

**AVNEL GOLD MINING LIMITED  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED SEPTEMBER 30, 2012**

The following management's discussion and analysis (the "MD&A") for Avnel Gold Mining Limited ("Avnel" or the "Company") describes the operating and financial results of the Company for the period from July 1, 2012 to September 30, 2012. Avnel was incorporated under The Companies (Guernsey) Laws 1994 to 2001 on February 18, 2005 with the purpose of becoming the holding company for, and to carry on the business of, Avnel Gold, Limited, a Cayman Islands company ("Avnel Cayman"), pursuant to a reorganisation which was completed on February 22, 2005.

This MD&A should be read in conjunction with the unaudited condensed consolidated financial statements for the quarter ended September 30, 2012 and related notes thereto. These condensed consolidated financial statements have been prepared using accounting policies consistent with IFRS and in accordance with International Accounting Standard 34 ("IAS 34") – Interim Financial Reporting. In this MD&A, the Company also reports certain non IFRS measures such as cash costs per ounce. All amounts in this discussion are expressed in U.S. dollars, unless identified otherwise.

**Forward-Looking Statements**

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

**Cautionary Note Regarding Technical Information**

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

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

**Overview of the Company**

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

Avnel operates the small underground Kalana gold mine (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 3,940,000 ordinary shares from a significant minority shareholder, 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. The warrants expired on September 30, 2012. Dundee Securities Ltd. was the lead agent and the gross proceeds of the 2011 Private Placement were C\$10,000,000 and these proceeds were used 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.

#### *Classified Mineral Resource Estimates from the Company*

#### *2004 Classified Mineral Resource Estimates from Snowden*

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

- *Measured resources.* Where the quartz veins have been opened by mining (Veins 1 and 3) and face sampling is available for grade and thickness estimation, grade and tonnage can be estimated with a high level of confidence. Geological and grade continuity is confirmed;
- *Indicated resources.* The drill spacing by SOGEMORK is generally about 50 m by 50 m and Snowden considers this close spacing to be adequate to estimate grade, thickness and tonnage with a reasonable level of confidence for this type of deposit (Veins 1, 3, and 14 to 21). Continuity of mineralization, grade and structure is assumed; and

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

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

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

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

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

<u>Category</u>	<u>Zone</u>	<u>Tonnes</u>	<u>Au (g/t)</u>	<u>Au (1000 oz)</u>
<b>Underground</b>				
Inferred	Veins (22 and 23) and Stockwork	429,000	6.2	85
<b>Open Pit</b>				
Inferred	Veins (22 and 23) and Stockwork	1,832,000	2.8	164
<b>Total Inferred</b>		<b>2,261,000</b>	<b>3.4</b>	<b>249</b>
<u>Category</u>		<u>Tonnes</u>	<u>Au (g/t)</u>	<u>Au (1000 oz)</u>
Measured		355,600	7.5	86
Indicated		2,691,800	10.8	934
<b>Total Measured plus Indicated</b>		<b>3,047,400</b>	<b>10.4</b>	<b>1,020</b>
Inferred		2,261,000	3.4	249

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

### *2011 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

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

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

The 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

##### 2012 Exploration

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

- 139,000 metres of diamond and RC drilling has been completed in 2010, 2011 and 2012. During the third quarter 2012 work program, 7,714 metres of RC drilling and 422 metres of diamond drilling were completed.

Location/Drill hole type		2010	2011	2012	Project Total To Sept 30,2012
Kalana Diamond drilling	Metres	12,361	22,908	10,197	45,466
Kalana RC drilling	Metres	10,040	23,942	26,885	60,867
Kalanako Diamond drilling	Metres	0	7,402	0	7,402
Kalanako RC drilling	Metres	12,076	3,474	4,244	19,794
Djirila RC drilling	Metres	0	0	2,535	2,535
Kalana/Kalanako auger drilling	Metres			3,945	3,945
TOTAL	Metres	34,477	57,726	50,835	143,038
Expenditure	US\$	6,600,000	12,900,000	7,900,000	27,400,000

- All drill hole assay results for 2010 and 2011 drill campaigns have been received. 95% of assays have been received from the 48,000 metres drilled in the first nine months of 2012.
- 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 fourth quarter of 2012. This drilling should be completed during the fourth quarter to provide data down to at least 200m below surface. During the fourth quarter the planned diamond drilling of 5,000m at Kalana 1 South will be completed to provide additional data down to 400m below surface.
- 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).
- After the military coup d’état in late March, the drilling program was curtailed by IAMGOLD. Drilling recommenced in late June and through July until the rainy season. Drilling then recommenced in September with one diamond drill and one RC drill rig at Kalana.

## Results to September 30, 2012

Avnel issued press releases on its Kalana exploration project on January 31, 2011, February 22, 2011, May 26, 2011, October 11, 2011, March 12, 2012, May 15, 2012 and August 14, 2012. Assay results and drill collar co-ordinates are reported in these press releases posted on Avnel's website [www.avnelgold.com](http://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 I 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 five RC holes reported show that a mineralised zone, running 400m north of No 2 Shaft and extending over an east west strike of 230 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 seven diamond drill holes have intersected mineralised zones of varying width and grade. Forty eight 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 March 2012 to infill between the diamond drill holes to a programmed hole depth of 150m to 200m. Due to the suspension of drilling in late March the program was delayed. Drilling of approximately 8,000 metres commenced in late June and is now completed. 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. Assay results have been received for fifty six diamond drill holes and fifty one RC holes. Assay results are available at [www.avnelgold.com](http://www.avnelgold.com).

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

Underground development and previous drilling have shown that there is potential for long intersections of lower grade mineralisation in the far north of the Kalana 1 North Domain. This zone lies between 300 and 400m north of No 2 shaft. This zone will possibly be part of the northern extremity of an open pit and could provide lower grade ore to the plant as part of the stripping of the pit. The mineralisation is associated with the major quartz veins that plunge from near surface to the south and have been mined underground down to 230m below surface. Between the major veins, vertical veinlets exist that contain gold usually associated with quartz veins. The geological interpretation of the formation of this mineralised zone is being assessed.

The zone lies between drill lines W475 and W310 (165m) and has an average north-south length of 50m. The zone extends down to at least 150m below surface. This interpretation is based on a drill hole density of 50m by 25m.

Long composites on Drill Section W310 West include 52m at 1.23g/t (RC405), 56m at 1.29g/t (RC441), and 36m at 0.8g/t (RC440).

Long composites on Drill Section W360 West include 20m at 0.99g/t and 20m at 0.65 (RC411), 17m at 2.24g/t and 25m at 0.57g/t

Long composites on Drill Section W475 west include 20m at 3.65, 11m at 1.68g/t, 15m at 1.93g/t, and 12m at 2.21g/t (all RC425); 26m at 1.24g/t, 10m at 4.33g/t, 9m at 1.14g/t, 10m at 1.49g/t and 12m at 1.35g/t (all RC251)

In the major mineralised zones, new results confirm the continuity of the mineralised packages identified by previous drilling and underground mining. The main mineralised packages are associated with main veins such as Vein 17, Vein 20, Vein 14, Vein15, Vein 18 and Vein 18C. The Vein 17 mineralised package is generally the thickest with good grades. Recent results include 14m at 4.05g/t, 17m at 2.4g/t, and 18m at 1.46g/t.

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.

## **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 varying between 250m to 350m, to a depth of 120m.**

**The main mineralized zones strike approximately north-south and dip from west to east at approximately twenty five degrees. Some of these zones extend north into the Kalana 1 North domain.**

Kalana 1 South has been drilled systematically over eleven east-west sections and six north-south sections. The surface area covered by the drill sections is 540m (east-west) by 390m (north-south). These drill sections are spaced at 50 metres. Sixty three diamond drill holes and one hundred and twenty eight RC drill holes have intersected mineralised zones of varying thicknesses and grade. The drill density is 50m by 25m down to a depth of 100m where most RC drill holes ended. The diamond drill holes continue to a greater depth and provide data at a wider spaced drill hole collar position. Diamond drilling continues in the fourth quarter to increase the density of intersections to allow deeper veins to be modelled.

Assay results have been received for sixty three diamond drill holes and one hundred and twenty eight RC drill holes. Recent assay results are shown on the Avnel Gold website [www.avnelgold.com](http://www.avnelgold.com).

Diamond and RC drill hole results from the 2010, 2011 and 2012 drill 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.

Seven diamond drill holes were drilled to test the extension of the Vein 1 mineralised package to surface. The recent assay results confirm the extension of Vein 1 in the saprolite above 80m level to surface. Results include 8m at 5.17g/t (DD132), 10m at 3.95g/t (DD126), 9m at 2.6g/t (DD128), 4m at 31.8g/t (DD134).



## **KALANA II**

**The results confirm the existence of an extensive mineralised zone down to 100m below surface over a surface area of 350m by 150m.**

Kalana II has been drilled over seven east-west sections and two north-south sections. The surface area covered by the drill sections is 350m (east-west) by 400m (north-south). Sixteen diamond drill holes and forty seven RC drill holes have intersected mineralised zones of varying width and grade. Assay results have been received for all drill holes. Assay results have been previously reported and are shown on the Avnel Gold website at [www.avnelgold.com](http://www.avnelgold.com).

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. This mineralized zone around the diorite contact covers an area of 150m by 350m.

Both diamond and RC drilling will continue in the fourth quarter at Kalana II.

## **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. These mineralised zones appear to be steep dipping over a width of less than 10 metres. Closer spaced drill holes will be required to define a mineral resource**

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 reported in the May, 2012 press release. During 2012 thirty seven RC drill holes were completed and all assay results received. Twenty six 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 all twenty six holes. Recent results are reported at [www.avnelgold.com](http://www.avnelgold.com).

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 felsic 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 at the depth.

## **DJIRILA**

The Djirila prospect was discovered by Avnel Gold in 2004 and drilling in 2005/2006 identified high grade mineralisation down to a depth of 150 metres. Djirila is located in the south east portion of the SOMIKA permit (see Avnel Gold Press Release dated April 19, 2006).

A RC drill program commenced on 23 April and was suspended on 30 April 2012. A total of 19 drill holes for 2,535 metres were drilled. Drill samples were transported to the Kalana mine where sample preparation was performed at the SGS sample preparation laboratory. Assay results are still awaited. It is anticipated drilling will recommence in 2013.

## **Geophysics**

A gradient array IP survey has been carried out over several drill targets identified by geochemistry results. The 2011 IP survey over Ténintoumanina, Djirila and Kalanako grids is being processed and some initial results have been produced.

During 2012 a ground geophysics survey has been completed on several target areas defined by geochemistry. A total of 337.4 line-km has been completed at Kalanako, Kalana, Djirila and Solomanina. The survey was done by Sagax, a specialist company with extensive experience in West Africa. Preliminary results and interpretations have been received. This will be used for the optimum locating of future drill holes.

### **Assaying**

The backlog of assays has been reduced due to the reduced drilling rate in the second quarter. All 2010 and 2011 results have been received. Approximately 95% of the assays for 2012 have been received.

IAMGOLD and SGS are planning for the construction of a sample preparation and fire assay laboratory at the Kalana Mine site. The laboratory would be operated and managed under contract by SGS. The laboratory capacity will meet the future requirements for ongoing exploration on both the SOMIKA and Fougadian Permits, and any future mining operation. IAMGOLD will also install metallurgical laboratory equipment, including Knelson concentrators, to enable on site testing for ongoing evaluation of nugget effect of the Kalana ore. This decision is based on metallurgical test results on Kalana ore in 2011 and discussions with international expertise in coarse gold deposits. Fire assay laboratory equipment was ordered and deliveries to site started at the end of the third quarter. Orders for laboratory Knelson concentrators have been placed. The laboratory layout is almost complete and orders for the pre-fabricated building should be placed shortly. Construction should commence in the 1<sup>st</sup> quarter 2013.

### **Resource Study**

The program to date has made significant progress in constructing a detailed and predictive geological model. The drilling completed in 2011 and 2012 is designed to provide information for IAMGOLD to generate a resource estimate which is planned for the fourth quarter of 2012. See the Outlook section below.

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.

Metallurgical test work has commenced with 7 samples from two RC holes and underground samples (weighing 50-70kgs per sample) sent to Lakefield Laboratories in Canada. Results show that gold recovery of 95% plus can be achieved with normal industry cyanide consumption and leach time. IAMGOLD have reported that the seven 2011 Kalana 50 kg met test samples mostly showed a significantly higher grade than the 50 gram fire assay.

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 and 269 metres in 2012) 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 75 $\mu$ . 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 substantially completed the drill programs at Kalana and Kalanako by the end of the third quarter to generate the data necessary to prepare a NI 43-101 compliant 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. Avnel and IAMGOLD have agreed to extend the exploration phase of its joint venture arrangements from August 9, 2012 to December 31, 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 and 2012. 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. RC drilling commenced at Djirila in mid April.

### **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. Avnel has applied for a one year extension and is expecting to receive confirmation of this approval during the fourth quarter 2012.

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 and been granted an exploration permit in respect of the southern 75 sq. km. The combined permits are referred to as the "Fougadian Exploration Permit".

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

During the first half 2011, approximately 12,300 termite mound samples were collected and submitted for sample preparation at the Kalana SGS sample preparation laboratory. The prepared samples were submitted to SGS fire assay laboratory in Kayes. 13,826 assay results, including 1,388 QAQC samples have been received and validated. The 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 proposed 2012 RC drill campaign to test this interpretation as well as other gold anomalies on the Fougadian South Permit was postponed until 2013. Drilling is expected to commence in the first quarter 2013.

The establishment of an exploration camp commenced during 2011 and is expected to be operational in 2013. Total expenditure to September 30, 2012 was \$1.7 million.

## Selected Interim Information

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2012	2011	2012	2011
Revenue .....	3,427	4,855	12,854	11,271
Operating expenses .....	3,467	4,096	11,611	10,718
Other (expenses)/income	(550)	5,095	6,840	(2,481)
Net (loss)/profit .....	(1,280)	5,168	5,591	(3,988)
Net (loss)/profit attributable to parent	(83)	4,601	7,618	(3,257)
(Loss)/profit per share	(\$0.000)	\$0.024	\$0.040	(\$0.019)
Weighted average shares outstanding	191,743,724	191,739,477	191,743,724	175,039,799

## Balance Sheet

	<u>Sept 30, 2012</u>	<u>Sept 30, 2011</u>	<u>Dec 31, 2011</u>
Working capital surplus	12,235	12,722	12,058
Total assets .....	31,196	33,665	31,726
Shareholders' equity .....	32,612	25,830	24,515

## Results of Operations

Revenues decreased by 29% in the third quarter to \$3,427,000 arising from a 29% decrease in the number of ounces of gold sold. Gold production reduced by 9% in the third quarter resulting from reduced head grades. Cost of Operations increased by 15% in the third quarter due mainly to the movement in finished goods stock.

The net loss of \$1,280,000 in the quarter to 30 September 2012 compares to a net profit of \$5,168,000 in the comparable period in 2011. The net loss in the September quarter 2012 included a loss of \$711,000 on financial derivatives compared to a profit of \$5,488,000 on financial derivatives in the September quarter in 2011.

Cash reduced by \$697,000 in the September quarter from \$9,324,000 to \$8,627,000 mainly due to reduced ounces sold and capital expenditures of \$276,000.

Metal revenues increased to \$12,854,000 in the nine months to September 30, 2012 from \$11,271,000 in 2011. This was as a result of an increase in gold ounces sold from 7,258 ounces in the period to September 30, 2011 to 7,742 ounces to September 2012 and by the increase in the realised average sales price of gold from \$1,548 per ounce in the period to September 30, 2011 to \$1,655 per ounce to September 30, 2012.

Avnel recorded a net profit from operations of \$5,591,000 (\$0.040 attributable profit per share) for the period ended September 30, 2012 compared to a net loss from operations of \$3,988,000 (\$0.019 attributable loss per share) in the comparative period in 2011. Included in the period to September 2012, is an accounting profit on the fair value of derivative financial instruments of \$6,733,000 compared to an accounting loss of \$1,870,000 to September 2011. These fair value accounting movements reported have no cash effect on the Company.

As compared to the balance sheet as at December 31, 2011, Avnel's cash and cash equivalents as at September 30, 2012 reduced by \$744,000 from \$9,371,000 to \$8,627,000. This reduction was after \$735,000 of capital expenditure in the period.

There was a working capital surplus of \$12,235,000 as at September 30, 2012 compared to working capital surplus of \$12,058,000 as at December 31, 2011. 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 reduced from \$31,726,000 as at December 31, 2011 to \$31,196,000 at September 30, 2012.

Total stockholders' equity increased to \$32,612,000 at September 30, 2012 from \$24,515,000 at December 31, 2011. This was due to the net profit in the period to September 30, 2012.

## Mining Operations

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2012	2011	2012	2011
Tonnes milled:				
Underground ore	12,729	11,821	36,608	35,870
Gold grade - grams per tonne (g/t):				
Underground ore	6.53	7.60	7.44	7.39
Recovery rate - %	86.4	84.6	87.3	84.6
Gold production – ounces	2,309	2,549	7,643	7,462
Cost per tonne milled	\$253	\$268	\$262	\$261
Operating cost per ounce of gold sold	\$1,441	\$1,217	\$1,267	\$1,239
Operating cost per ounce of gold produced	\$1,392	\$1,242	\$1,257	\$1,254

Tonnes milled in the quarter to September 2012 increased by 8% compared to third quarter in 2011. Gold production at 2,309 ounces in the third quarter of 2012 was 9% lower than the comparative period in 2011 resulting from reduced head grade of 6.53g/t in quarter to September 2012 compared to 7.60g/t in the September quarter in 2011. Gold production was below plan by 9% due to lower grades.

Gold recovery in the September quarter in 2012 increased to 86.4% from 84.6% in the comparative quarter in 2011.

Mine development totalled 224 metres in the third quarter of 2012 compared to 224 metres in the third quarter of 2011 and was 174 metres ahead of the mine plan. Ore development increased to 224 metres in the third quarter of 2012 from 170 metres in the third quarter of 2011. Ore development focused on opening Vein 20 at 210m elevation. Access development to Vein 18 west of the existing mining area advanced 37m during the quarter. Based on recent diamond drill results, a new planning reserve was calculated for Vein 18. The vein lies 50m west of existing mining and is being developed by winzings down from 180m level and flat development from the Vein 18 stoping area above 180m level. This new Vein 18 is forecast to provide 20,000 tonnes of ore to be mined in 2013.

Exploration development advanced 88 metres in the third quarter 2012, as raises were mined to expose the mineralised package adjacent to Vein 17, Vein 18, Vein 18C and Vein 20. The raises are adjacent to diamond drill holes recently completed by IAMGOLD.

## Gold Sales

Gold sales data is as follows:

	Three months ended Sept 30		Nine months ended Sept 30	
	2012	2011	2012	2011
Gold ounces sold – at spot price	2,021	2,848	7,742	7,258
Average realized gold price \$ per ounce	1,690	1,698	1,655	1,548
<b>Metal revenue - \$000</b>				
Total gold sales	3,417	4,838	12,816	11,233
Silver sales	10	17	38	38
<b>Metal revenue</b>	<b>3,427</b>	<b>4,855</b>	<b>12,854</b>	<b>11,271</b>

Gold spot prices commenced in 2012 at \$1,598 per ounce and ended at September 30, 2012 at \$1,776 per ounce, with the London PM Fix averaging \$1,652 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)	Sept 30 2012	June 30 2012	Mar 31 2012	Dec 31 2011	Sept 30 2011	June 30 2011	Mar 31 2011	Dec 31 2010
Revenue	3,427	4,393	5,034	3,383	4,855	3,918	2,498	3,138
Net (loss)/income	(1,280)	2,259	4,614	(891)	5,168	(739)	(8,417)	(1,012)
Attributable (loss)/income	(83)	2,174	5,529	(1,448)	4,601	(620)	(7,238)	(690)
(Loss)/Income per share	(\$0.000)	\$0.011	\$0.029	\$(0.008)	\$0.024	\$(0.003)	\$(0.043)	\$(0.004)

## Liquidity, Capital Resources and Going Concern

On March 31, 2011, the Company completed a private placement (the "2011 Private Placement") of 25,000,000 units of Avnel (the "Units") at a price of C\$0.40 per Unit. Each Unit consisted of one ordinary share of Avnel and one-half of one ordinary share purchase warrant (each whole warrant a "Warrant"). Each Warrant entitled the holder to purchase one ordinary share of Avnel at a price of C\$0.70, at any time for a period of 18 months from the date of issue of the Warrants. Dundee Securities Ltd. was the lead agent and the gross proceeds of the Private Placement were C\$10,000,000. Avnel intends to use these proceeds for general corporate purposes. The warrants expired on September 30, 2012. As a result of the private placement completed on March 31, 2011, the Company raised significant capital and is now able to fund its mining operations for the foreseeable future.

As compared to the balance sheet as at December 31, 2011, Avnel's cash and cash equivalents as at September 30, 2012 reduced by \$744,000 from \$9,371,000 to \$8,627,000. Capital expenditure in the nine month period to September 2012 was \$735,000 compared to \$102,000 in the period to September 2011.

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 September 30, 2012:

Contractual Obligations - \$000	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating Leases (1,2)	559	6	-	553	-
Total Contractual Obligations	<u>559</u>	<u>6</u>	<u>-</u>	<u>553</u>	<u>-</u>

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 July 2016, future minimum payments will amount to \$553,000 up until the end of the lease.
- (2) The Company has entered into an operating lease for an office building in Bamako, Mali. The lease expires on June 30, 2013. The remaining commitment as at September 30, 2013 is \$6,000.

### **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.



## **Mining Properties**

The carrying value of the Company's property, plant and equipment, including mining properties and capitalised mine development costs, at September 30, 2012 was \$16.9 million and at December 31, 2011 was \$17.7 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 September 30, 2012, 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 capitalised 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 \$179,000 in the quarter ended September 30, 2012. The Company has an ongoing supply agreement with AEL Mali SARL.

The premises occupied by Avnel and Kalana Mine Services in London are leased from a company associated with the Fern Trust, a major shareholder. The Company incurred \$36,000 in rental costs during the quarter ended September 30, 2012. The Company's lease expires in July 2016.

## **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](http://www.sedar.com).

### *Going concern*

The Company has a going concern risk in that it relies on the cash flow of one operating mine and the ability of the Company to raise finance in the market. The mine has in excess of a one million ounce mineral resource, but has reached a stage in its development that extraction by underground mining and gravity recovery methods may not be the most economical and it is considering very carefully its future strategy.

The consolidated financial statements of the Company for the year ended September 30, 2012, have been presented on the basis that the Company is a going concern. Accordingly, the financial statements do not include adjustments relating to the carrying value of assets, the amounts and classification of liabilities, or other adjustments that might result should the Company be unable to continue as a going concern.

#### *Exploration, Development and Operating Risk*

The Company faces risks associated with underground mining such as rock conditions, water, geological faults, variable vein widths, dilution, power supply and equipment failures. The international mining industry is facing a shortage of skilled personnel and the Company faces risks in attracting and retaining skilled employees. The Company operates in a remote location in Mali and is reliant on 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.

#### *Political Risk*

The Republic of Mali's democratic history (having held its first democratic presidential election in 1992) was interrupted by a military coup d'état on March 21, 2012. There is no assurance as to the political arrangements that will be made thereafter or that future political and economic conditions in Mali and any other countries in which Avnel may establish exploration properties and royalties will not result in their governments adopting different policies respecting foreign ownership of mineral resources, taxation, rates of exchange, environmental protection, labour relations, repatriation of income or return of capital. The possibility that a future government in any of these countries may adopt substantially different policies, which might extend to the expropriation of assets, cannot be ruled out.

### **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 types 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 or 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*

### **Critical Accounting Estimates**

The consolidated financial statements of the Company for the quarter ended June 30, 2012 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. The cash costs are reviewed annually by management and are estimated for the retirement and rehabilitation of the Kalana Gold Mine at \$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 November 14, 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 November 14, 2012.

2010 Private Placement warrants	44,365,755
Meade Compensation Options	2,500,000
Long Term Incentive Plan	4,969,000

**Total as at November 12, 2012**    **51,834,755**

### **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 \$9 million during 2012 (with a total expense since the commencement of the joint venture of \$29 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 would be completed by IAMGOLD in the fourth quarter of 2012.

After the Military coup d'état in Mali on March 21, 2012, exploration activities were curtailed but drilling recommenced in June and July. After the rains, drilling recommenced in September at Kalana. IAMGOLD's Kalana exploration team continue to work on geological and resource modelling, the taking of bulk samples for shipment to SGS South Africa for test work and ongoing analysis of the very large database that IAMGOLD have developed since the commencement of exploration in the fourth quarter of 2009.

Taking into account political developments in Mali and the onset of the rainy season in June, the exploration phase of the IAMGOLD/Avnel JV arrangements has been extended to December 31, 2012 in respect of the Kalana Permit. It is likely that a similar extension will be agreed in respect of the Fougadian Exploration Permit.

IAMGOLD commenced drill testing the gold anomaly targets identified by the termite samples and ground geophysics program completed in 2011. Drilling was carried out at Djirila in April and results are being received. Additional targets include, 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 proposed a \$6.5 million budget to follow up the exploration results achieved in 2010/2011. This work program was curtailed by the Military coup d'état but it is expected that in 2013 RC drilling at the Avnel 1 gold anomaly (now called Maramale) will commence to follow up the targets identified by geochemical sampling of termite mounds and geophysical structures identified by airborne geophysics. Avnel has applied for an extension of the Fougadian exploration permit that expires in December 2012. This will allow the planned drill program to be completed and results analysed prior to any decision to apply for 50% of the Permit on renewal as per Mali regulations. A positive response to extend the permit to end 2013 is anticipated in the 4<sup>th</sup> quarter.

For the remainder of 2012, Avnel is planning gold production of 2,000 ounces from 11,000 tonnes milled, at an average grade of 6.5g/t. This plan is very sensitive to grade, gold price and costs. The Company intends to sustain the current mining 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 250 metres during the remainder of 2012. Development will focus on opening up Vein 18 180m level west of the existing mined area as a potential mining reserve for 2013. Exploration development totalling 50 metres is included to provide information to support the exploration drilling program 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 6.3g/t containing 13,000 ounces. This assumes that ongoing development of Vein 20 below 180m level and Vein 18 west of existing mining areas will be successful as this represents 66% 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 IAMGOLD/Avnel bulk mineable 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'état 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 activities at the mine site are continuing as normal and conditions in the surrounding communities are completely calm. Communications remain open and the supply of locally procured consumables such as diesel continues. Importation of equipment and spares has continued as normal. The mine, which is operating normally, operates on grid power and there have been no abnormal interruptions to electric power supply to date. Exploration drilling activity has recommenced. The SGS assay laboratories within Mali continue to operate. Gold dore exports have continued as normal.

#### **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 was 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 quarter September 30, 2012. The Vice President Finance, Mr Alan McFarlane was appointed CFO, effective July 1, 2012.

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 was also acting as the CFO at that time, 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 November 12, 2012. Additional information about the Company, including the Company's Annual Information Form, is available at [www.avnelgold.com](http://www.avnelgold.com) or the website of the System for Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com).