
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Technical information in this publication arising subsequent to the date of the Technical Reports, if any, regarding the Kalana Main Project and the Kalana Permit is provided by Avnel management under the supervision of Roy Meade, a Company director, and Dr Olivier Femenias, VP Geology, each of whom 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").

A small underground mine (name plate capacity 60,000 tonnes per year with a gravity only gold recovery plant) was designed and built by the Russians between the mid-1960's and 1985 and operated by the Russians until 1991 under a Soviet financial and technical aid programme to Mali. Avnel continues to operate the small underground mine principally for exploration purposes and to maintain socio economic stability in the local community. The mine operates as a narrow vein hard rock mine (below the weathered horizon) with gravity gold recovery.

The Kalana Permit was acquired by Avnel through a privatisation tender awarded in December 2002 and the permit was transferred to Avnel's 80% owned subsidiary, SOMIKA in April 2003. Mining operations were resumed by SOMIKA in January 2004 with commercial production commencing in March 2004.

Avnel's strategic objective, through SOMIKA, has been to commercially exploit underground reserves at the Kalana Gold Mine, whilst exploring for commercially viable opportunities for the exploitation of a bulk mineable deposit on the Kalana site and the remainder of the Kalana exploitation permit – the Kalana Main Project (see discussion below).

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 has been to expand the 2005 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.

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.

A priority objective under the IAMGOLD Joint Venture was the Kalana Main Project and IAMGOLD's exploration has contributed significantly to the understanding of the Kalana Main Project and the geological understanding of the remainder of the Kalana Exploitation permit as IAMGOLD has defined a further 9 high priority targets.

IAMGOLD spent $32.5 million on the Kalana Main Project between the periods, mid-August 2009 to February 28, 2013. The costs incurred by IAMGOLD are represented by loans to the Company's subsidiary Avnel Gold, Limited which were on lent to SOMIKA. IAMGOLD's loans to Avnel Gold, Limited are assigned to Avnel for a consideration otherwise than in cash.

In 2013 Avnel appointed Snowden Mining Industry Consultants to recommend which assay methodology is appropriate to assess the potential of the Kalana mineralization, to complete a new Mineral Resource Estimate and a Preliminary Economic Estimate.

Kalana Permit Exploration

Avnel has received an extensive geological database including the completion of 130,000 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 29,500 metres of drilling. At the Djirila prospect, IAMGOLD completed 2,535 metres of RC drilling. IAMGOLD reported that 9 gold anomaly targets were identified on the Kalana Permit (including Kalana itself) that are worthy of additional exploration.

Avnel has been working with consultants Snowden in analysing the database arising from the exploration program conducted by IAMGOLD. The final drill assay results (15,340 assays or 12% of the total assays) and the geological logging were only received from IAMGOLD during the first quarter of 2013. Snowden recommended that different grade horizons be re-assayed more exhaustively as a method to take account of the coarse nugget gold at Kalana.

IAMGOLD and Avnel 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 composite samples from two RC holes and underground samples (weighing 50-70 kg 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 (weighing 10-12 kg per sample) 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 Fire Assay ("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.

In 2013, Avnel appointed Snowden to review the sampling procedures utilised at Kalana deposit which demonstrates a high coarse gold nugget effect. Snowden completed the study in July 2013 after reviewing all historical reports and data on the Kalana deposit, and has reported that alternative assay protocols may be more suitable to optimise the coarse gold mineralisation present in the Kalana deposit. Dr Simon Dominy, from Snowden, an expert in this field, has reviewed the nature of the coarse gold mineralisation at Kalana and concluded the veins bear dominant coarse gold mineralization, potentially >35% plus 100 micron based on a liberated gold study and up to 75% based on Screen Fire Assay ("SFA") results. The IAMGOLD protocols are likely to underestimate gold grade. Three options were considered for improved protocols for sample preparation and assay. These included the use of metallic screen fire assays, LeachWell cyanide extraction method and laboratory-scale gravity processing of bulk samples. The use of these protocols will reduce the sampling error inherent in the IAMGOLD sample protocol.

The selection of samples for re-assaying commenced in June 2013 and approximately 20,000 samples (1m sample length) were identified. All selected samples from the RC and DD drill campaigns have been collected and in October a first batch of 1,000 RC samples (including QAQC) was sent to Bigs Global Laboratory at Ouagadougou for LeachWell 2kg and 298 samples (including QAQC) were sent to SGS Johannesburg for gravity concentration.

The weight of each sample for the LeachWell cyanide extraction method is approximately 2-4 kilograms. The protocol requires 2 kilograms of the 2-4 kilogram sample to be split after crushing; it includes sample preparation for 24 hour leaching with fire assay of the leach tail.

SOMIKA geologists have supervised Bigs Global work. They have visited the laboratory several times to follow up the work, check that the assay protocol was respected and to ensure work cleanliness in order to avoid contamination. Results were received at the end of October for the LeachWell and early November for the tails fire assays for the first 1,000 samples. No QAQC issues were noted, blanks returned grades close to null as expected and standards returned grades in the range of those expected. Moreover, duplicates tail fire assays displayed a good repetitiveness. Results of that test were very encouraging with a 25 to 50% improvement of the grades compared to IAMGOLD Fire Assay grades. It was decided to send the complete selection (~20,000 samples) in December 2013. All the remaining 13,524 RC samples and 5,708 DD samples sent to Bigs Global laboratory in December have been assayed with the LeachWell method in Q1 2014. Re-assay results are similar to the first batch and display an average upgrade of 23% to 42% for RC samples and 19% to 32% for DD samples pulp rejects. Only the first DD campaign (5% of the re-assay selection) drilled by IAMGOLD in HQ-NQ (small diameter) display no significant upgrade according to the low weight of the available samples.

The 298 samples for re-assay and metallurgical test work were submitted to the SGS Metals and Mineralogy laboratory in Johannesburg, South Africa to carry out gravity and cyanidation test work. This is the same laboratory that conducted test work for IAMGOLD in 2012. The weight of each sample is 2-4 kilograms. The protocol requires sample preparation (crushing and milling), batch gravity concentration, and cyanide leaching of the gravity tails and fire assay on the final tails.

Snowden Mining Industry Consultants was contracted to supervise SGS work at Johannesburg. One of their representatives visited the laboratory several times to follow up the work, check that the assay protocol was respected and to ensure work cleanliness in order to avoid contamination. Despite this supervision, results received reported that most of the blanks inserted after high grade samples for QAQC purpose returned grades. SGS internal investigation and a Snowden investigation were carried out to find out the causes of such a contamination of the blank samples. While SGS investigation concluded that no problem occurred during the process, Snowden ventured that contamination might have occurred during the gravimetric concentration stage. They rely on the fact that the concentrate assay is done by multiple Fire assay aliquot depending on the quantity of the concentrate. For the blanks returning high grades, each aliquot returned grades. Thus we can believe that some gold was transferred during the gravimetric concentration stage probably due to a bad cleaning of the Knelson concentrator between each sample.

Despite the weakness of QAQC, SGS 2012 (10-12kg) & 2013 (4kg) test works gave the first dataset which reproduces and confirms the upgrade behavior compared to 50g FA as also observed after the 2kg LeachWell re-assay campaign. Results are relatively reliable and confirm together with the 2012 test work the LeachWell approach for the re-assay campaign is valid. Due to the contamination of blanks, the gravity concentration grades were not used in the Mineral resource estimate.

Avnel and Snowden have reviewed the geological model prepared by IAMGOLD. The geological model has been updated using drill hole data that was not available to IAMGOLD in November 2012. Avnel's VP Geology, Dr. Olivier Femenias, was leading the re-interpretation of the mineralized intercepts having agreed an appropriate methodology with Snowden. The geological model was transferred to Snowden in November 2013, the resource estimate was finalised in the first quarter 2014. Using an equivalent cut off grade of 0.9g/t, preliminary indications are that the volume of mineralization and the grade increases compared to the IAMGOLD model, due to the additional data from 25,000m of drill hole, detailed interpretation of all aspects of the geological database and the implementation of the LeachWell re-assay dataset.

Mineral Resource Estimate and Preliminary Economic Assessment

Snowden have furnished Avnel with the following MRE and PEA by report dated 18 March 2014.

The *Mineral Resources* for the in-situ Kalana Main Project gold deposit (0.9 g/t gold cut-off) total:

- 1.25 million ounces of gold in the Indicated Mineral Resource category (8.5 million tonnes grading 4.53 grams of gold per tonne)
- 0.25 million ounces of gold in the Inferred Mineral Resource category (2.1 million tonnes grading 3.76 grams of gold per tonne)

The Mineral Resources for the Kalana tailings (no grade cut-off applied) totals:

- 0.04 million ounces of gold the Indicated Mineral Resource category in historic and active tailings (0.7 million tonnes grading 1.80 grams of gold per tonne).

The Mineral Resource estimate for the Kalana Main Project incorporates data from all exploration drilling completed to date.

Table 1 and Table 2 summarise the 2014 Kalana Main Project Mineral Resource estimate.

The Preliminary Economic Assessment (PEA) of the Kalana Main Project Mineral Resources identified the potential for a mine life of 14 years recovering 1.46 million ounces:

- a two year construction period, with first production anticipated in H2 2017
- gold production averaging 138,000 ounces gold per year for the first four years and then 98,000 ounces gold per year over the remaining life of mine
- total capital of $188 million
- all-in sustaining cost of $577 per ounce (including total operating costs and sustaining capital costs)
- all-in cost for the project of $679 per ounce (including total operating costs and total capital costs)
- after tax net present value after tax (NPV 10%) of $194 million with a 53% project internal rate of return a payback period of about 2 years after the start of production.

Mineral Resource modelling and estimation – the in-situ deposit

Mineralisation at the gold deposit occurs over an area of approximately 1,200 m in an east–west direction by 1,000 m in a north-south direction. The attitude of the veins varies from north-south to northeast-southwest and dips at low to moderate angles respectively to the east or the south.

Avnel and Snowden used Avnel's interpretation of the mineralisation at Kalana as the basis of the resource estimate. The deposit has been divided into a number of structural domains and vein packages which comprise varying amounts of gold mineralisation. Mineralisation within these domains is characterised by a mix of barren rock with variably mineralised parts including continuous veins and stockwork mineralisation.

The input data for the resource estimate comprises information from 185 diamond drillholes, 19 underground diamond drillholes and 567 RC drillholes totalling 132,391 m.

All data was composited to the nominal sample length of 1 m prior to analysis and estimation. Grade estimation was completed using Multiple Indicator Kriging into 10 m by 10 m by 5 m blocks. Indicator variograms were modelled up to the 95th percentile of the data with a mathematical model used to define the top end of the grade distribution. The result of this estimation method is that, while no top cut is used to limit the higher grades, the higher grades are limited in their influence by using a mathematical model for the higher grades in the dataset.

Following the MIK estimation, the results were post-processed to provide a proportion of the block and the grade of this portion above the 0.9 g/t Au cut-off grade (which was defined separately as a part of the preliminary economic assessment). Subsequently the estimate was depleted for historic production tonnes using a manual deduction, even though the estimate did account for this through the modelling where the reef was not represented in the drilling (drilling through stopes).

The March 2014 Mineral Resource estimate for the Kalana Main Project gold deposit was completed by Snowden on behalf of Avnel. The Mineral Resources are classified as Indicated and Inferred Resources in accordance with the CIM Standards on Mineral Resources and Reserves, Definitions and Guidelines prepared by the CIM Standing Committee on Reserve Definitions and adopted by CIM Council.

Classification of the Mineral Resource comprised an evaluation of data quality, confidence in the geological interpretation, a test of the reasonableness of the assumption of economic extraction, review of statistical information and comparisons of model grade estimates versus input data grades. Where grades were estimated in the first search pass (90 m by 60 m by 10 m) and more than 10% of the block was estimated as above the cut-off grade, it was considered that the confidence in the model was sufficient to define an Indicated Mineral Resource. The remainder of the estimates within the pit optimisation shell were classified as an Inferred Mineral Resource.

The Mineral Resources are reported above a cut-off grade of 0.9 g/t Au. This cut-off grade was defined as an output of the preliminary economic assessment based on a gold price of $1,110 per ounce.

The Tailings Mineral Resource

The quantity and grade of tailings is compiled from a combination of the evaluation of the tailings mineral resource in June 2004, with the addition of tailings since 2005 (tonnes and grade as measured from production). In May 2004, a sampling programme was completed on the 1985 to 1991 Russian tailings dam. The sampling was performed by using an auger and taking 1 m vertical samples on a grid of 10 m by 10 m. The tonnage of the tailings dam has been estimated from the historical production records with the addition of the tailings from ore milled in the period January to June 2004. No survey measure of the tailings dam is possible as there is no survey record of the original topographic base for the dam. The average sample gold grade for the tailings dam was used for the June 2004 resource estimate. The tailings resource at that time was reported as 234,000 tonnes at 1.9 g/t Au in the measured category.

Since July 2004, the tonnes and grade of added material to the tailings dam has been measured from the output from production. This has been reported as 421,000 tonnes at 1.73 g/t Au.

In 2012, IAMGOLD sampled the tailings dams on a grid of between 10 m by 10 m and 20 m by 20 m (depending on location) with an average depth of 3.6 m and maximum depth of 5 m. Whilst this sampling did not always reach the base of the tailings, the assays for the samples indicated the grade for the tailings mineral resource are conservative and support the confidence that the grades in the mineral resource can be achieved.

Snowden is therefore of the opinion that the confidence in the estimation of the tailings Mineral Resource is sufficient so that it can be classified as an Indicated Mineral Resource.

Kalana Main Project Mineral Resource

The Mineral Resource estimate has been based on information collated from extensive drilling and underground workings at the Kalana Gold Mine. The mineralisation is hosted in narrow shallow dipping quartz and associated inter-vein mineralisation defining together a vein package. It is a Paleoproterozoic orogenic gold deposit emplaced in Birimian terranes of the West African Craton.

Table 1 Kalana Main Project in-situ Mineral Resource estimate - March 2014

Classification	Tonnes (millions)	Gold Grade (g/t)	Contained Gold (million ounce)
Indicated Resource	8.5	4.53	1.25
Inferred Resource	2.1	3.76	0.25

(1) Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability. The estimate of Mineral Resources may be materially affected by environmental, permitting, legal, marketing, or other relevant issues. The Mineral Resources in this MD&A were estimated using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), CIM Standards on Mineral Resources and Reserves, Definitions and Guidelines prepared by the CIM Standing Committee on Reserve Definitions and adopted by CIM Council.
(2) The quantity and grade of reported Inferred resources in this estimation are uncertain in nature and there has been insufficient exploration to define these Inferred Resources as an Indicated or Measured Mineral Resource and it is uncertain if further exploration will result in upgrading them to an Indicated or Measured Mineral Resource category.
(3) Contained metal figures and totals may differ due to rounding of figures.
(4) Based on a cut-off grade of 0.9 grams of gold /tonne.

Table 2 Kalana Gold Mine tailings Mineral Resource estimate - March 2014

Category	Tonnes (millions)	Gold Grade (g/t)	Contained Gold (million ounce)
Indicated Resource	0.7	1.80	0.04

Note: Footnotes (1), (2), (3) as per Table 1. No cut-off grade applied.

Preliminary Economic Assessment

The Kalana Main Project PEA is a study which includes an economic analysis of the potential viability of the Kalana Main Project Mineral Resources. It is not a pre-feasibility study (PFS) or feasibility study (FS) and cannot be used to support mineral reserves. It is preliminary in nature and includes the use of Inferred Mineral Resources that are considered too speculative geologically to have reliable technical and economic considerations applied to them that would enable them to be categorised as Mineral Reserves. There is no certainty that the PEA will be realised and actual results may vary, perhaps materially. Mineral Resources that are not Mineral Reserves do not have demonstrated economic and technical viability.

The Kalana Main Project PEA is subject to a number of important assumptions, including, among others, that a competent mining contractor can mine the mineralisation in a selective manner that achieves, or betters, the assumed dilution and recovery factors, that suitable locations can be identified for waste dumps and tailings storage facilities, that further test work will confirm the metallurgical recoveries, that there is no material increase in capital and operating costs, forecast construction schedules can be achieved, an adequate supply of water is available and can be exploited, environmental and social impact studies will be completed in an acceptable timeframe, all required permits will be obtained in a timely manner and the Company will continue to have the support of local communities and regulators.

The March 2014 PEA for the Kalana Main Project was completed by Snowden on behalf of Avnel. The findings of Snowden's assessment are:

- A 14 year mine life recovering 1.46 million ounces and comprising:
  - a three stage open pit containing 15.1 million tonnes at 3.2 grams of gold per tonne and 128 million tonnes of waste.
  - 655,000 tonnes of tailings at 1.8 grams of gold per tonne.
  - a 1.2 million tonnes per year of conventional gravity and CIL process plant achieving 93% recovery for saprolite, saprock and fresh material and 83% for tailings.
- About a two year construction period, with first production anticipated in H2 2017.
- Gold production averaging 138,000 ounces gold per year for the first four years and then 98,000 ounces gold per year over the remaining life of mine.
- Total capital of $188 million comprising:
  - $134 million plant, mine services and infrastructure.
  - $15 million pre-strip.
  - $29 million sustaining capital and community.
  - mine closure $10 million.
- All-in sustaining cost for the project of $577 per ounce (based on total operating costs, sustaining capital and mine closure costs).
- All-in cost for the project of $679 per ounce (based on total operating and total capital costs).
- After tax net present value after tax (NPV 10%) of $194 million with a 53% project internal rate of return. Payback on construction capital and pre-production costs is expected to be 2 years after the start of production.

The Kalana Main Project PEA is based on open pit mining using small-scale mining equipment to selectively mine the economic quartz and associated inter-vein mineralisation with larger equipment used in waste. The processing method will be conventional gravity concentration and CIL. The open pit will be mined in three stages with preferential processing of higher grades and lower grade material stockpiled for later processing. To account for dilution and losses during the mining process, the mineral resource had a 50% tonnage modifying factor and a mining recovery modifying factor between 92.5% and 95% applied in the mine production schedule. Only Inferred and Indicated Mineral Resources (which were constrained by the optimised open pit) were included in the mine production schedule. A tailings Mineral Resource from historic operations will be recovered and processed in the first year of production.

Test work and historic operations show the work index for saprolite and fresh rock will be in a range of 11 kwh/t to 17 kwh/t. Metallurgical tests have shown gravity gold recoveries in the range 40% up to 95% in saprolite and fresh rock. Operating experience has shown gravity recoveries of between 80% and 92%. Cyanide leach test work of saprolite and fresh mineralisation has achieved up to 95% gold recovery from mineralisation ground to 80% passing 75 micron. Gold recovery of 93% using a combination of gravity recovery and CIL has been used in the PEA.

The optimised pit shell was defined using standard optimisation software, a gold price of $1,110 per ounce, mining and processing costs that reflect the weathering profiles and general and administrative (G&A) costs. Overall pit-slope angles range from 37º to 45º depending on the weathering profile. The production schedule was constrained to an advance rate of 30 vertical meters per year.

Over the life of mine, mining costs are estimated to average $3.32 per total tonne mined. Processing and administration costs are estimated to average $20.87 per tonne processed. Using a discount rate of 10%, the Kalana Main Project open pit has an estimated project NPV (after allowance for tax and interest) of about $194 million and a project internal rate of return (IRR) of 53% after accounting for all operating costs, capital expenditures, tax, imputed interest and royalty payments. Pre-feasibility and feasibility study costs of about $16 million have not been included in the financial analysis. The base case results of the Kalana Main Pit PEA are summarised in Table 3 and sensitivity to metal price and discount rate in Table 4.

Table 3 Kalana Main Project PEA results – base case

Item	Value
Tonnes processed (kt)	15,753
Au grade (g/t)	3.1
Au contained (koz)	1,578
Recovery	93%
Au recovered (koz)	1,464
Revenue ($M)	1,625
Royalty ($M)	49
Selling cost ($M)	16
Net revenue ($M)	1,560
Mining cost ($M)	477
Process cost ($M)	258
G&A ($M)	71
Total operating cost ($M)	806
Capital plant and infrastructure ($M)	134
Pre-strip ($M)	15
Sustaining capital ($M)	29
Closure cost ($M)	10
Total capital cost ($M)	188
Net cash flow ($M)	566
NPV after tax and interest ($M)	194
IRR after tax and interest	53%

Table 4 Kalana Main Project Sensitivity (gold price and discount rate)

Metal price ($/oz)	NPV (5%)	NPV (10%)	IRR
1,110	$276 million	$194 million	53%
1,300	$424 million	$306 million	74%

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 (Maramele). The renewal was for 3 years and Avnel committed to expenditures of $1.9 million over this period.

The Permit expired in December 2012. Avnel applied for a two year extension of the Permit and which was granted in August 2013 effective December 2012. The Permit is for two years expiring December 2014 and is non-renewable.

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. This Permit is called the Fougadian South and was granted for 3 years, renewable twice. 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 Avnel 1 (Maramele) target by SAGAX. 192 line kilometers were completed and results received. The results confirm the previous interpretations.

IAMGOLD completed 8,839 meters of air core drilling during the second and third quarter 2013. Drilling was focused on the Maramale and Zambala targets on the Fougadian North permit. These two prospects were chosen by IAMGOLD being the only ones accessible around the annual rainy season. Results have recently been received and are being reviewed. During the fourth quarter 19,887 meters of air core drilling was completed on Fougadian North and South Permits. Samples have been submitted for analysis at the SGS Mineral laboratory in Bamako. The targets drilled were Maramale, Axe Central, Leba and Korienko. During the fourth quarter and first quarter 2014 it is planned to complete 15,000m to 20,000m of air core drilling on the Fougadian North and South permits. The 2013/14 budget is $1 million.

Current underground Mining Operations

Current underground mining operations continue for the reasons discussed above. No significant capital expenditure has been incurred and the 2014 mine plan is based on a planning reserve of 11,000 tonnes at a grade of 6.6g/t to recover 2,000 ounces. Development during 2014 may expose additional ore from Vein 21 and 20C to enable mining to continue through 2014.

It is hoped to continue underground mining at the existing Kalana Gold Mine through the completion of a pre-feasibility and feasibility study on the Kalana Main Project based on the new mineral resource estimate and to enable a smooth transition from a small underground mine to a significant open pit mining operation.

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

	2013	2012	2011
Total Revenue..	14,574	16,804	14,654
Total Expenses..	19,294	18,420	17,246
Other Income/ (expense)..	1,565	6,406	(2,285)
Net (Loss)/profit	(3,155)	4,786	(4,879)
Net (Loss)/profit from continuing operations attributable to owners of the parent...	(942)	7,762	(4,705)
Net (Loss)/profit per share attributable to owners of the parent	($0.005)	$0.040	$(0.025)
Basic weighted average shares outstanding	191,743,724	191,743,724	185,554,007
Balance Sheet			
Working Capital Surplus	8,629	12,226	12,058
Total Assets	26,524	31,051	31,726
Total Non-current liabilities	3,004	3,855	10,266
Shareholders' Equity	31,845	32,750	24,515

Results of Operations

Metal revenues reduced to $14,574,000 in the year to December 31, 2013 from $16,804,000 in 2012. This was as a result of a 16% decrease in the realised average sales price of gold from $1,666 per ounce in 2012 to $1,407 per ounce in 2013, partly offset by an increase in gold ounces sold from 10,059 ounces in the year to December 2012 to 10,334 ounces in 2013.

Total expenses increased by 5% from $18,420,000 in 2012 to $19,294,000 which included an exploration expense of $910,000 mainly relating to the re-assaying of drill samples and a release of withholding tax provision for £1,005,000 relating to services to SOMIKA outside Mali. Cash costs of production for 2013 increased 6% from $1,259/oz to $1,329/oz mainly as a result of increased mining costs and stock adjustments.

Avnel recorded a net loss of $3,155,000 ($0.005 attributable loss per share) for the year ended December 31, 2013 compared to a net profit of $4,786,000 ($0.004 attributable profit per share) in the year to December 31, 2012. Included in 2013, is an accounting finance profit on the fair value of derivative financial instruments of $1,600,000, arising from the lapse of warrants without exercise compared to a profit of $6,318,000 in 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 December 31, 2013 decreased by $2,180,000 from $7,979,000 to $5,799,000 mainly as a result of cash used in operations.

There was a working capital surplus of $8,629,000 as at December 31, 2013 compared to working capital surplus of $12,226,000 as at December 31, 2012. The working capital figures reported exclude the other derivative financial liability movements reported on the Company's balance sheet which has no cash liability to the Company.

Total assets reduced from $31,051,000 as at December 31, 2012 to $26,524,000 at December 31, 2013.

Total stockholders' equity reduced to $31,845,000 as at December 31, 2013 from $32,750,000 at December 31, 2012. The retained deficit increased by $1,275,000 as a result of the net loss made in the year to December 31, 2013.

Mining Operations

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

	2013	2012
Tonnes milled:		
Underground ore	50,848	49,485
Total	50,848	49,485
Gold grade - grams per tonne (g/t):		
Underground ore	7.6	7.3
Total	7.6	7.3
Recovery rate - %	81.8	86.3
Gold production - ounces	10,176	10,090
Cost per tonne milled - $ per tonne	266	257
Operating cost per ounce of gold sold - $ per ounce	1,332	1,284
Operating cost per ounce of gold produced - $ per ounce	1,329	1,259

Tonnes milled in 2013 were 3% higher than achieved in 2012. Gold production at 10,176 ounces in 2013 was 1% higher than 2012 resulting from the higher tonnes milled together with the higher head grade of 7.6g/t in 2013 compared to 7.3g/t in 2012.

Gold recovery in 2013 decreased to 81.8% from 86.3% in 2012 due to an increase in very fine gold that cannot be recovered in the gravity process.

Mine development totalled 1,008 metres in 2013 compared to 1,276 metres in 2012. Ore development decreased to 909 metres in 2013 compared to 1,134 metres in 2012.

Gold Sales

Gold sales data is as follows:

		2013	2012
Gold ounces sold	- at spot price	10,334	10,059
Average realized gold price per ounce	- at spot price	1,406.63	1,665.50
Metal revenue - $000			
Total gold sales		14,536	16,754
Silver sales		38	50
Metal revenue		14,574	16,804

Gold spot prices commenced in 2013 at $1,694 per ounce and ended at December 31, 2013 at $1,204 per ounce, with the London PM Fix averaging $1,411 per ounce during the year.

Summary of Quarterly Results

Consolidated Statement of Operations for the Quarters Ended

Quarter ended (US$'000 except per share amounts)	Dec 31 2013	Sept 30 2013	June 30 2013	Mar 31 2013	Dec 31 2012	Sept 30 2012	June 30 2012	Mar 31 2012
Total Revenue	2,763	2,930	4,684	4,197	3,950	3,427	4,393	5,034
Net (Loss)/profit from continuing operations	(1,710)	(1,766)	(899)	1,220	(803)	(1,280)	2,259	4,614
Net (Loss)/profit from continuing operations attributable to owners of the parent	(987)	(755)	(430)	1,230	142	(83)	2,174	5,529
Net Loss/profit per share from continuing operations attributable to owners of the parent	($0.005)	($0.004)	($0.002)	$0.006	$0.000	($0.000)	$0.011	$0.029

Fourth Quarter Results

Fourth quarter 2013 revenues of $2,763,000, reduced by 30% compared to revenue of $3,950,000 in the fourth quarter of 2012. This was due to lower realised gold prices that reduced from $1,699 per ounce to $1,260 together with reduced gold sales from 2,317 ounces to 2,187 ounces.

The net loss in the fourth quarter of 2013 was $1,710,000 compared to a loss of $803,000 in the fourth quarter of 2012. This was mainly due to reduced revenues, an exploration expense of $755,000 and a withholding tax provision release of £1,005,000. There was a net loss of $415,000 on financial derivatives in 2012 compared to no loss in 2013.

Cash operating cost of $246 per tonne milled in the fourth quarter of 2013 increased from $240 per tonne milled in the comparative period in 2012. Cash operating cost per ounce produced of $1,489 per ounce in the fourth quarter of 2013 increased from $1,270 per ounce in 2012 due to reduced production.

Cash and cash equivalents decreased in the quarter by $1,035,000 to $5,799,000 from $6,834,000.

Liquidity, Capital Resources and Going Concern

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. At 31 December 2013 the Company had current assets $8,629,000 including a cash balance of $5,799,000.

On 24 March 2014 the Company announced a Mineral Resource Estimate ("MRE") and a Preliminary Economic Assessment ("PEA") of a bulk mineable project at Kalana, both completed by Snowden Mining Consultants Ltd ("Snowden"). The MRE, based on a 0.9g/t cut-off grade, shows indicated resources of 8.5m tonnes at a grade of 4.53g/t resulting in contained gold of 1.25m ounces and inferred resources of 2.1m tonnes at a grade of 3.76g/t resulting in 0.25m ounces of contained gold. The PEA, at a gold price of $1,110 and discount factor of 10%

indicates an after tax and imputed interest net present value of $194 million and an internal rate of return of 53%. A Technical Report as required by National Instrument 43-101, prepared by Snowden, will be filed on SEDAR.

Supported by the results of the MRE and PEA, the directors consider that in the Kalana project the Company has a valuable asset. The directors recognise the continuing operations of the Company are dependent upon its ability to raise adequate financing and that funding will be required in the short term for working capital, pre-feasibility and feasibility studies, and for financing in the longer term to build the proposed open pit mine at Kalana. The directors recognise that this represents a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern.

The directors believe that the required financing can be raised and, in conjunction with management, are therefore currently considering various financing options with the major shareholders and are engaged in initial discussions with financial institutions and other mining companies regarding proposals for financing. While these initial discussions are ongoing, it cannot be guaranteed that such financing will be available on a timely basis or on acceptable terms. The directors have reasonable expectations that these financing discussions will be successful and therefore the consolidated financial statements have been presented on the basis that the Company is a going concern. The consolidated financial statements do not give effect to any adjustment which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different than those reflected in the consolidated financial statements.

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 the pre-feasibility study and feasibility study 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.

Mining Properties

The carrying value of the Company’s property, plant and equipment, including mining properties and capitalised mine development costs, at December 31, 2013 was $15.3 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 December 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.

Contractual Obligations

The Company has the following contractual obligations at December 31, 2013:

Contractual Obligations - $000	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating Leases (1,2)	381	155	226	-	-
Total Contractual Obligations	381	155	226	-	-

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 $377,000 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, 2014. The remaining commitment as at December 31, 2013 is $4,000.

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. A further report covering 2010 and 2011 was received in November 2013. The inspector is claiming $7.2m including penalties, disputing various tax items including tax allowances on alleged interest and fees payments, withholding tax on foreign suppliers and VAT exemption. Management believe strongly that the tax claims are incorrect and have taken external advice. Management responded to the inspector in December 2013 contesting the claim and have held a working clarification meeting in January 2014.

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 $699,000 in the year ended December 31, 2013 compared to $777,000 in the year to December 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 $146,000 in rental costs during the year ended December 31, 2013 compared to $139,000 in the year to December 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.

	2013 $’000	2012 $’000
Wages and salaries	1,055	1,012
Directors’ fees	89	89
	1,144	1,101

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 2013	Number outstanding 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
25/03/13	25/03/23	C$0.35	50,000	-
Total			4,574,000	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 2013	Number outstanding 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 was approved by shareholders at the Company's Annual General Meeting held on May 23, 2013.

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, 2014 (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

Supported by the results of the MRE and PEA, the directors consider that in the Kalana project the Company has a valuable asset. The directors recognise the continuing operations of the Company are dependent upon its ability to raise adequate financing and that funding will be required in the short term for working capital, pre-feasibility and feasibility studies, and for financing in the longer term to build the proposed open pit mine at Kalana. The directors recognise that this represents a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The directors believe that the required financing can be raised and in conjunction with management, are therefore currently considering various financing options with the major shareholders and are engaged in initial discussions with financial institutions and other mining companies regarding proposals for financing. While these initial discussions are ongoing, it cannot be guaranteed that such financing will be available on a timely basis or on acceptable terms. The directors have reasonable expectations that these financing discussions will be successful and therefore the consolidated financial statements have been presented on the basis that the Company is a going concern. The consolidate financial statements do not give effect to any adjustment which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different than those reflected in the consolidated financial statements.

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 Main Project 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.

New and amended standards and interpretations
There were a number of new standards and interpretations, effective from January 1, 2013, that the group applied for the first time in the current year. These include IAS 1 *Presentation of items of Other Comprehensive Income – Amendments to IAS 1*, IFRS 10 *Consolidated Financial Statements,* IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of interests in other Entities,* IFRS 13 Fair Value Measurement.

IAS 1 Presentation of items of Other Comprehensive Income – Amendments to IAS 1. The amendments to IAS 1 changed 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 (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available- for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the company's financial position or performance. The amendment is effective for annual periods beginning on or after July 1, 2012.

IFRS 10 Consolidated Financial Statements replaces a portion of IAS 27 that addresses the accounting for consolidated financial statements. It establishes a single control model that applies to all entities. The changes introduced by IFRS 10 require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated. The application of IFRS 10 did not impact on the group's accounts.

IFRS 11 Joint Arrangements did not impact on the group's accounts as it has no jointly controlled investments.

IFRS 12 Disclosure of Interests in Other Entities sets out the requirements for disclosures relating to an entity's interest in subsidiaries, joint arrangement, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previous disclosure requirements but will have no impact on the group's financial position.

IFRS 13 Fair Value Measurement establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value but rather provides guidance on how to measure fair value under IFRS when fair value is required. Application of IFRS 13 has not materially impacted the fair value measurements of the group.

Future Accounting Policies

The following new standards and amendments to standards and interpretations were not yet effective for the year ended December 31, 2013, and have not been applied in preparing these consolidated financial statements. These are summarised below:

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 January 1, 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 January 1, 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.

IFRIC 21 Interpretation 21 Levies
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold
The interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached, IFRIC 21 is effective for annual periods beginning on or after January 1, 2014, with early application permitted. The Company does not expect IFRIC 21to impact on its accounts.

Critical Accounting Estimates
The consolidated financial statements of the Company for the year ended December 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 March 27, 2014, 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 March 27, 2014.

Meade Compensation Options	2,500,000
Long Term Incentive Plan	5,019,000
Total as at March 27, 2014	**7,519,000**

Outlook

Following the re-assay campaign and the update of the geological model made in 2013/14, Snowden have completed a Mineral Resource Estimate (MRE) showing 1.25 million ounces of gold (8.5 million tonnes at 4.53g/t) in the Indicated Mineral Resource category, and 0.25 million ounces of gold (2.1 million tonnes at 3.76g/t) in the Inferred resources Mineral Resource category, based on a cut-off grade of 0.9g/t and a gold price of $1,110 per ounce. Snowden completed a Preliminary Economic Assessment (PEA), using the MRE, showing an after tax and imputed interest net present value (discounted at 10%) of $194 million with a 53% project internal rate of return. Avnel is examining its options to proceed with the work necessary to complete a pre-feasibility and feasibility study leading to the development of a new bulk mine at Kalana and the ongoing exploration of its 387sq.km Kalana Permit where new gold prospects at Kalanako and Djirila have been identified.

For 2014, Avnel is planning gold production of 8,300 ounces from 53,000 tonnes of ore milled, at an average grade of 6.0g/t. This plan is very sensitive to grade, gold price and costs. The plan assumes that the major underground ore sources will be Veins 20, 21 and 20C. Development during the first quarter 2014 will expose new ore blocks to mine from Vein 21 and Vein 20C. The 35,000 tonnes of underground ore will be augmented by 18,000 tonnes of lower grade ore on surface stockpiles. 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 225 metres during 2014. Development will focus on opening up Vein 21 and Vein 20C below the 180m level. Dependent on results, development will continue.

It is forecast that the mineable ore available from the current mine infrastructure is approximately 35,000 tonnes at 6.5g/t containing 7,000 ounces. This assumes that ongoing development of Vein 21 and Vein 20C below 180m level will be successful. This will allow mining to average 3,500 tonnes per month to October 2014. The surface ore stockpile is 29,000 tonnes at a grade of 5.0g/t.

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

It should be noted that, while the Company's 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 CFO, have evaluated the design and effectiveness of internal controls over financial reporting as at December 31, 2013, and have concluded that the Company's internal control over financial reporting was effective during the year 2013.

The Company's management believe that any internal controls over financial reporting, including those systems determined to be effective and no matter how well conceived and operated, have inherent limitations and can provide only reasonable, not absolute, assurance that the objectives of the control system are met with respect to financial statement preparation and presentation. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

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

Additional Information

This MD&A has been prepared as of March 31, 2014. 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.