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

The following management's discussion and analysis (the "MD&A") for Avnel Gold Mining Limited ("Avnel" or the "Company") describes the operating and financial results of the Company for the period from January 1, 2011 to December 31, 2011. Avnel was incorporated under The Companies (Guernsey) Laws 1994 to 2001 on February 18, 2005 with the purpose of becoming the holding company for, and to carry on the business of, Avnel Gold, Limited, a Cayman Islands company ("Avnel Cayman"), pursuant to a reorganisation which was completed on February 22, 2005.

This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011 and related notes thereto. A reconciliation of the previously disclosed financial statements for the year to December 31, 2010, prepared in accordance with United States generally accepted accounting principles ("U.S.GAAP") to IFRS is set out in note 22 of the financial statements. In this MD&A, the Company also reports certain non IFRS measures such as cash costs per ounce. All amounts in this discussion are expressed in U.S. dollars, unless identified otherwise.

Forward-Looking Statements
This MD&A contains forward-looking statements which are based on the Company's expectations, estimates and projections regarding its business and the gold market and economic environment in which it operates. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections, and other forward-looking statements will not occur. These assumptions may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Therefore, actual results of the Company could differ materially from those discussed in such forward-looking statements as a result of these risks and uncertainties and readers should not place undue reliance on such statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements, where as a result of new information, future events or otherwise, unless required by applicable law.

Cautionary Note Regarding Technical Information
Technical information in this publication regarding the Kalana Gold Mine and the Kalana Permit (as such terms are defined below) is summarized or extracted from technical reports prepared by Snowden Mining Industry Consultants (Pty) Ltd ("Snowden") entitled "Kalana Gold Mine Technical Report" dated February 20, 2005 (the "2005 Snowden Technical Report") and "Kalana Phase I Exploration, Mali, West Africa" dated November 4, 2004 (collectively the "Technical Reports"). The Technical Reports were prepared by G.M. Greenway, Principal Resource Geologist, and D.H. Kullmann, Principal Consultant Mining Engineer, of Snowden, each of whom is a "Qualified Person" as such term is defined in National Instrument 43-101 — *Standards of Disclosure for Mineral Projects* ("National Instrument 43-101"). The full text of the Technical Reports is available for review on the System for Electronic Document Analysis (SEDAR) located at www.SEDAR.com.

Technical information in this publication arising subsequent to the date of the Technical Reports, if any, regarding the Kalana Gold Mine and the Kalana Permit is provided by Avnel management under the supervision of Roy Meade, a Company director, who is a non-independent "Qualified Person" as such term is defined in National Instrument 43-101.

Overview of the Company
Avnel's principal assets are an 80% indirect interest in Société d'Exploitation des Mines d'Or De Kalana, S.A. ("SOMIKA") and a 100% indirect interest in the Fougadian Exploration Permit, through its subsidiary, Avnel Mali SARL. The State of Mali holds the remaining 20% interest in SOMIKA which owns a long tenure (30 years plus two 10 year extensions) Exploitation Permit over 387.4 square kilometres located in South West Mali ("the Kalana Permit").

Avnel operates the small underground Kalana gold mine (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 entered into an agreement (the “Option Agreement”) with IAMGOLD Corporation (“IAMGOLD”) on August 10, 2009 pursuant to which IAMGOLD has 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, which payments have been made. IAMGOLD may increase its share of the available interest in the project up to 65% (assuming Avnel elects to participate in the costs of a feasibility study, and if it does not so elect, 70%). The IAMGOLD work programme is focused initially and primarily on the evaluation of the Kalana Mine and its environs to examine the potential for a large scale, bulk mineable resource. IAMGOLD subscribed C$1 million for ordinary shares and warrants in Avnel’s 2010 Private Placement acquiring 5 million ordinary shares in the company, and subscribed C$2.5 million for ordinary shares and warrants in Avnel’s 2011 Private Placement acquiring 6.25 million ordinary shares in the company. On June 15, 2011 IAMGOLD purchased a further 5,000,000 ordinary shares from the Fern Trust. On October 12, 2011 IAMGOLD purchased a further 3,940,000 ordinary shares from the Fern Trust, and if IAMGOLD were to exercise its current holding of Avnel warrants it would own approximately 13.95% of the outstanding common shares.

On August 5, 2010, the Company completed a private placement (the "2010 Private Placement") of 13,025,000 units (the” Units”) of Avnel at a price of C$0.20 per Unit. Each Unit consisted of one ordinary share of Avnel and one-half of one ordinary share purchase warrant (each whole warrant a "Warrant"). Each Warrant entitles the holder to purchase one ordinary share of Avnel at a price of C$0.35, at any time for a period of 36 months from the date of issue of the Warrants. Dundee Securities Corporation was the lead agent for the 2010 Private Placement which also included Haywood Securities Inc. and PI Financial Corp (the “Agents”). The gross proceeds of the 2010 Private Placement were C$2,605,000. Concurrently with the closing of the Private Placement, Avnel equitised all of its outstanding indebtedness, provided by its related parties Elliott and the Fern Trust, through the issuance of 71,492,382 Units to the holders of such indebtedness at the price per unit under the 2010 Private Placement. On August 10, 2010 IAMGOLD paid the second Kalana Joint Venture option fee of $1,000,000.

On March 31, 2011, the Company completed a 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 2011 Private Placement were C$10,000,000 and Avnel intends to use these proceeds for general corporate purposes.

These transactions extinguished all of Avnel's debt and provided the Company with debt-free balance sheet to continue working with IAMGOLD to advance the Company's goal of fully exploring the upside potential at its Kalana Gold mine and Permit.

Avnel’s strategic objective, through SOMIKA, is to commercially exploit underground reserves at the Kalana Gold Mine, whilst exploring for commercially viable opportunities for the exploitation of a bulk mineable deposit.

Kalana Main Project

The objective of the Kalana Main Project is to (i) capture the very large geological database generated in paper form by SONAREM into a digital database, and (ii) re-interpret that data to assess the potential for gold mineralization outside of the flat dipping quartz vein structures mapped and assayed by SONAREM and SOGEMORK and (iii) optimise a future drill program to enhance the existing mineral resource base. These quartz vein structures host substantially all of the Kalana Gold Mine’s mineral resources, reported in the National Instrument 43-101 compliant 2005 Snowden Technical Report filed on SEDAR. Avnel has continued underground exploration by development and diamond drilling and this data will be included in the database. Underground mining has exposed numerous

quartz vein, stockworks and mineralization in the metasediments that had not been incorporated by SONAREM and SOGEMORK into their geological model of the deposit.

The SONAREM and SOGEMORK exploration in its first and most substantive phase aimed at establishing a high grade free milling gravity gold recoverable underground mine targeting a set of stacked, flatly dipping quartz veins that occur in and around a diorite stock. This has a number of implications in terms of the Russian exploration methodology, being:

- As the target was perceived by SONAREM and SOGEMORK to consist of flatly dipping veins, more than 98% of their drilling was vertical or sub-vertical. The joint venture between Ashanti Gold Fields Ltd. ("Ashanti") and Johannesburg Consolidated Investments Ltd. which studied the mine between 1995 and 1996 and the surrounding area also drilled predominantly vertical holes.

- With SONAREM and SOGEMORK's perception that only the high grade free milling quartz veins could be profitably mined, they analysed the quartz veins and their immediate hanging and foot walls with the result that only a portion of the core was analysed and incorporated into their geological model.

- All drilling by SONAREM and SOGEMORK was core drilling but the core was not kept, although it was meticulously logged. Ashanti drilled two twin holes (one vertical and one inclined) which had good correlation with the SONAREM and SOGEMORK holes that they twinned.

- As SONAREM and SOGEMORK were only targeting free milling gold, they neglected the oxide cap (except for the Kalana I pit) and the potential for mineralization in the wallrocks with disseminated sulphides, stockworks and other quartz vein structures.

The focus of the Kalana Main Project is to expand the NI 43-101 Compliant Mineral Resource through exploration by drilling and underground development, leading to the potential for bulk mining by both surface and underground mining. The major portion of the reported Mineral Resources lies in several discrete, flat dipping quartz veins within a constrained footprint of 600m by 700m. This Resource can be expanded by increasing the footprint to the west and east of the constraining faults by additional development and drilling in areas where SOGEMORK had drilled a limited number of holes. The resource can also be expanded by the inclusion of lower grade quartz veinlets and stockworks located between the flat dipping veins, that have been exposed by underground development and drilling. This will lead to wider mineralised packages suitable for bulk mining. The potential for steep dipping quartz veins had been identified by SOGEMORK but was not included in the Mineral Resource. Development and drilling has confirmed there is potential to include these in future Mineral Resources. A zone of disseminated gold mineralisation is located to the west and north-west of the diorite stock in the central and northern side of the main Kalana deposit. This zone is related to steeply dipping faults and shears. This type of gold mineralisation is lower grade and does not form part of the Kalana Gold Mine resource. The potential extension of these disseminated zones has been observed in underground development and drilling.

A priority objective under the IAMGOLD Joint Venture is the Kalana Main Project together with prospective targets in the immediate vicinity of the Kalana Gold Mine.

Classified Mineral Resource Estimates from the Company

2004 Classified Mineral Resource Estimates from Snowden

In July 2004, Snowden undertook a review of the Kalana Gold Mine resource estimate completed by Snowden in 1997. The June 2004 resource estimate is presented in accordance with National Instrument 43-101 and set out in detail in the 2005 Snowden Technical Report. The resource was classified as follows:

- *Measured resources*. Where the quartz veins have been opened by mining (Veins 1 and 3) and face sampling is available for grade and thickness estimation, grade and tonnage can be estimated with a high level of confidence. Geological and grade continuity is confirmed;

- *Indicated resources.* The drill spacing by SOGEMORK is generally about 50 m by 50 m and Snowden considers this close spacing to be adequate to estimate grade, thickness and tonnage with a reasonable level of confidence for this type of deposit (Veins 1, 3, and 14 to 21). Continuity of mineralization, grade and structure is assumed; and

- *Inferred resources.* The two deep veins (Veins 22 and 23), plus the stockwork from 240 m to 265 m has a drillhole spacing greater than 75 m by 75 m, as the majority of the drilling has stopped short, and are classified as inferred resources. The tonnage and grade are estimated at a low level of confidence, and the geological and grade continuity are inferred.

The classified mineral resource for measured and indicated categories for 2004 is summarized in the tables below.

Table 1: Kalana Gold Mine Measured and Indicated Resource — June 2004

Category	Zone	Tonnes	Au (g/t)	Au (1000 oz)
Underground				
Measured	Veins (1 and 3)	111,800	19.6	70
Indicated	Veins (1, 3, 14 to 21) and Stockwork	1,828,200	12.7	744
Total Underground		**1,940,000**	**13.1**	**814**
Open Pit				
Indicated	Veins (1, 2, 3, 18 and 19) and Stockwork	863,600	6.8	190
Total Open Pit		**863,600**	**6.8**	**190**
Total Tailings and Sand Stockpiles		**243,800**	**2.0**	**16**
Total Underground, Open Pit And Tailings		**3,047,400**	**10.4**	**1,020**

Table 2: Kalana Gold Mine Inferred Resource — June 2004

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

Category	Tonnes	Au (g/t)	Au (1000 oz)
Measured	355,600	7.5	86
Indicated	2,691,800	10.8	934
Total Measured plus Indicated	**3,047,400**	**10.4**	**1,020**
Inferred	2,261,000	3.4	249

The Snowden resource has not been materially depleted by mining. Approximately 150,000 ounces have been mined from underground to the end 2011.

2010 Classified Mineral Reserve Estimates from the Company

The Company has classified the mineral reserves in two areas. The first is the reserves that can be mined from the existing infrastructure down to the 180m elevation. The second area is the reserves that can be mined from the mineral resources between the 180m and 300m elevations.

As described in this MD&A, the Company has decided to optimize the potential of the Kalana Gold Mine and its environs by further exploration drilling that may lead to a large, bulk mining operation. Underground development and diamond drilling has shown that gold mineralization occurs outside of the narrow, high grade quartz veins that make up the majority of the underground mineral resources as defined in 2004 by Snowden as described in the 2005 Snowden Technical Report. The Kalana Main Project seeks to evaluate this potential to increase mineral resources to enhance the economics of the Kalana Gold Mine.

The classified mineral reserves for proved and probable reserves as of December 2011 for underground mineralization, as prepared by the Company, is summarized in the table below and are presented in accordance with the standards prescribed in National Instrument 43-101 and were prepared under the supervision of Roy Meade, an Executive Director of the Company, and a "Qualified Person" as defined in National Instrument 43-101.

Table 3: Kalana Gold Mine Classified Reserve Estimate – December 2011

Category	Tonnes	Grade	Contained Ozs	% Recovery	Recovered Ozs
Existing Infrastructure					
Proven-underground	Nil	Nil	Nil	Nil	Nil
Probable-underground	66,000	6.8	14,000	84	12,000
Sub Total	66,000	6.8	14,000	84	12,000
180-300m elevation					
Probable	351,000	15.4	174,000	86	149,000
Total	**417,000**	**13.6**	**188,000**	**86**	**161,000**

The differences from the 2005 Snowden Technical Report estimate of the Kalana Gold Mine Total Reserve compared to the above are mainly due to depletion of reserves by mining.

The 2012 mine plan is based on a planning reserve of 66,000 tonnes at a grade of 6.8g/t containing 12,000 ounces. These planning reserves are included in the table above as they have been exposed by development in 2011 and are within 20 metres of current mining operations

Exploration

SOMIKA

PROJECT MILESTONES ACHIEVED

2011 Exploration

The report below is an update for the work programme on its 80% owned 387.4 km^2 Kalana exploitation permit in Mali conducted by IAMGOLD Corporation ("IAMGOLD") as operator of the exploration venture.

PROJECT MILESTONES ACHIEVED

- Over 93,000 metres of diamond and RC drilling has been completed to the end of 2011. The 2011 work program aimed to complete 35,000 metres of diamond and RC drilling with a total budget of $8.0 million. This was exceeded with nearly 58,000 metres drilled and expenditure of $13 million.

Location/Drill hole type		**2010**	**2011**	**Project Total to end of 2011**
Kalana Diamond drilling	Metres	**12,361**	**22,908**	**35,269**
Kalana RC drilling	Metres	**10,040**	**23,942**	**33,982**
Kalanako Diamond drilling	Metres	**0**	**7,402**	**7,402**
Kalanako RC drilling	Metres	**12,076**	**3,474**	**15,550**
TOTAL	Metres	**34,477**	**57,726**	**92,203**
Expenditure	US$	**6,400,000**	**12,954,000**	**19,354,000**

- 46,000 assays have been received from the 58,000 metres drilled in 2011.
- The main objective in 2012 is to complete fences of drill holes on a nominal 50m by 25m across the Kalana 1 North domain, Kalana 1 South domain and Kalana II domain to enable geological cross sections to be generated and a resource study to be completed by IAMGOLD during the third quarter of 2012.
- IAMGOLD has proposed a budget of 60,000 metres at a cost of US$12.5 million for 2012. The majority of the drill metres will be at Kalana, but drilling is also planned at the Djirila discovery that was drilled in 2007/08 by Avnel (see Avnel's press release dated 8/08/2005 and 19/04/2006 reporting excellent drill results, posted on Avnel's website).

Results to December 31, 2011

Avnel issued press releases on its Kalana exploration project on January 31, 2011, February 22, 2011, May 26, 2011 October 11, 2011 and March 12, 2012. Assay results and drill collar co-ordinates are reported in these press releases posted on Avnel's website www.avnelgold.com

The Kalana mine area is geologically defined by three structural domains based on the dip and strike of the quartz veins. These domains are known as Kalana I North, Kalana I South and Kalana II, all located in the immediate vicinity of the current mine operations. Within these domains, the predominant strike and direction of quartz vein packages varies. In Kalana 1 North veins are dipping predominately south. In the Kalana I South domain the predominant dip direction is east and can be projected south east into Kalana II

KALANA I NORTH

Assay results from fifty six diamond drill holes and twenty three RC holes reported show that a mineralised zone, running 400m north of No 2 Shaft and extending over an east west strike of 278 metres, has significant mineralised packages with potential for bulk mining to at least 150 metres below surface.

Kalana 1 North has been drilled systematically over six north-south sections and three east-west sections. Fifty six diamond drill holes have intersected mineralised zones of varying width and grade. Forty seven holes were drilled at a sixty degree angle from south to north at fifty metres between drill hole collars to intersect the predominantly north-south plunging vein structures. Nine diamond drill holes were drilled at sixty degree angle from east to west at approximately 100m between drill hole collars. The surface area covered by the drill sections is 278m (east-west) by 400m (north-south).

A RC drilling campaign commenced in the fourth quarter of 2011 to infill between the diamond drill holes to a programmed hole depth of 150m to 200m. This campaign is expected to be completed in the first half of 2012. This will provide information from drill holes spaced 25 metres apart along the north–south drill lines that are approximately spaced at 50 metres apart.

Thirteen RC drill holes have been drilled at sixty degree angle from south to north to an average depth of 120 metres. Twelve holes were drilled in the fourth quarter of 2012 on three drill lines. In 2010 ten RC drill holes were drilled at sixty degree angle from east to west.

Assay results have been received for all fifty six diamond drill holes and twenty three RC holes. Assay results are available at www.avnelgold .com.

Geological modeling is in progress and should be complete in the second quarter of 2012. Extensive RC drilling in the first quarter 2012 will provide additional data to a depth of at least 150m. The model will be used for mineral resource estimate in the second half of 2012.

Results to date indicate that both gold grades and mineralised thicknesses tend to decrease from the main intrusive diorite going north. Mineralisation is generally associated with quartz veins and stockworks.

Recent diamond drilling (DD103 and DD104) and RC drilling (RC240 to RC250) shown in Avnel's press release dated March 12, 2012, has shown that the mineralisation identified by diamond drilling in 2010 does continue west of the main diorite intrusive for approximately 100 metres. Encouraging grades and mineralised widths are reported between the surface and 150 metres. These recent assay results enhance the grade and mineralised widths reported from the 100m spaced diamond drill holes in 2010. This improvement is a function of, inter-alia, closer drill hole spacing.

The mineralised packages continue 180 metres east to a depth of 150 metres below surface (DD084 and DD086). The thicknesses and grade of the north-south dipping mineralisation packages start to decrease going further east (DD088C and DD090) shown in Avnel's press release dated March 12, 2012,

To a depth of 150 metres, drilling has now extended mineralisation 250 metres north of number two shaft (DD089B and DD043). As the mineralisation is associated with veins dipping from north to south, these packages extend up dip to the north towards surface for another 150 metres, 400m north of two shaft (DD036, DD037 and DD038 drilled in 2010) shown in Avnel's press release dated March 12, 2012,.

Below 150m from surface, mineralised packages have been identified by the 2010/2011 diamond drill program. One of these packages, Vein 20, is currently being mined with grades in excess of 10g/t over a 1m width. The diamond drill holes continue to intersect a number of veins within the package. This mined area was intersected by DD043, DD057, DD060 and DD044. The grades reported from these holes are significantly lower than those now being mined.

Underground mining and diamond drill holes have exposed a mineralised domain of vertical veins associated with flat vein structures in the northwest area. This domain has potential to be included in a mineral resource but requires more drilling and underground development during 2012.

RC drill holes east of the diorite intrusive have intersected mineralised zones dipping from west to east and are extensions of the veins in Kalana 1 South. These RC holes were drilled from east to west at an inclination of sixty degrees

During the first half of 2012, forty two RC drill holes are planned to infill the existing drill lines. This will provide intersections at 25 metres between drill collars within the 180m by 250m area discussed above. Holes are planned to be drilled to a minimum of 150 metres and possibly as much as 200 metres. Three RC holes will test the extent of mineralisation to the west of the current boundary drill line.

On the north eastern boundary of Kalana 1 North, the potential for steep, vertical vein packages was tested by two RC drill lines spaced 50m apart. Drill holes were drilled from east to west at sixty degree inclination. Assay results indicate mineralisation that will be further tested by drilling planned in 2012.

KALANA I SOUTH

The diamond drill and RC assay results continue to demonstrate the potential for an open pit in the Kalana 1 South domain, running east-west over 600m and with a north-south strike of 250m to 350m to a depth of 120m.

Kalana 1 South has been drilled systematically over eleven east-west sections and five north-south sections. These drill sections are spaced at 50 metres. Forty seven diamond drill holes have intersected mineralised zones of varying thicknesses and grade. Thirty five holes were drilled at a sixty degree angle from east to west at fifty metres between drill hole collars to intersect the predominantly west-east plunging vein structures. Twelve diamond drill holes were drilled at sixty degree angle from south to north at approximately 100m between drill hole collars. These holes passed through the east-west dipping mineralised zones and continued north into the Kalana 1 North domain.

Assay results have been received for forty seven diamond drill holes. Recent assay results for DD087 and DD088C are shown in Avnel's press release dated March 12, 2012 on www.avnelgold.com.

Seventy seven RC drill holes have been drilled over eleven east-west sections and assay results have been received for all these holes. The RC drill holes were oriented at between fifty five and sixty degrees angle from east to west, mainly to a depth of 100m along the drill hole. Some holes were extended to 150m. Drill collars are approximately 50m between holes. Recent assay results are shown in Avnel's press release dated March 12, 2012 for holes drilled in the second half 2011.

The surface area covered by the drill sections is 540m (east-west) by 500m (north-south). During the fourth quarter of 2011 the drill area was extended north where the current mine infrastructure is located. The drill assay results showed the main mineralised vein structures extending 150m north.

Diamond and RC drill hole results from the 2010 and 2011 campaigns have shown a number of mineralised zones associated with major quartz veins (1, 3, 10, 20C and Savane). Between these major mineralised zones the model shows other mineralised zones. The recent RC drill assay results have provided additional data that is being modeled. Assay results include high grades that would be expected as Veins 1 and 3 have been mined underground between 2004 and 2007. The average mined grade of Vein 1 was in excess of 20g/t over 1.8m mining width.

During the first half of 2012, fifty nine RC holes are planned to infill existing lines to a drill spacing of 25m. The drill holes are planned to a minimum depth of 150m but if possible to 200m.
During the first half of 2012, sixteen diamond drill holes are planned to infill existing drill lines targeting Vein 20C and other mineralised packages below 200m depth. These drill holes will provide additional information of the mineralised packages between surface and 200m depth.

KALANA II

The results confirm the existence of an extensive mineralised zone down to 100m below surface over a surface area of 350m by 250m.

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

Assay results have been received for eleven of the sixteen diamond drill holes. Results are shown at www.avnelgold.com.

Forty seven RC drill holes have been drilled over seven east-west sections and assay results have been received for forty seven drill holes. The RC drill holes are drilled at between fifty five and sixty degrees angle from east to west to a depth of 100m to 130m along the drill hole. Drill collars are approximately 100m between holes. Eighty five RC drill holes have been drilled over eight north-south sections and assay results have been received for sixty eight drill holes. The RC drill holes are drilled at between fifty five and sixty degrees angle from south to north to a depth of 100m to 130m along the drill hole. Drill collars are approximately 50m between holes on the thirteen drill lines.

The surface area covered by the drill sections is 350m (east-west) by 400m (north-south).

Geological interpretation and modelling is in progress. Preliminary interpretation indicates the presence of two mineralised packages (named Savana and Superette) dipping from surface to the east. Gold mineralisation exists outside these two packages but has still to be modelled but is located along the boundary of the east –west diorite.

Recent assay results are reported at www.avnelgold.com.

During 2012, five RC drill holes and five diamond drill holes are planned at Kalana II. These holes will assist the geological modeling and resource estimation.

KALANAKO

Kalanako is located three kilometres north east of Kalana. Two mineralised trends, with strike lengths of 500m and 250m, have been established from the RC drill assay results. Mineralisation remains open at depth

During 2010, 138 RC drill holes, totalling 14,460m were completed at Kalanako. Holes were drilled to an average of 105m hole length at an inclination of 55 degrees. Hole collars were spaced 50m apart. Assay results have been received and previously reported for 138 holes. In the fourth quarter of 2011, 3,741 metres of RC drill holes were completed and assay results are pending. Twenty five diamond drill holes were completed at Kalanako. Holes are drilled from east to west at an inclination of sixty degrees. Diamond drill assay results have been received for 14 holes. Results are reported at www.avnelgold.com.

The diamond drill holes will provide geological information to assist the interpretation of the mineralised zones identified by the 2010 RC drill hole program.

The depth of saprolite and saprock is approximately 150 metres, much deeper than that observed at Kalana. Diamond drilling at Kalanako displays numerous high strain zones (shearing and folding), packets of dense laminated quartz vein with sulfides and locally, highly altered and mineralized dioritic intrusives. Mineralisation is associated with these felsic intrusive rocks that intrude NW-SE striking shear zones. Diamond drill results to date show generally low grades over narrow widths.

Assaying

The assay turnaround is slower than planned due to work backlog and a sampling protocol that requires a full half core to be sample prepped. Approximately 9,000 samples from the 2011 drill program (58,000 metres) that have been sent to the SGS laboratory in Bamako that were outstanding have now been received.
The planned increase in drill metres and samples during 2012 has been discussed with SGS who are increasing the sample preparation capacity at Kalana and constructing a new fire assay facility at Bamako

Resource Study

The program to date has made significant progress in constructing a detailed and predictive geological model. The drilling completed in 2011 and the drill program in the first quarter of 2012 is designed to provide information for IAMGOLD to generate a resource estimate planned for the third quarter of 2012.

Historically diamond drilling at the Kalana Mine has underestimated the grades of the mineralised packages actually mined. This under evaluation is common to high grade quartz vein mines where the nugget effect is significant. Recent underground development by Avnel of Vein 20 has again shown that drill hole results underestimate gold grades mined. As part of the resource study it is planned to study the nugget effect at the Kalana Mine using historic data and assess what additional methodology can be applied to the sample and assaying protocols. Approximately 1,000 samples are being prepared to be sent to SGS Laboratory in Ouagadougou, Burkina Faso, for assaying using the Leachwell assay methodology. These one kilogram samples are from mineralised drill hole sample rejects that have been already fire assayed using a 50 gram aliquot sample. Results have been received and are being reviewed.

Metallurgical test work has commenced with 7 samples from two RC holes and underground samples (weighing 50-70kgs per sample) to Lakefield Laboratories in Canada. Results show that gold recovery of 95% plus can be achieved with normal industry cyanide consumption and leach time.

Avnel continues to operate the underground mine exploiting quartz veins by narrow stope mining and gravity gold recovery. This continues to produce data that is helpful to evaluate the nugget effect. In addition Avnel is excavating exploration raises (including twinning diamond drill holes) and drifts (a total of 615 metres completed in 2011) for and at IAMGOLD's expense. Samples from these raises were collected and sent to SGS laboratory for fire assay. Results are now being received and analysed.

QAQC

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

RC samples are prepared at the Kalana mine site. The cuttings are sampled in one-metre intervals, at a rate of six samples per drill rod. Individual samples are collected at the rig and transported to the mine site for air drying in pans as required (mostly for samples from the lower parts of the RC holes). The samples are weighed at the drill rig.

The dried samples are split in a large riffle to produce a sub-sample of nominal 2.5 kg for subsequent assaying. Chip boards, washed samples for logging, and pan concentrates for the observation of any free gold are also prepared. These activities are carried out by IAMGOLD personnel to industry standards.

The 2.5-kg sub-sample is taken to the SGS preparation laboratory. The sub-sample is weighed by SGS personnel and recorded. The entire sub-sample of nominally 2.5 kg is crushed to 2 mm and pulverized to a nominal 85% passing 75µ. A sub-sample of nominally 200 g is taken from the pulverized material and placed in a Kraft paper bag

for transport to the analytical laboratory. Since October 2010 the 200g sub sample has been collected by riffle splitting to avoid possible segregation of heavy gold particles after pulverisation.

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

Looking Forward

IAMGOLD expects to substantially complete the drill programs at Kalana and Kalanako in the first half of 2012 to generate the data necessary to prepare a NI 43-101compliant Resource Study planned for 2012. The objective is to define a minimum resource of 2 million ounces which would entitle IAMGOLD to obtain 51% of the project if it commits to the carrying out of a feasibility study under an agreed work program.

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

Technical information 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.

Fougadian Exploration Permit

On October 17, 2006, Avnel was awarded the Fougadian Exploration Permit which lies south of the Kalana Permit. The Fougadian Exploration Permit covers an area of 150 square kilometres including a portion of the Niessoumala exploration area. The permit was awarded in accordance with the 1999 Mining Code and a foundation agreement (the "Foundation Agreement") was signed between Avnel Mali, a 100% wholly-owned subsidiary of Avnel, and the Government of the Republic of Mali. The Foundation Agreement provides for the exploration and exploitation of Group 2 minerals as defined in the 1999 Mineral Code. Group 2 minerals include gold and silver, and base metals, but exclude precious stones, semi-precious stones and fossils.

Avnel applied for a renewal of the Fougadian Exploration Permit and this was granted in March 2010. Avnel has specified a new area of 75 sq. km as required by the Malian Code. This area lies in the northern half of the original permit and includes the largest anomaly Avnel 1. The renewal is for 3 years and Avnel has committed to expenditures of $1.9 million over this period.

The 2008 drill program was focused on the Avnel-1 gold-in-soil geochemical anomaly that the Company believes is the largest and the most important in terms of gold and arsenic values on the Fougadian Exploration Permit. The anomaly is defined by an area where values generally exceed 32ppb Au and attain a maximum of 1731ppb Au. It extends for almost 4km in an N-S direction and for 1.5km in an E-W direction.

Two diamond drill holes were completed to a depth of 190 metres in order to provide information on the bedrock structure that can be used to optimise the orientation of the RC drilling programme. 48 inclined RC drill holes totalling 5422 metres were completed on a grid pattern during the second quarter, covering only a small portion of the Avnel 1 anomaly. The holes were drilled in a heel-to-toe fashion to ensure complete coverage across the width of the anomaly. As the budget was inadequate to fully test this large anomaly, the holes were drilled along pairs of lines spaced 200m apart, one pair in the north and a second pair 800m further to the south. Because of encouraging geological indications, an additional three holes were drilled to the south of the latter set of lines. In summary, out of the 50 holes drilled 15 (30%) intersected values above 1g/t Au. An airborne geophysics study was completed in the fourth quarter of 2009. The study covered the total Fougadian Exploration Permit. The study generated new information on magnetic, radiometric and topographic data. The Company believes that the study will improve the quality of previous surveys as the line spacing 50m and height flown 25m is superior to previous work

On December 6, 2010, the Company announced that it had entered into a joint venture arrangements agreement (the "Joint Venture Arrangements Agreement") whereby IAMGOLD has the option to acquire up to an initial 51%

interest in Avnel's 90% interest in the Fougadian Exploration Permit. The Fougadian Permit held by Avnel previously comprised 150 sq. km. to the south of and abutting the Kalana Exploitation Permit. Avnel relinquished the southern half of its ground in accordance with the Malian Mining Code and was granted a new exploration licence on the northern half on March 23, 2010. IAMGOLD has applied for an exploration permit in respect of the southern 75 sq. km and this is expected to be granted shortly. The combined permits are referred to as the "Fougadian Exploration Permit".

Under the terms of the Joint Venture Arrangements Agreement, IAMGOLD will fully fund and satisfy the expenditure requirements of the Fougadian Exploration Permit and, upon establishing a qualifying mineral resource of not less than 250,000 oz of gold, may earn a 51% interest (of Avnel's 90% interest) in the permit. Upon delivery of a pre-feasibility study, IAMGOLD will be entitled to increase its interest to 65%. After delivery of a feasibility study, IAMGOLD will undertake to procure or provide project financing to develop a mining operation.

During the first half 2011, approximately 12,300 termite mound samples were collected and submitted for sample preparation at the Kalana SGS sample preparation laboratory. The prepared samples were submitted to SGS fire assay laboratory in Kayes. 13,826 assay results, including 1,388 QAQC samples have been received and validated. The termite mound sampling has shown there is a strong correlation between gold and arsenic values. These anomalies correlate with the geophysical structures identified by the airborne geophysics study.

The gold values obtained on the "Avnel 1" anomaly, now called the Maramele anomaly, are the highest seen on both Fougadian and SOMIKA permits. The Maramele gold anomaly runs four kilometres north-south and up to two kilometres east-west. Current interpretation is there are a number of mineralised zones running north south within the two kilometre wide anomaly. The 2012 RC drill campaign will test this interpretation as well as other gold anomalies on the Fougadian South Permit.

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The establishment of an exploration camp commenced during 2011 and is expected to be operational in 2012. Expenditure totaled $1.05 million during 2011.

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

	2011	2010
Metal Revenue	14,654	13,709
Other Revenue	-	1,000
Total Revenue	14,654	14,709
Total Expenses	17,246	16,723
Other Expense	2,285	4,789
Net Loss	(4,879)	(6,803)
Net Loss Attributable to parent	(4,705)	(4,429)
Loss per share	$(0.025)	$(0.038)
Weighted average shares outstanding	185,554,007	116,150,355
Balance Sheet		
Working Capital surplus	12,058	3,835
Total Assets	31,726	25,593
Shareholders' Equity	24,515	21,677

Results of Operations

Metal revenues increased to $14,654,000 in the year to December 31, 2011 from $13,709,000 in 2010. This was as a result of a decrease in gold ounces sold from 11,227 ounces in the year to December 2010 to 9,283 ounces in 2011 more than offset by the increase in the realised average sales price of gold from $1,218 per ounce in 2010 to $1,573 per ounce in 2011. Other revenues in 2010 included a $1,000,000 by IAMGOLD pursuant to the Option Agreement.

Avnel recorded a net loss of $4,879,000 ($0.025 attributable loss per share) for the year ended December 31, 2011 compared to a net loss of $6,803,000 ($0.038 attributable loss per share) in the comparative period in 2010. Included in 2011, is an accounting finance loss on the fair value of derivative financial instruments of $1,647,000 compared to $3,882,000 in 2010. These fair value accounting losses reported have no cash effect on the Company.

As compared to the balance sheet as at December 31, 2010, Avnel's cash and cash equivalents as at December 31, 2011 increased by $7,265,000 from $2,106,000 to $9,371,000. This increase was due to the 2011 Private Placement, the net proceeds of which $9,749,000, were received in April 2011.

There was a working capital surplus of $12,058,000 as at December 30, 2011 compared to working capital surplus of $3,835,000 as at December 31, 2010. The increase working capital surplus resulted from the 2011 Private Placement. The working capital figures reported exclude the other derivative financial liability reported on the Company's balance sheet which has no cash liability to the Company

Total assets increased from $25,593,000 as at December 31, 2010 to $31,726,000 at December 31, 2011 due mainly to the 2011 Private Placement.

Total stockholders' equity also increased to $24,515,000 as at December 31, 2011 from $21,677,000 at December 31, 2010. This was due to the 2011 Private Placement. The retained deficit increased by $4,325,000 as a result of the net loss made in the year to December 31, 2011.

Mining Operations

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

	2011	2010
Tonnes milled:		
Underground ore	47,546	50,238
Total	47,546	50,238
Gold grade - grams per tonne (g/t):		
Underground ore	7.2	7.7
Total	7.2	7.7
Recovery rate - %	84.6	86.1
Gold production - ounces	9,550	10,727
Cost per tonne milled - $ per tonne	261	235
Operating cost per ounce of gold sold - $ per ounce	1,280	1,073
Operating cost per ounce of gold produced - $ per ounce	1,297	1,103

Tonnes milled in 2011 were 5% lower than achieved in 2010. Gold production at 9,550 ounces in 2011 was 11% lower than 2010 resulting from the lower tonnes milled together with the reduced head grade of 7.2g/t in 2011

compared to 7.7g/t in 2010. Both tonnes milled and ounces produced exceeded the 2011 plan due to increased ore availability and higher gold price allowing lower grade stopes to be mined.

Gold recovery in 2011 decreased slightly to 84.6% from 86.1% in 2010 due to lower head grades.

Mine development totalled 1,658 metres in 2011 compared to 1,216 metres in 2010 and was 554 metres ahead of the mine plan. Ore development increased to 817 metres in 2011 from 696 metres in 2010. Ore development focused on exposing Vein 20 mining area with positive results. The vein was exposed west of a fault where no vein was expected. To access Vein 20 down to the 210m elevation, an ore winze was advanced and a second access winze developed from 180m level. This second access winze intersected Vein 20 in the fourth quarter of 2011, and will be utilised for mining during 2012.

Exploration development advanced 615 metres in 2011, as raises were mined to expose the mineralised package adjacent to Vein 17, Vein 18 and Vein 18C. The raises are adjacent to diamond drill holes recently completed by IAMGOLD.

Gold Sales

Gold sales data is as follows:

		2011	2010
Gold ounces sold	- at spot price	9,283	11,227
	- total	9,283	11,227
Average realized gold price per ounce	- at spot price	1,573.29	1,218.31
Metal revenue - $000			
Total gold sales		14,606	13,677
Silver sales		48	32
Metal revenue		14,654	13,709

Gold spot prices commenced in 2011 at $1,388 per ounce and ended at December 31, 2011 at $1,531 per ounce, with the London PM Fix averaging $1,569 per ounce during the year.

Summary of Quarterly Results

Consolidated Statement of Operations for the Quarters Ended

The following quarter end results have been restated to account for the conversion of the accounts to IFRS.

Quarter ended **(US$'000)**	**Dec 31 2011**	**Sept 30 2011**	**June 30 2011**	**Mar 31 2011**	**Dec 31 2010**	**Sep 30 2010**	**June 30 2010**	**Mar 31 2010**
Revenue	$3,383	$4,855	$3,918	$2,498	$3,138	$3,988	$4,001	$3,582
Net (loss)/income	$(891)	$5,168	$(739)	$(8,417)	$(1,012)	$(1,441)	$(1,814)	$(2,536)
Attributable(loss)/income	$(1,448)	$4,601	$(620)	$(7,238)	$(690)	$(418)	$(2,638)	$(683)
(Loss)/income per share	$(0.008)	$0.024	$(0.003)	$(0.043)	$(0.004)	($0.003)	$(0.032)	$(0.008)

Fourth Quarter Results

Fourth quarter revenues of $3,383,000 increased by 8% compared to revenue of $3,138,000 in the fourth quarter of 2010. This was due mainly to decreased gold sales which were more than offset by higher realised gold prices.
The net loss for the quarter of $891,000 decreased slightly compared to a loss of $1,012,000 in the fourth quarter of 2010 due mainly to increased gold prices achieved in the quarter.

Operating cost of sales for the fourth quarter of 2011 remained at $4,428,000 compared with the comparative period in 2010. Cash operating cost of $260 per tonne milled in the fourth quarter of 2011 decreased from $263 per tonne. Cash operating cost per ounce produced of $1,454 per ounce in the fourth quarter of 2011 increased from $1,419 per ounce in 2010.

Cash and cash equivalents decreased in the quarter by $884,000 to $9,371,000 from $10,255,000.

Liquidity, Capital Resources and Going Concern

On March 31, 2011, the Company completed a private placement (the "2011 Private Placement") of 25,000,000 units of Avnel (the "Units") at a price of C$0.40 per Unit. 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. 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.

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 is currently in the middle of a significant exploration programme being performed by IAMGOLD under the terms of the August 2009 Option Agreement. The Company intends to sustain the current underground operation as long as economically feasible, without spending significant capital expenditure, until such time as the results of this exploration are completed and assessed to enable the Company to better evaluate future development options for the mine. Until this work is completed and a suitable development plan is identified, output from the mine will continue to be constrained.

Contractual Obligations

The Company has the following contractual obligations at December 31, 2011:

Contractual Obligations - $000	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating Leases (1,2)	68	68	-	-	-
Total Contractual Obligations	68	68	-	-	-

Notes:

(1) The Company has entered into operating leases for office space and equipment with a company related to the Fern Trust, a major shareholder of the Company. Pursuant to these leases which expire in June 2012, future minimum payments will amount to $64,000 up until the end of the lease.

(2) The Company has entered into an operating lease for an office building in Bamako, Mali. The lease expires on June 30, 2012. The remaining commitment as at December 31, 2011 is $4,000.

Contingent Liability

Malian Taxation

The three year period Malian tax audit on SOMIKA for the years ended 2005, 2006 and 2007 was carried out during 2008 and resulted in a report received in November 2008 from the tax inspector disputing various tax items including tax allowances on interest, withholding tax on foreign suppliers and VAT exemption. Management took internal and external advice on these issues and held discussions with all parties involved. This resulted in a tax assessment in May 2009 of $210,000 and penalties of $220,000 for the period. The Company paid the tax assessment in October 2009 and believes that it has been relieved of the associated penalties.

In December 2009, the Company received a notice of outstanding payroll taxes of $210,000, VAT of $280,000 and penalties and interest of $640,000 totalling $1.13 million.

Management have held further discussions with the Malian tax authorities and, after paying a further $210,000 in December 2009, believe that this contingent liability is fully covered on the basis that recoverable VAT and customs duties can be offset against this liability and therefore believe that no material tax liability exists at the balance sheet date.

Malian Labour Tribunal

On December 27, 2010 the Bamako Labour Tribunal announced a verbal decision to grant a claim in favour of SOMIKA's employees retrenched in 2009 valued at $231,000. This was followed by a written judgement in February 2011 stating that the correct legal procedures were not followed on the retrenchment. The Company and its legal advisors strongly disputed the decision and considered that all legal processes were followed by the Company. The Company lodged an appeal against the decision which was upheld in January 2012.

Mining Properties

The carrying value of the Company's property, plant and equipment, including mining properties and capitalised mine development costs, at December 31, 2011 was $17.7 million and at December 31, 2010 was $19.7 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, 2011, 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. This is supported by recent external indicators of market value for the Kalana Gold Mine, if it were offered for sale.

By their very nature, there can be no assurance that these estimates will actually be reflected in the future operations. The ultimate recoverability of amounts of mining properties and capitalized development costs is dependent upon, amongst other things, obtaining the necessary financing to develop the Kalana Mine.

Related Party Transactions

SOMIKA purchases explosives from African Explosives Limited ("AEL"). Mr. Ibrahim Kantao is a director of the Company, SOMIKA and AEL and is also the Director-General of AEL Mali SARL. Such purchases amounted to $662,000 in the quarter ended December 31, 2011. The Company has an ongoing supply agreement with AEL Mali SARL.

The premises occupied by Avnel and Kalana Mine Services in London are leased from a company associated with the Fern Trust, a major shareholder. The Company incurred $132,000 in rental costs during the year ended December 31, 2011. The Company's lease expires in June 2012.

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.

	2011	**2010**
	$'000	**$'000**
Wages and salaries	992	681
Directors' fees	89	73
	1,081	754

Key Management's interest in the Long Term Incentive Plan (LTIP)

Share options held by the Company's LTIP to purchase ordinary shares have the following expiry dates and exercise prices:

Issue Date	Expiry date	Exercise price	Number outstanding 2011	Number outstanding 2010
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	-
15/11/11	15/11/2021	C$0.60	1,500,000	-
Total			4,524,000	2,524,000

Share options held by 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 2011	Number outstanding 2010
23/02/05	23/02/2013	US$0.275	2,500,000	2,500,000
Total			2,500,000	2,500,000

Business Risks

The risks associated with Avnel and the effect on future operating results and financial position of the Company are set out in detail under the section entitled "Risk Factors" in the Company's Annual Information Form dated March 29, 2012 (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, 2011, have been presented on the basis that the Company is a going concern. Accordingly, the financial statements do not include adjustments relating to the carrying value of assets, the amounts and classification of liabilities, or other adjustments that might result should the Company be unable to continue as a going concern.

Exploration, Development and Operating Risk

The Company faces risks associated with underground mining such as rock conditions, water, geological faults, variable vein widths, dilution, power supply and equipment failures. The international mining industry is facing a shortage of skilled personnel and the Company faces risks in attracting and retaining skilled employees. The Company operates in a remote location in Mali and is reliant on the transport systems to deliver equipment and materials which are purchased in South Africa or Europe. There is a risk that such equipment and materials may not always be available on site when required.

Gold Prices

The Company also faces risk in respect of its exposure to gold prices. Gold prices are subject to significant fluctuation and are affected by a number of factors which are beyond Avnel's control. Such factors include, but are not limited to, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold-producing countries throughout the world. The price of gold and base metals has fluctuated widely the past 10 years, and future serious price declines could cause continued development of and commercial production of our properties to be impracticable.

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 its operating costs, to service future indebtedness and to carry out plans to develop the Kalana Gold Mine and the Kalana Permit. As well, a portion of Avnel's activities will be directed towards the search for, and development of, new mineral deposits which will require significant capital investment to achieve commercial production from any successful exploration efforts. Avnel will require additional financing from external sources to meet such requirements. There can be no assurance that such financing will be available to Avnel or, if it is, that it will be offered on acceptable terms. If additional financing is raised through the issuance of equity or convertible debt securities of Avnel, the interests of shareholders in the net assets of Avnel may be diluted. Any failure of Avnel to obtain required financing on acceptable terms could have a material adverse effect on Avnel's financial condition, results of operations and liquidity and require Avnel to cancel or postpone planned capital investments.

Insurance and Uninsured Risks

Due to Malian law, which states that insurance should be contracted only with local Malian insurance companies, Avnel has not had property insurance coverage since July 31, 2009. The Company has been in negotiation with its UK insurance brokers and Malian insurance companies to place the insurance with a Malian insurance company and re-insure the risk in Europe. The Company has to date not been able to obtain re-insurance. Avnel does not maintain political risk insurance.

Environmental Risks and Hazards

The Company is committed to environmental protection, to safe operations and to the control of environmental risks. The Company adheres to the requirements of the Malian Government and has adopted policies and procedures as expected in the mining industry. The Company is committed to maintaining the aforementioned risks at levels as low as can be reasonably achieved, taking into account social and economic factors, and that continued improvement in environmental and health and safety performance be achieved. Certain hazardous materials are presently stored on the Kalana Gold Mine site, including diesel fuel, arsenic trioxide and sulphide concentrates tailings that remain from the SOGEMORK operations in the 1980s.

Governmental Regulation

All phases of Avnel's operations are subject to environmental regulation in the jurisdiction in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Avnel's operations. Environmental hazards may exist on the property which are unknown to Avnel at present and which have been caused by previous or existing owners or operators of the properties.

Global financial risk

Recent global financial conditions have been characterised by increased volatility and several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by both the rapid decline in value of sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. These factors may impact the ability of the Company to obtain equity or debt financing in the future on terms favourable to the Company. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Common Shares may be adversely affected.

Recent Accounting Pronouncements
As of the balance sheet date, there were no new accounting pronouncements not yet adopted that are expected to materially affect the Company other than possibly those below.

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 27 *Separate Financial Statements* (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 *Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and 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 IASBs 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 is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 *Consolidated Financial Statements*
IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 *Joint Arrangements*
IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will impact the financial position of the Group. This is due to the cessation of proportionate consolidating the joint venture in Showers Limited (see note 6) to equity accounting for this investment. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 *Disclosure of Involvement with Other Entities*
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- IAS 24 *Related Party Disclosures (amendment)* effective 1 January 2011
- IAS 32 *Financial Instruments: Presentation (amendment)* effective 1 February 2010
- IFRIC 14 *Prepayments of a Minimum Funding Requirement (amendment)* effective 1 January 2011
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

IAS 24 *Related Party Transactions* (Amendment)

IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 *Financial Instruments: Presentation (Amendment)*

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments

IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements in Euroland, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group. Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group

- IFRS 3 *Business Combinations* (The measurement options available for non-controlling interest (NCI)).
- IFRS 7 *Financial Instruments — Disclosures* (Simplify the disclosures provided by reducing the volume of disclosures around collateral
- IAS 1 *Presentation of Financial Statements* (Clarifies that an entity's presentation analysis of each component of other comprehensive income)
- IFRS 3 *Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 *Consolidated and Separate Financial Statement*
- IAS 34 *Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC 13 *Customer Loyalty Programmes* (determining the fair value of award credits)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

International Financial Reporting Standards ("IFRS")
Effective January 1, 2011 Canadian public listed companies were required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010. The financial statements for the year ended December 31, 2011, also include reconciliations to the previously disclosed financial statements for the year ended December 31, 2010, where the comparative periods were prepared under US generally accepted accounting principles.

Critical Accounting Estimates
The consolidated financial statements of the Company for the year ended December 31, 2011, 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 28, 2012, 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 28, 2012.

2010 Private Placement warrants	44,365,755
2011 Private Placement warrants	15,125,000
IAMGOLD warrants	2,000,000
Meade Compensation Options	2,500,000
Long Term Incentive Plan	4,969,000
Total as at March 28, 2012	**68,959,755**

Outlook

Through the joint venture with IAMGOLD, Avnel is implementing an aggressive exploration program at the Kalana Mine to follow up the drilling program in 2010 and 2011, reported above. IAMGOLD expects to incur expenditure in excess of $12 million during 2012 (with a total expense since the commencement of the joint venture of $31 million). The majority of the expenditure will be on diamond and RC drilling at the Kalana Mine. It is anticipated that a new Mineral Resource study will be completed in the third quarter of 2012. Underground exploration development is planned to be to 298 metres as part of the resource study.

In addition RC drilling will continue at the Kalanako Prospect close to Kalana to follow up the initial drill program in 2010 and 2011.

During 2012 IAMGOLD is also planning to commence drill testing the gold anomaly targets identified by the termite samples and ground geophysics program completed in 2011. Targets include Djirila (previously drilled in 2006/07), Tenintoumanina, Sanekourou, Dabaran (previously drilled in 2007), Sananfarani, Solomanina and Tonda.

In 2011 IAMGOLD, the joint venture partner with Avnel commenced exploration on the Fougadian Permit, which lies south and abuts the Kalana Permit. A termite mound sampling program was completed during the first half of 2011 and construction of an exploration camp is expected to be completed in 2012. During 2012, IAMGOLD has proposed a $6.5 million budget to follow up the exploration results achieved in 2010/2011. The work program will include RC drilling at the Avnel 1 gold anomaly (now called Maramale) to follow up the targets identified by geochemical sampling of termite mounds and geophysical structures identified by airborne geophysics.

In 2012, Avnel is planning gold production of 8,000 ounces from 46,000 tonnes milled, at an average grade of 6.5g/t. This plan is very sensitive to grade, gold price and costs. The plan assumes development of a third winze from 180m level will enable mining of Vein 20 to continue in the second half of 2012 and 2013 at an assumed grade of 7.5g/t. Lower grade ore is planned to be mined from Veins 17 and 16 based on the gold price of $1,700 per ounce. The company intends to sustain the operation as long as feasible whilst the exploration program progresses. This is important to reduce the social impact on the community and to cover the costs of underground pumping. Once underground mining operations are temporarily stopped, the mine will be placed on care and maintenance. The underground water pumping system will remain in operation to prevent flooding of the mine and allow access for future exploration activity.

The mine plans to advance development 718 metres during 2012. Development will focus on opening up Vein 17 on 150m level and Vein 20 below 180m level. Dependent on results, development will continue. Exploration development totalling 298 metres to provide information to support the exploration drilling program is planned on 150m and 180m levels.

It is forecast that the mineable reserves available from the current mine infrastructure are approximately 66,000 tonnes at 6.8g/t containing 12,000 ounces. This assumes that ongoing development of Vein 20 below 180m level will be successful as this represents 50% of ore to be mined.

There remains approximately 1,740,000 tonnes containing over 600,000 ounces in underground mineral resources (measured and indicated). In addition the open pit mineral resources (measured, indicated and inferred) contain approximately 400,000 ounces in 3 million tonnes. Underground mining and underground diamond drilling have exposed additional mineralised zones that may contain gold to extract by open pit mining or underground bulk mining. Avnel believes the optimum method to exploit these mineral resources will require the development of an open pit with a new gold plant. The development of the underground mine between 180m and 300m level will be postponed until this study is completed. Avnel has revised the mineral reserves of the Kalana Gold Mine in line with the strategic decision to proceed with the Kalana Main Project Study and the IAMGOLD Joint Venture which is more fully explained on pages 2 to 3 above.

Current Events in Mali

Following the military coup d'etat on March 21, 2012 developments in Mali are being closely monitored by Avnel. Mr. Roy Meade, Executive Director of Operations based at Kalana reports that mining and exploration 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, remains open. Communications remain open as normal and arrangements are being investigated to ensure continuity of supply of locally procured consumables such as diesel (mainly for exploration). 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 issues giving rise to, and arising from the coup d'etat will be resolved by peaceful dialogue.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure controls and procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that material items requiring disclosure by the Company are identified and reported in a timely manner.

Based on current securities legislation in Canada, management, including the Chief Executive Officer,("CEO") who is also acting as interim Chief Financial Officer ("CFO") of the Company, evaluated the design and effectiveness of the Company's disclosure controls and procedures as of December 31, 2011, 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, 2011.

It should be noted that, while the Company's CEO believes that the Company's disclosure controls and procedures provide a reasonable level of assurance and that they are effective, it is not expected that the disclosure controls and procedures can prevent all errors or mistakes. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal controls over financial reporting
Management is responsible for designing, establishing and maintaining a system of internal controls over financial reporting to provide reasonable assurance that the financial information prepared by the Company for external purposes is reliable and has been recorded, processed and reported in an accurate and timely manner.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities. The Audit Committee fulfills its role of ensuring the integrity of the reported information through its review of the interim and annual financial statements.

Due to the small size of the Company, there are certain aspects of the Company's internal control systems that are not ideal. This is not uncommon in a company the size of Avnel. Due to the limited number of staff at Avnel, it is not feasible or cost effective to achieve complete segregation of duties.

The Company's management, including the CEO, who is also acting as the CFO, have evaluated the design and effectiveness of internal controls over financial reporting as at December 31, 2011, and concluded that the Company's internal control over financial reporting was effective during the year 2011.

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 28, 2012. 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.