

AVNEL GOLD MINING LIMITED
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2011

The consolidated financial statements of the Group have been prepared in accordance International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union and conform to IAS34 interim financial statements. The group has presented its consolidation for the quarter ended March 31, 2011 and the comparative figures for the quarter ended March 31, 2010 and the year December 31, 2010 in IFRS as stated in note 16 below and IFRS 1 have been applied. The interim financial statements have not been audited and have been prepared by management.

“Howard Miller”
Howard Miller
Chief Executive Officer

“Alan McFarlane”
Alan McFarlane
Vice President Finance

Avnel Gold Mining Limited
Condensed consolidated statement of financial position
March 31, 2011, December 31, 2010 and January 1, 2010
Expressed in thousands of US Dollars

	<u>Notes</u>	<u>March 31</u> <u>2011</u> <u>\$'000</u>	<u>December 31</u> <u>2010</u> <u>\$'000</u>	<u>January 1</u> <u>2010</u> <u>\$'000</u>
NON-CURRENT ASSETS				
Property, plant and equipment	10	17,836	18,134	19,631
Total non-current assets		17,836	18,134	19,631
CURRENT ASSETS				
Inventories	7	3,474	3,345	3,500
Subscription receivable	8	9,749	-	-
Other receivables		692	458	1,096
Cash and cash equivalents	9	608	2,106	2,027
Total current assets		14,523	5,909	6,623
TOTAL ASSETS				
		32,359	24,043	26,254
CURRENT LIABILITIES				
Trade and other payables	11	2,274	2,074	3,901
Loans		-	-	13,986
Total current liabilities		2,274	2,074	17,887
NON-CURRENT LIABILITIES				
Provisions	12	3,401	3,371	3,228
Total non-current liabilities		3,401	3,371	3,228
Net Assets		26,684	18,598	5,139
EQUITY				
Common equity:				
Authorised - unlimited number of ordinary shares of no par value				
Issued and outstanding 191,667,203 (2010:166,661,505)	13	49,753	43,915	28,435
Warrant/option reserve	14	9,439	5,674	4,898
Retained deficit		(26,142)	(25,009)	(23,287)
Other comprehensive income		4	-	-
Total shareholders' equity		33,054	24,580	10,046
Non controlling interest		(6,370)	(5,982)	(4,907)
Total Equity		26,684	18,598	5,139

Avnel Gold Mining Limited
Condensed consolidated income statement
For the three months end March 31, 2011 and 2010
Expressed in thousands of US Dollars
(except share and per share information)

	Note	3 months Ended March 31 <u>2011</u> <u>\$'000</u>	3 months Ended March 31 <u>2010</u> <u>\$'000</u>
Revenue		2,498	3,582
Cost of operations			
Production costs		2,977	3,790
Depletion and depreciation		395	609
		<u>3,372</u>	<u>4,399</u>
Gross loss		(874)	(817)
Administration expense		701	477
Operating loss		(1,575)	(1,294)
Other income/(expense)			
Finance income/(expense)		1	(134)
Foreign exchange gain/(loss)		49	(963)
		<u>50</u>	<u>(1,097)</u>
Loss before tax		(1,525)	(2,391)
Taxation		-	(1)
Net loss		(1,525)	(2,392)
Other comprehensive income/(loss)		4	(5)
Total comprehensive loss		(1,521)	(2,397)
Attributable to:			
Equity holders of the parent		(1,133)	(1,864)
Non-controlling interests		(388)	(533)
Basic loss per share	6	(0.007)	(0.023)
Diluted loss per share		(0.005)	(0.017)

Avnel Gold Mining Limited
Consolidated Statement of Changes in Equity
**Expressed in
thousands of US
Dollars**

	<u>Common Stock</u>		<u>Warrant/option Reserve</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income/(loss)</u>	<u>Non –controlling interest Total</u>	<u>Total Stockholders' Equity</u>	
	<u>Shares</u>	<u>Amount</u>						
	<u>No.</u>	<u>\$'000</u>						
At December 31, 2009	80,762,954	28,435	4,898	(23,287)	-	10,046	(4,907)	5,139
Issuance of common stock in payment of interest	1,130,438	173	-	-	-	173	-	173
Net loss	-	-	-	(1,859)	-	(1,859)	(533)	(2,392)
Exchange profit	-	-	-	-	(5)	(5)	-	(5)
Comprehensive loss						(1,864)	(533)	(2,397)
At March 31, 2010	81,893,392	28,608	4,898	(25,146)	(5)	8,355	(5,440)	2,915
Issuance of common stock for cash and conversion of debt, net of issue costs	84,768,113	15,961	730	-	-	16,691	-	16,691
Issue costs	-	(654)	-	-	-	(654)	-	(654)
Stock based compensation	-	-	46	-	-	46	-	46
Net loss	-	-	-	137	-	137	(542)	(405)
Exchange profit	-	-	-	-	5	5	-	5
Comprehensive loss						142	(542)	(400)
At December 31, 2010	166,661,505	43,915	5,674	(25,009)	-	24,580	(5,982)	18,598
Issuance of common stock for cash and conversion of debt, net of issue costs	25,005,698	6,593	3,700	-	-	10,293	-	10,293
Issue costs	-	(755)	-	-	-	(755)	-	(755)
Stock based compensation	-	-	65	-	-	65	-	65
Net loss	-	-	-	(1,133)	-	(1,133)	(388)	(1,521)
Exchange profit	-	-	-	-	4	4	-	4
Comprehensive loss						(1,129)	(388)	(1,517)
At March 31, 2011	191,667,203	49,753	9,439	(26,142)	4	33,054	(6,370)	26,684

Avnel Gold Mining Limited
Condensed consolidated Statement of Cash Flows
For the quarters Ended March 31, 2011, and 2010
Expressed in thousands of US Dollars

	3 months ended March 31 <u>2011</u> <u>\$'000</u>	3 months ended March 31 <u>2010</u> <u>\$'000</u>
Cash flows from operating activities:		
Net loss for the period	(1,525)	(2,392)
Adjusted for:		
Depreciation of non-current assets	395	609
Stock based compensation	65	-
Tax creditor provision	30	36
Finance expense	1	(162)
	(1,034)	(1,909)
Net changes in working capital items		
Inventories	(129)	856
Prepaid, subscription and other receivables	(9,983)	(28)
Trade and other payables	90	269
Net cash used by operating activities	(11,056)	(812)
Cash flows from investing activities:		
Purchases and development of Property, plant and equipment	(97)	(51)
Net cash used in investing activities	(97)	(51)
Cash flows from financing activities:		
Issue of share capital	10,358	-
Issue costs	(755)	-
Repayment of overdraft	-	(114)
Net cash provided/(used) by financing activities	9,603	(114)
Net increase in cash and cash equivalents	(1,550)	(977)
Exchange (losses)/gains	52	1
Total decrease in cash and cash equivalents	(1,498)	(976)
Cash and cash equivalents at beginning of period	2,106	2,027
Cash and cash equivalents at end of period	608	1,051

Avnel Gold Mining Limited
Notes to the Unaudited Consolidated Financial Statements
For the period ended March 31, 2011

1. Nature of Operations, Liquidity and going concern

Nature of operations

Avnel Gold Mining Limited (the "Company") was incorporated under the laws of Guernsey on February 18, 2005. On February 22, 2005, Elliott Associates L.P., Elliott International L.P. (collectively "Elliott") and Fern Trust ("Fern") acquired 100% of the issued and outstanding common shares of the Company in exchange for 95% of the issued and outstanding shares of Avnel Gold, Limited, a company incorporated in the Cayman Islands, pursuant to a reorganization agreement. Avnel's principal assets are an 80% indirect interest in Société d'Exploitation des Mines d'Or De Kalana, S.A. ("SOMIKA") and a 100% indirect interest in the Fougadian Exploration Permit, through its subsidiary, Avnel Mali SARL. The State of Mali holds the remaining 20% interest in SOMIKA which owns a long tenure (30 years plus two 10 year extensions) Exploitation Permit over 387.4 square kilometres located in South West Mali ("the Kalana Permit").

Avnel operates the small underground Kalana gold mine located in the far northwest of the Kalana Permit extracting narrow quartz veins and with a gravity only recovery process.

Avnel entered into an agreement with IAMGOLD Corporation ("IAMGOLD") on August 10, 2009 pursuant to which IAMGOLD has the right to earn a 51% interest in the Kalana Joint Venture by spending \$11 million over a three year period and making two payments to Avnel of \$1 million each on August 10, 2009 and August 10, 2010. IAMGOLD may increase its share of the available interest in the project up to 65% (assuming Avnel elects to participate in the costs of a feasibility study and if it does not so elect 70%). The IAMGOLD work programme is focused initially and primarily on the evaluation of the Kalana Mine and its environs to examine the potential for a large scale, bulk mineable resource.

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 received 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.

Liquidity and going concern

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.

There is a risk that additional financing will not be available on a timely basis or on acceptable terms. In the event that the Company is unable to repay this debt, refinance such debt, or secure additional financing, the Company will not be able to continue as a going concern, and material adjustments would be required to the carrying value of the assets and liabilities and the balance sheet classifications used.

The Company's cash flow is dependent on the volume of production, gold prices, operating costs, interest rates on borrowings and investments and discretionary expenditure levels including exploration, resource development and general and administrative costs as well as obtaining new sources of finance. With the world economy moving slowly out of recession, sources of finance are still difficult to obtain and are expensive.

The US Dollar is the functional currency of the company's principal operations.

2. Basis of Preparation/consolidation

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2011. These are the Group's first condensed interim consolidated financial statements prepared in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. An explanation of how the transition to IFRS has affected the reported financial position of the Group is provided in note 16.

The consolidated financial statements have been prepared under the historical cost convention except for share based payments that are fair valued at the date of grant and other financial assets and liabilities that are measured at fair value. The accounting policies applied in these financial statements are unchanged from those used in previous annual financial statements.

The consolidated financial statements of the Company include the accounts of Avnel Gold Mining Limited and its subsidiaries Avnel Gold, Limited (Cayman Islands, 100%), Kalana Mine Services Limited (United Kingdom, 100%), SOMIKA (Mali, 80%) and Avnel Mali SARL (Mali, 100%). All intercompany balances and transactions have been eliminated in the consolidated financial statements.

3. Segmental Reporting

The Group's operating segments are geographic by location of the group's assets. The Group's material assets are in Mali, West Africa. As the Group has only one asset location, management consider that any additional costs arising in the UK or Canada are contributing to the Group's asset in Mali resulting in the reporting of one segment.

4. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with remaining maturities of three months or less at the date of purchase and which are not subject to significant risk from changes in interest rates.

Inventories

Processed ores are stated at the lower of average cost or market value. There were no material amounts of gold in work in progress or held in sand and ore stockpiles. Materials and supplies are stated at average cost. An annual review for obsolescence is carried out by management.

Other receivables

Other receivables are recognised at fair value and are non interest bearing and are generally on 30-90 day terms.

Property, Plant and Equipment

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. Acquisition costs were incurred in relation to the purchase of the assets of the gold mining property at Kalana. Development costs represent costs in relation to improving and extending mine infrastructure to access ore bodies at the Kalana mine. Costs of start-up activities and on-going costs to maintain production are expensed as incurred. Fixed asset costs include production facilities and equipment, vehicles and office equipment. Production facilities and equipment are stated at cost and are amortised over the estimated proven and probable reserves which can be recovered from the related property. The weighted average useful life of production facilities and equipment is eight years. Vehicles and office equipment are stated at cost and are depreciated using the straight-line method over estimated useful lives of three to five years. Maintenance and repairs are charged to expense as incurred. Gains or losses on dispositions are included in operations.

Impairment of Property, Plant and Equipment

The Company carries out a review at each balance sheet date to determine whether there is any indication that the above assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated based on future cash flows, in order to determine the extent of impairment. Future cash flows are based on estimates of the life of mine reserves together with estimates of future gold prices and cash costs.

The recoverable amount is the higher of fair value less cost to sell and value in use. An impairment is recognised immediately as an expense; where there is a reversal of the conditions leading to impairment, the impairment is reversed as income through the income statement.

Financial liabilities

The Group's financial liabilities which include trade and other payables, bank overdrafts and loans and borrowings, are recognised initially at fair value and in the case of loans plus directly attributable transaction costs.

Trade and other payables

Trade and other payables amounts represent liabilities for goods and services provided to the Company prior to the end of the period which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is passed through the income statement.

Decommissioning provision

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing production of a mining property. Such costs arising from decommissioning of plant and other site preparation work, discounted to their net present values, are provided for in full as soon as the obligation to incur costs such costs arises and can be qualified. On recognition of a full position, an addition is made to property, plant and equipment; this addition is then charged against profits on a unit of production basis over the life of the mine. Closure provisions are updated for changes in cost estimates as well as to life of mine reserves, with resulting adjustments made to both the provision balance and the net book value of the associated non-current asset.

Withholding tax provision

A withholding tax provision arises when Malian costs are paid externally and financed by an intercompany loan. On repayment of the intercompany loan withholding tax will be incurred.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset.

Finance leases which transfer to the Group substantially all the risks and benefits of the leased item are capitalised at the commencement of the lease at the lower of fair value or minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the lease liability and finance charges are recognised in finance costs in the income statement.

Operating lease payments are recognised as an operating expense in the income statement on a straight line basis over the lease term.

Revenue Recognition

Revenue from the sale of gold is recognised upon delivery and when title passes.

Income Taxes

Current income tax liabilities comprise those obligations to fiscal authorities in the countries in which the Group's subsidiaries operate and generate taxable income.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amount of assets and liabilities in the consolidated financial statements with their respective tax bases. Deferred tax liabilities are provided in full; deferred tax assets are recognised when there is sufficient probability of utilisation. The Company files income tax returns, including returns for its subsidiaries, as prescribed by Federal tax laws and the tax laws of the state and local jurisdictions in which it operates. The Company's uncertain tax positions are related to tax years that remain subject to examination and are recognised in the consolidated financial statements when management view that they are likely to occur.

Foreign Currency

The functional currency of the entities within the Group is the US dollar, as the currency which most affects revenue, costs and financing. The Group's reporting currency is also the US dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at reporting period end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Risk Management

The Company's main operating subsidiary is incorporated under the laws of Mali, and its principal mining facilities are located in Mali. Accordingly, the Company is directly affected by political and economic conditions in Mali. There can be no assurance that the Government of Mali will be successful in its attempt to keep prices and exchange rates stable. Instability in Mali may have a material adverse effect on the Company.

Since the Company has subsidiaries operating in UK, Mali and the Cayman Islands, exposure also arises from fluctuations in currency exchange rates, political risks and varying levels of taxation. While the Company seeks to manage these risks, many of these factors are beyond its control.

Stock Based Compensation

The Company accounts for all stock options and warrants using a fair value-based method. The fair value of each stock option granted is estimated on the date of the grant using the Black-Scholes-Merton option pricing model and the related stock-based compensation expense is recognised over the vesting period. The fair value of stock options granted to employees is measured at the date of the grant.

Earnings/loss per Common Share

The Company presents basic and diluted earnings/loss per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average of common shares outstanding for the effects of all dilutive potential common shares, which comprise of warrants and share options.

Fair value Measurements

The Company establishes a three-level valuation hierarchy for classification of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarised below:

Level 1 – Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Valuation is based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument

Level 3 – Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

The classification of assets and liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement in its entirety

5. Judgements in applying accounting policies and sources of estimation uncertainty

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience. Actual results could differ from those estimates. The key areas are summarised below:

Functional Currencies

Identification of functional currencies requires a judgement as to the currency of the primary economic environment in which the companies of the Group operate. This is based on analysis of the economic environments and cash flows of the subsidiaries of the Group.

Carrying values of property, plant and equipment

The Group periodically makes judgements as to whether its property, plant and equipment may have been impaired, based on internal and external indicators. Any impairment is based estimates of future cash flows.

Mineral resources and ore reserves

Quantification of mineral resources requires a judgement on the reasonable prospects for eventual economic extraction. Quantification of ore reserves requires a judgement on whether mineral resources are economically minable. These judgements are based on assessment of mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors involved, in accordance standards prescribed in National Instrument 43-101. These factors are a source of uncertainty and changes could result in an increase or decrease in mineral resources and ore reserves. This would in turn affect certain amounts in the financial statements such as depreciation and closure provisions, which are calculated on projected life of mine figures.

Provisions and contingent liabilities

Judgements are made as to whether a past event has led to a liability that should be recognised in the financial statements or disclosed as a contingent liability. Quantifying any such liability often involves judgements and estimations. These judgements are based on a number of factors including the nature of the claim or dispute, the legal process and potential amount payable, legal advice received, previous experience and the probability of a loss being realised. Each of these factors is a source of estimation uncertainty.

Restoration, Rehabilitation and environmental provisions

Such provisions require a judgement on likely future obligations, based on assessment of technical, legal and economic factors. The ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques and changes to the life of mine.

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 is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective..

Amendments to IFRS7 "*Financial Instruments: Disclosures*" – *The amendment requires additional disclosures about financial assets that have been transferred, but not derecognised, to enable better understanding of the relationship between those assets that have not been derecognised and their associated liabilities. The amendment becomes effective for annual periods beginning on or after July 1, 2011.*

IFRS9 "*Financial Instruments: Classification and Measurement*" – This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, "*Financial Instruments: Recognition and Measurement*". IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded is recorded at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value with changes in fair value through profit or loss. In addition, this new standard has been updated to include guidance on financial liabilities and derecognition of financial instruments. This new standard is effective for years beginning on/after January 1, 2013.

6. Loss per share

Basic loss per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average of number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the loss and share data used in the basic and diluted earnings per share computations:

Basic loss per share

	<u>3 Months</u> <u>March</u> <u>2011</u>	<u>3 Months</u> <u>March</u> <u>2010</u>
Net loss attributable to ordinary equity holders of the parent	(1,133)	(1,864)
Weighted average number of ordinary shares for basic earnings per share	166,662,138	81,792,909
	(0.007)	(0.023)

Diluted loss per share

Net loss attributable to ordinary equity holders of the parent	(1,133)	(1,864)
Weighted average number of ordinary shares adjusted for the effect of dilution	219,072,923	107,960,104
	(0.005)	(0.017)

7. Inventories	March 31	December 31
	<u>2011</u>	<u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>
Metal inventory	770	625
Materials and supplies	2,704	2,720
	<u>3,474</u>	<u>3,345</u>

8. Subscription receivable	March 31	December 31
	<u>2011</u>	<u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>
Private placement receivable	9,749	-

On March 31, 2011 the Company completed a private placement of 25,000,000 Units of Avnel at a price of C\$0.40 per Unit. The proceeds of the Private Placement were received in April 2011.

9. Cash and cash equivalents	March 31	December 31
	<u>2011</u>	<u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>
Cash at bank and in hand	608	606
Short term bank deposits	-	1,500
	<u>608</u>	<u>2,106</u>

The short term bank deposits are held with Barclays Bank Plc. for a period not more than three months.

10. Property, Plant and Equipment

	<u>Mine acquisition costs \$'000</u>	<u>Mine Capitalised Development \$'000</u>	<u>Mine equipment \$'000</u>	<u>UK Office equipment \$'000</u>	<u>Total \$'000</u>
Cost					
Balance December 31, 2010	3,455	20,646	9,486	88	33,675
Additions	-	45	47	5	97
Balance March 31, 2011	<u>3,455</u>	<u>20,691</u>	<u>9,533</u>	<u>93</u>	<u>33,772</u>
Accumulated Depreciation					
Balance December 31, 2010	1,671	8,957	4,845	68	15,541
Expense for the period	17	145	228	5	395
Balance March 31, 2011	<u>1,688</u>	<u>9,102</u>	<u>5,073</u>	<u>73</u>	<u>15,936</u>
Net Book Value					
December 31, 2010	1,784	11,689	4,641	20	18,134
March 31, 2011	<u>1,767</u>	<u>11,589</u>	<u>4,460</u>	<u>20</u>	<u>17,836</u>

11.Trade and other payables	March 31	December 31
	<u>2011</u>	<u>2010</u>
	<u>£'000</u>	<u>\$,000</u>
Trade payables	1,059	855
Accrued expenses	1,215	1,219
	<u>2,274</u>	<u>2,074</u>

12.Provisions

	March 31	December 31
	<u>2011</u>	<u>2010</u>
	<u>\$,000</u>	<u>\$,000</u>
Decommissioning provision	1,713	1,713
Withholding tax provision	1,688	1,658
	<u>3,401</u>	<u>3,371</u>

Decommissioning provision

During 2006, the Company commissioned an environmental report by an independent party which estimated a cash flow cost for the retirement and rehabilitation of the Kalana Gold Mine of \$2,236,000 to be completed in 2018. 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.

The Company has used a credit-adjusted risk-free rate of 3.0% to discount future cash flows in arriving at the fair value of its asset retirement and rehabilitation obligations.

Withholding tax provision

The long term tax creditor relates to withholding tax which may be payable in Mali arising when SOMIKA's inter-company loan arising from interest and fees is repaid to Avnel Gold Mining Limited. Management are unable to determine when the settlement of this provision is likely to happen.

13.Share Capital

	No.	\$'000
At 1 January 2011	166,661,505	43,915
Issued during the period	<u>25,005,698</u>	<u>5,838</u>
At 31 March 2011	<u>191,667,203</u>	<u>49,753</u>

Avnel's authorised share capital consists of an unlimited number of common shares of no par value. The total number of common shares issued is shown in the Statement of Changes of Stockholders' Equity.

On March 21, 2011, 5,698 shares were issued upon the exercise of warrants issued on August 5, 2010.

On March 31, 2011 the Company completed a private placement of 25,000,000 Units of Avnel at a price of C\$0.40 per Unit. Each Unit consisted of one common share and one-half of one common share purchase warrant (each whole warrant a "Warrant"). Each Warrant entitles the holder to purchase one common share at a price of C\$0.40, at any time for a period of 18 months from the date of issue of the Warrants. The gross proceeds of the Private Placement were C\$10,000,000.

14.Warrant/option reserve

	<u>2011</u>
	<u>\$'000</u>
At 1 January 2011	5,674
Issued during the year	<u>3,765</u>
At 31 March 2011	<u>9,439</u>

The fair value of the warrants granted on March 31, 2010 in relation to the Private Placement has been calculated using a binomial pricing model to allow for dilution. The warrants have been valued at \$3,700,000 assuming a volatility of 93% and a risk free rate of 1.8% and an expected 1.5 year life.

The fair value of each stock option granted is estimated on the date of the grant using the Black-Scholes option pricing model and the related stock-based compensation expense is recognised over the vesting period. The fair value of stock options granted to employees is measured at the date of the grant. The fair value of the options granted on January 1, 2011 has been calculated using Black-Scholes model. The options have been valued at \$65,000 assuming a volatility of 77% and a risk free rate of 2.5% and an expected 6 year life.

A summary of options or rights to purchase common shares of Avnel is shown in the following tables

	As at December 31, 2010	Forfeited or expired	Granted	Exercised	As at March 31, 2011
Warrants issued to IAMGOLD on August 10, 2009 @ C\$0.45	2,000,000	-	-	-	2,000,000
Warrants issued on private placement on August 5, 2010 @ C\$0.35	42,384,058	-	-	(5,698)	42,378,360
Broker Warrants issued on private placement on August 5, 2010 @ C\$0.20	1,375,944	-	-	-	1,375,944
Broker Warrant rights on private placement on August 5, 2010 @ C\$0.35	687,972	-	-	-	687,972
Warrants issued on private placement on March 31, 2011 @ C\$0.70	-	-	12,500,000	-	12,500,000
Broker Warrants issued on private placement on March 31, 2011 @ C\$0.40	-	-	1,750,000	-	1,750,000
Broker Warrant rights on private placement on March 31, 2011 @ C\$0.70	-	-	875,000	-	875,000
Stock Option Plan	2,969,000	-	500,000	-	3,469,000
Meade Compensation Option	2,500,000	-	-	-	2,500,000
Options or rights to purchase common shares	51,916,974	-	15,625,000	(5,698)	67,536,276

15. Commitments and operating leases

Future operating leases are as follows:

	<u>2011</u>	<u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>
Within one year	3	6
Within two to five years	153	178
	<u>156</u>	<u>184</u>

The Company has entered into operating leases for office space and equipment with a company related to Fern. Pursuant to these leases which expire in June 2012, future minimum payments will amount to \$153,000.

The Company has entered into an operating lease for an office building in Bamako, Mali. The lease expires in June 2011. The remaining commitment at March 31, 2011 is \$3,000.

Avnel was granted the renewal of the Fougadian Exploration Permit in March 2010 which is for 3 years and Avnel has committed to expenditures of \$1.9 million over this period. However, as per the Option Agreement described in note 1, all exploration costs will be borne by IAMGOLD.

16. IFRS (International Financial Reporting Standards)

IFRS 1 First time Adoption of International Financial Reporting Standards sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position dated January 1, 2010:

a) *Business Combinations*

IFRS 1 allows the first-time adopter to apply IFRS3 *Business Combinations* retrospectively to business combinations that occurred before the date of the transition to IFRS. The Company has taken advantage of this election and has applied IFRS3 to business combinations that occurred on or after January 1, 2010.

b) *Cumulative translation differences*

IFRS 1 allows a first-time adopter to not comply with IAS 21 *The Effects of Changes in Foreign Exchange Rates* from cumulative translation differences that existed at the date of transition to IFRS. The Company has chosen to apply this election and has eliminated the cumulative translation difference and adjusted retained earnings at the date of transition to IFRS.

c) *Share-based payment transactions*

IFRS 1 encourages first-time adopters to apply IFRS 2 *Share Based Payments* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

The Company has applied the following specific guidelines that a first-time adopter must follow:

d) *Estimates*

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP. The Company's IFRS estimates as of January 1, 2010 are consistent with its US GAAP for the same date.

While the adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to understand these changes, the Company's US GAAP statement of consolidate income and statement of financial position for the year ended December 31, 2010 have been reconciled to IFRS.

e) *Provision for environmental rehabilitation*

Under IFRS the provision for environmental rehabilitation must be adjusted for changes in the discount rate whereas under US GAAP the affects of changes to the discount rate is not allowed. The change has been added to the provision with the offsetting value added to property plant and equipment.

f) *Property plant and equipment*

Due to the adjustment required to property plant and equipment in note e above the depreciation will differ from the US GAAP statements.

g) *Accounts payable, accrued liabilities and provisions*

IFRS – a provision is a liability of uncertain timing or amount. Provisions are disclosed separately from liabilities and accrued liabilities and require additional disclosure.

US GAAP – Accounts payable, accrued liabilities and provisions are disclosed on the statement of financial position as a single line item.

h) *Presentation*

The presentation of the cash flow statement in accordance with IFRS differs from the presentation of the cash flow statement in accordance with US GAAP.

Group reconciliation of equity as at January 1, 2010

Expressed in thousands of US Dollars

	USGAAP	IFRS adj	IFRS
	Jan 2010	Jan 2010	Jan 2010
	\$'000	\$,000	\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	18,907	724	19,631
Total non-current assets	18,907	724	19,631
CURRENT ASSETS			
Inventories	3,500	-	3,500
Other receivables	1,096	-	1,096
Cash and cash equivalents	2,027	-	2,027
Total current assets	6,623	-	6,623
TOTAL ASSETS	25,530	724	26,254
CURRENT LIABILITIES			
Trade and other payables	3,901	-	3,901
Loans	13,986	-	13,986
Total current liabilities	17,887	-	17,887
NON-CURRENT LIABILITIES			
Provisions	2,504	724	3,228
Total non-current liabilities	2,504	724	3,228
Net Assets	5,139	-	5,139
EQUITY			
Common stock:			
Authorised - unlimited number of ordinary shares of no par value			
Issued and outstanding 80,762,954	28,435	-	28,435
Warrant/option reserve	4,898	-	4,898
Retained deficit	(28,184)	4,897	(23,287)
Accumulated other comprehensive income	(10)	10	-
Total stockholders' equity	5,139	4,907	10,046
Non controlling interest	-	(4,907)	(4,907)
Total Equity	5,139	-	5,139

Group reconciliation of equity as at December 31, 2010

Expressed in thousands of US Dollars

	USGAAP	IFRS adj	IFRS
	<u>Dec 2010</u>	<u>Dec 2010</u>	<u>Dec 2010</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
NON-CURRENT ASSETS			
Property, plant and equipment	17,475	659	18,134
Total non-current assets	17,475	659	18,134
CURRENT ASSETS			
Inventories	3,345	-	3,345
Other receivables	458	-	458
Cash and cash equivalents	2,106	-	2,106
Total current assets	5,909	-	5,909
TOTAL ASSETS	23,384	659	24,043
CURRENT LIABILITIES			
Trade and other payables	2,074	-	2,074
Total current liabilities	2,074	-	2,074
Provisions	2,757	614	3,371
Total non-current liabilities	2,757	614	3,371
Net Assets	18,553	45	18,598
EQUITY			
Common stock:			
Authorised - unlimited number of ordinary shares of no par value			
Issued and outstanding 166,661,505	43,915	-	43,915
Warrant/option reserve	5,674		5,674
Retained deficit	(31,036)	6,027	(25,009)
Total stockholders' equity	18,553	6,027	24,580
Non controlling interest	-	(5,982)	(5,982)
Total Equity	18,553	45	18,598

Group reconciliation of the consolidated income statement
for the year December 31, 2010

Expressed in thousands of US Dollars

(except share and per share information)

	USGAAP	IFRS adj	IFRS
	<u>DEC 2010</u>	<u>Dec 2010</u>	<u>Dec 2010</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Revenue	14,709	-	14,709
Cost of sales	12,460	(110)	12,350
Depletion and depreciation	1,856	65	1,921
	14,316	(45)	14,271
Gross profit	393	45	438
Administration expense	2,378	-	2,378
Operating loss/(profit)	(1,985)	45	(1,940)
Other income/(expense)			
Finance expense	(321)	-	(321)
Foreign exchange loss	(536)	-	(536)
	(857)	-	(857)
Loss before tax	(2,842)	45	(2,797)
Taxation	-	-	-
Net loss	(2,842)	45	(2,797)
Other comprehensive income	-	-	-
Total comprehensive loss	(2,842)		(2,797)
Attributable to:			
Equity holders of the parent	(1,762)	40	(1,722)
Non-controlling interests	(1,080)	5	(1,075)
Basic Loss per share	(0.015)	-	(0.015)
Weighted average shares outstanding	116,150,355	-	116,150,355
Diluted Loss per share	(0.012)	-	(0.011)
Weighted average shares outstanding	152,106,623	-	152,106,623

Group reconciliation of equity as at March 31, 2010

Expressed in thousands of US Dollars

	USGAAP	IFRS adj	IFRS
	<u>March 2010</u>	<u>March 2010</u>	<u>March 2010</u>
	<u>\$,000</u>	<u>\$'000</u>	<u>\$'000</u>
NON-CURRENT ASSETS			
Property, plant and equipment	18,368	705	19,073
Total non-current assets	18,368	705	19,073
CURRENT ASSETS			
Inventories	2,644	-	2,644
Other receivables	1,124	-	1,124
Cash and cash equivalents	1,051	-	1,051
Total current assets	4,819	-	4,819
TOTAL ASSETS	23,187	705	23,892
CURRENT LIABILITIES			
Loans	13,872	-	13,872
Trade and other payables	3,842	-	3,842
Total current liabilities	17,714	-	17,714
Provision s	2,567	696	3,263
Total non-current liabilities	2,567	696	3,263
Net Assets	2,906	9	2,915
EQUITY			
Common stock:			
Authorised - unlimited number of ordinary shares of no par value			
Issued and outstanding 81,893,392	28,608	-	28,608
Warrant/option reserve	4,898	-	4,898
Retained deficit	(30,585)	5,439	(25,146)
Accumulated other comprehensive income	(15)	10	(5)
Total stockholders' equity	2,906	5,449	8,355
Non controlling interest	-	(5,440)	(5,440)
Total Equity	2,906	9	2,915

**Group reconciliation of the Consolidated income statement
for the 3 months to March 31, 2010**

Expressed in thousands of US Dollars

(except share and per share information)

	USGAAP	IFRS adj	IFRS
	<u>Mar 2010</u>	<u>Mar 2010</u>	<u>Mar 2010</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Revenue	3,582	-	3,582
Cost of sales	3,818	(28)	3,790
Depletion and depreciation	590	19	609
	4,408	(9)	4,399
Gross loss	(826)	9	(817)
Administration expense	477	-	477
Operating loss	(1,303)	9	(1,294)
Other income/(expense)			
Finance expense	(134)	-	(134)
Foreign exchange (loss)/gain	(963)	-	(963)
	(1,097)	-	(1,097)
Loss before tax	(2,400)	9	(2,391)
Taxation	(1)	-	(1)
Net loss	(2,401)	9	(2,392)
Other comprehensive income	5)	-	(5)
Total comprehensive income	(2,406)		(2,397)
Attributable to:			
Equity holders of the parent	(1,873)	9	(1,864)
Non-controlling interests	(533)	-	(533)
Basic loss per share	(0.023)	-	(0.023)
Weighted average shares outstanding	81,792,909	-	81,792,909
Diluted loss per share	(0.017)	-	(0.017)
Weighted average shares outstanding	107,960,104	-	107,960,104

17. Contingent Liabilities

Malian Taxation

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

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

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

Malian Labour Tribunal

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