

**AVNEL GOLD MINING LIMITED  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED JUNE 30, 2010**

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 April 1, 2010 to June 30, 2010. Avnel was incorporated under The Companies (Guernsey) Laws 1994 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 reorganization which was completed on February 22, 2005.

This MD&A should be read in conjunction with the unaudited consolidated financial statements for the quarter ended June 30, 2010 and related notes thereto. The selected financial information and the discussion of results of operations were prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). Reference should be made to Note 6 of the consolidated financial statements of the Company for a reconciliation of Canadian and U.S. GAAP. 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 (together with the 2005 Snowden Technical Report, 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").

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 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 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% (if Avnel elects to participate in the costs of a feasibility study). 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 recently subscribed C\$1 million for shares and warrants in Avnel's recently completed private placement (see below under the heading liquidity and going concern) acquiring 5 million shares in the company, being 3% of the outstanding common shares and which together with the warrants acquired and the previously acquired warrants by IAMGOLD, represents approximately 4.1% of the outstanding shares of Avnel.

On August 5, 2010 the Company completed a private placement (the "**Private Placement**") of 13,025,000 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 Cdn\$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 Private Placement which also included Haywood Securities Inc. and PI Financial Corp. The gross proceeds of the Private Placement was C\$2,605,000 and Avnel intends to use these proceeds for general corporate purposes. Concurrently with the closing of the Private Placement, Avnel equitised all of its outstanding indebtedness through the issuance of 71,492,382 Units to the holders of such indebtedness at the Issue Price. On August 10, 2010 IAMGOLD paid the second Kalana Joint Venture option fee of US\$1,000,000.

These transactions eliminated all of Avnel's debt and provide the Company with enhanced financial strength through a debt-free balance sheet to continue working with IAMGOLD to advance the Company's goal of fully exploring the upside potential at its Kalana 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 (which now forms part of the agreement with IAMGOLD) 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 with the technology available to them, 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) potential for mineralization in the wallrocks with disseminated sulphides, stockworks and other quartz vein structures.

The focus of the Kalana Main Project is to study the potential for non-quartz vein and low grade quartz vein hosted gold mineralization and explore the potential for the mining of the Kalana Gold Mine or parts of it either as an open pit or by underground bulk mining methods. A priority objective under the IAMGOLD JV is the Kalana Main Project together with prospective targets in the immediate vicinity of the Kalana Gold Mine.

*Classified Mineral Resource Estimates from the Company*

*2004 Classified Mineral Resource Estimates from Snowden*

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

- *Measured resources.* Where the quartz veins have been opened by mining (Veins 1 and 3) and face or pit 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>

**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>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>

**Table 3: Kalana Gold Mine Total Resource — June 2004**

<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.

#### *2009 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. In December 2008 the company excluded these latter reserves from the mineral reserve statement on the basis of a change in strategy to implement the Kalana Main Project. These mineral reserves may still be mined as previously planned in the 2005 feasibility study and the Company has therefore included the mineral reserves between 180m and 300m elevation in the December 2009 Reserve Estimates.

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 2009 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.

#### **Kalana Gold Mine Classified Reserve Estimate – December 2009**

<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	7,000	12.8	3,000	86	2,000
Probable-underground	17,000	10.4	6,000	86	5,000
<b>Sub Total</b>	<b>24,000</b>	<b>11.2</b>	<b>9,000</b>	<b>86</b>	<b>7,000</b>
<b>180-300m elevation</b>					
Probable	395,000	14.5	184,000	86	158,000
<b>Total</b>	<b>419,000</b>	<b>14.3</b>	<b>193,000</b>	<b>86</b>	<b>165,000</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.

#### ***Exploration***

##### **SOMIKA**

IAMGOLD continued with the exploration program to meet the requirements of the Joint Venture Agreement. During the second quarter total expenditure was \$1,518,000.

##### **Diamond Drilling**

Diamond drilling commenced in February 2010 and 40 holes totalling 9,800 metres were completed at the Kalana Mine by the end of May. The first phase drill program was designed to test:

- potential extensions of known veins and inter vein material between high grade veins
- potential mineralisation outside of the known Mineral Resources
- the results of recent underground drilling in the aureole around the central intrusion

IAMGOLD’s recent diamond drill holes are mainly located outside the existing Kalana Mine and target potential additions to the known Mineral Resources. The holes were drilled on the eastern, northern, western and southern boundaries of the mine. Holes are drilled at sixty degrees to an average depth of 250 metres. One hole (DDH-39) was drilled to a depth of 487 metres and was located within the existing mining area.

### *Potential Extension of known mineralisation within the mine*

Eight holes (DDH 1, 6, 7, 8, 27, 28, 29 and 30) were drilled to test possible extensions of known veins currently being exploited. Diamond drill hole DDH-28 showed that Vein 17 extends east of the main fault as has been shown by mine development. The intersection shows that the vein may continue approximately 50m beyond the current mine development on 150m elevation. The holes also indicate that Vein 17 is part of a mineralised, stockwork zone that may generate significant ore tonnes at lower grades. This has been further supported in recent mine development where a twenty degree inclined winze of 75m assayed 4.5g/t over 75m of development. The inclined area is estimated to be equivalent to 15m vertical thickness. DDH06 returned 17m at 1.64g/t in this Vein 17 mineralized stockwork close to the bulk sample from the underground development. DDH27 returned 8m at 2.5g/t and DDH28 returned 8m at 1.98g/t. Visible gold was observed in all three holes, although the assay results did not show very high grades. These results indicate that borehole assay results will generally undervalue these high grade, nugget quartz mineralised zones. This has been historically recognised in similar mineralised deposits and within the existing Kalana Mine.

DDH-27 intersected Vein 17 close to the 180m elevation and a new haulage is being developed to access Vein 17 between 180 metre and 165 metre elevations.

Two diamond drill holes (DDH-29 and DDH-30) intersected possible extensions of Vein 18 and Vein 18C approximately 50 metres west of the current mining blocks. No assay grades are available.

DDH 39 was collared south of the Kalana diorite intrusion and drilled north at sixty degrees through the diorite to a final hole depth of 480 metres. The hole traversed 224 metres of diorite. Beyond the diorite the hole intersected twelve metres of hornfels, strongly altered and silicified with sulphides. The remainder of the hole showed quartz veins and stockwork, with areas of strong alteration and breccias zones. Significant assay results for the hole from a depth of 253 metres to the end of hole are shown in Table No. 1 below.

DDH 1 (last hole drilled) was collared west of the Kalana Mine and drilled north-east to a depth of 329 metres. The hole was targeting an area north of existing mine development to test the up dip extension of the Vein 19 and 19A and Vein 20 Mineral Resources. This area has been partially tested by underground diamond drilling by SOMIKA in 2008. Multiple grains of visible gold were observed throughout the hole. The hole traversed a zone of vertical, thin quartz veins that have not previously been reported. No assay results are available for this hole at this time.

### *Potential Mineralisation beyond the Known Mineral Resources*

An east-west drill line of six holes (DDH 33 to 38) was completed north of the known Mineral Resources. Holes were drilled from east to west dipping at sixty degrees. The holes were testing reported vertical structures in previous exploration and interpretation of geophysical data. The holes intersected vertical quartz vein structures as well as flat dipping quartz vein zones.

Au assay grades have been received for three of these holes. Visible gold was observed in some of the drill core.

An east-west drill line of six holes (DDH 20 to 25) was completed south of the known Mineral Resources. Holes were drilled from East to West dipping at sixty degrees. Both vertical and flat dipping quartz veins and stockworks were intersected. No assay results are available at this time.

This drill line above was extended to the east with seven holes (DDH 13 to 19). Holes were drilled from east to west dipping at sixty degrees. These holes were testing the inferred Mineral Resources at Kalana II which are associated with an extension of the diorite from the centre of the Kalana Mine to the east. DDH 18, 19 and 20 intersected quartz veins that may be extensions of the Vein 1, 2 and 4 with visible gold observed. DDH13, 15 and 16 intersected brecciated quartz vein and stockwork and diorites. No assay results are available at this time.

A north-south drill line of four holes (DDH 9 to 12) was completed over the Kalana II area. Holes were drilled from South to North at sixty degrees. The holes tested the extension of mineralisation north and south of the east-west striking diorite intrusion. No assay results are available.

*Potential mineral resources south of the Kalana Diorite Intrusion*

A north-south fence of four holes (DDH 2 to 5) was completed. The holes were drilled from south to north at sixty degrees. These holes were testing a zone south of the Kalana diorite intrusion where Avnel completed three underground diamond drill holes in 2008 with long intersections of lower grade mineralisation. DDH 4 intersected quartz vein and stockworks associated with Veins 1 and 3 in the Kalana Mine. Assay results produced 10m at 4.9g/t and 8m at 3.3g/t (see Table 1 below).

Table No. 1 - **SIGNIFICANT ASSAY RESULTS**

Hole No	From Metres	To Metres	Metres	Au Grade g/t
DDH-6	47	48	1	27.0
	184	201	17	1.64
including	184	185	1	2.06
Including	189	190	1	3.3
Including	193	194	1	2.96
Including	194	195	1	4.40
Including	197	198	1	2.70
Including	198	199	1	2.44
Including	199	200	1	3.80
Including	200	201	1	3.94
DDH-28	173	181	8	1.98
Including	178	179	1	3.59
	180	181	1	6.50
	208	211	3	4.0
Including	208	209	1	7.70
Including	210	211	1	4.20
DDH-27	9	10	1	9.6
	139	140	1	4.5
	210	216	6	2.5
Including	210	216	1	2.2
Including	211	212	1	3.8
Including	214	215	1	4.4
Including	215	216	1	4.2
DDH-4	6	7	1	7.8
	22	23	1	1.8
	118	128	10	4.9
Including	118	119	1	2.6
Including	121	122	1	2.2
Including	126	127	1	16.0
Including	127	128	1	22.0
	198	206	8	3.3
Including	198	199	1	1.63
Including	200	201	1	2.10
Including	201	202	1	2.80
Including	202	203	1	5.90
Including	203	204	1	1.77
Including	204	205	1	10.60
DDH-35	183	184	1	1.9
	225	226	1	8.0
	249	252	3	1.5
DDH-36	1	3	2	7.3
Including	2	3	1	14.0
	46	48	2	1.3
	63	69	5	1.1

Hole No	From Metres	To Metres	Metres	Au Grade g/t
Including	63	64	1	1.96
Including	68	69	1	1.86
DDH-39	262	265	3	1.8
	281	296	15	0.8
Including	281	282	1	3.20
Including	284	285	1	2.10
Including	290	291	1	1.20
	302	303	1	2.1
	307	308	1	8.3
	317	322	5	2.0
Including	317	318	1	2.40
	321	322	1	7.20
	330	335	25	2.6
Including	332	333	1	15.70
	336	339	3	3.76
	346	352	6	4.97

Table No. 2 – DRILL HOLE LOCATIONS

Hole No	East	North	Azimuth	Dip	Length m
DDH-01	587054.9	1193286	34.4	-60	329
DDH-02	589706.291	1194998.588	343.6	-60	248
DDH-03	587208.024	1193174.49	343.6	-60	254
DDH-04	589538.55	1195049.578	343.6	-60	280
DDH-05	589539.614	1195051.401	343.6	-60	230
DDH-06	589535.594	1195054.587	343.6	-60	230
DDH-07	589536.185	1195055.561	343.6	-60	230
DDH-08	589540.702	1195053.208	343.6	-60	233
DDH-09	589536.945	1195056.712	343.6	-60	230
DDH-10	587977.772	1193037.469	343.6	-60	230
DDH-11	587148.77	1193268.371	343.6	-60	230
DDH-12	587599.509	1192797.379	343.6	-60	230
DDH-13	587158.364	1192964.384	253.6	-60	230
DDH-14	587296.055	1193552.637	253.6	-60	233
DDH-15	587080.19	1193356.671	253.6	-60	230
DDH-16	587097.511	1192918.047	253.6	-60	230
DDH-17	587265.633	1193102.867	253.6	-60	230
DDH-18	587646.41	1193719.779	253.6	-60	236
DDH-19	587770.567	1193600.748	253.6	-60	84
DDH-19A	589707.385	1195003.413	253.6	-60	233
DDH-20	589711.129	1194996.846	253.6	-60	263
DDH-21	589704.925	1194993.448	253.6	-60	275
DDH-22	589703.126	1194988.532	253.6	-60	239
DDH-23	589698.431	1194989.363	253.6	-60	230
DDH-24	589693.332	1194990.025	253.6	-60	239
DDH-25	589698.954	1194994.415	253.6	-60	233
DDH-26	587286	1193273	253.6	-60	239
DDH-27	589702.55	1195004.198	253.6	-60	252
Hole No	East	North	Azimuth	Dip	Length m
DDH-28	589708.274	1195008.205	253.6	-60	230
DDH-29	587331.307	1192842.889	343.6	-60	260
DDH-30	589543.913	1195048.097	343.6	-60	239
DDH-31	589545.068	1195050.336	343.6	-60	230
DDH-32	589543.477	1195047.317	343.6	-60	230



DDH-33	589544.473	1195049.33	253.6	-60	245
DDH-34	589546.046	1195052.183	253.6	-60	248
DDH-35	589535.418	1195044.212	253.6	-60	269
DDH-36	589536.445	1195045.967	253.6	-60	227
DDH-37	589532.16	1195048.794	253.6	-60	290
DDH-38	589537.519	1195047.741	253.6	-60	236
DDH-39	589533.234	1195050.568	343.6	-60	487

All cores from the diamond drill holes are being logged by geologists prior to being cut in half for sample preparation. Intersections of quartz vein and quartz stockworks have been observed, with visible gold observed in some holes.

Samples are being prepared at the Kalana Mine in a sample laboratory established by SGS. All samples are then fire assayed at the mine laboratory that is operated by SGS. To date 5,000 metres of diamond drill core has been logged and 3,600 metres prepared for assaying. Results have been received for 2,851 metres.

QAQC procedures are in place with blank and standards inserted into the sampling process. The QAQC results for first batch of samples for the first hole drilled, DDH-6, were unacceptable. These pulps were re-assayed at two other laboratories and the SGS laboratory at Kalana. The re-assays confirmed the first assay results for DDH-6. No QAQC problems have been encountered since this problem occurred.

Assay results and interpretation should be available by the end of the third quarter. The assay methodology is being reviewed to assess the most effective method to evaluate the “nugget” impact on results. It is planned to conduct screen fire assays where good mineralisation is seen in the drill cores. To date all samples have been fire assayed. The screen fire assays may show higher grades in the coarser fraction as has been the mine experience. A total of 200 screen fire assays of diamond drill samples have been completed.

#### *RC Drilling*

The RC drilling campaign totalling 11,346 metres, which commenced in May 2009, has now been completed and is designed to test:

- Further extensions to the Kalana Mine zone
- The Kalanako Prospect with a strike of over 3 km and a width of 1 km where Russian drilling delineated a historical non-compliant C1 + C2 resource of 600,000 tonnes @ 3.6 g/t over a foot print of 400 metres by 200 metres. This Prospect has a strong magnetic signal correlating with a strong geochemical signal
- The Dadjan Prospect supported by both a magnetic and geochemical signal.
- 5,234 metres have been drilled at the Kalana Mine zone and 1,000 metres at the Kalanako Prospect during the second quarter

#### *Laboratory Assays*

During the period assays of diamond drill core and RC chips was suspended due to the equity raising which was completed August 5, 2010. This was done to ensure full compliance during the equity issue in which IAMGOLD participated by purchasing 5,000,000 units for C\$ 1,000,000. Assaying only restarted on August 10, 2010.

### *Geochemical Sampling of Termite Mounds*

It is planned to collect samples of termite mounds over the total Permit. During the first quarter 5,907 samples were collected in the northern area near the Kalana Mine. The sample density is one per hectare. The sampling continued in the second quarter in the southern area of the Permit. The density of samples will be one per 2 hectares. During the second quarter 90% of the planned samples in the south were collected. 4,472 square kilometres were collected.

All samples will be prepared and assayed by SGS at the Kalana Mine Site. 4,500 assay results have been received. Of the 4,500 assays, 1,980 assays were from samples collected in the south of the permit. 8.1% of the 1,980 assays give values (Au1) above the regional threshold (>30 ppb); 84 samples gave assay results between 50 and 100 ppb; 28 between 100 and 500 ppb and 4 over 500 ppb (maximum value of 5450 ppb) Regolith mapping and recording of orphillage workings are conducted at the same time as sampling of termite mounds

### *Underground Sampling*

During 2009 3,753 underground samples were collected from the workings in the mine. Samples were collected from the main haulages and crosscuts to access the major quartz veins that have been mined. The assay results were received in the first quarter. The average grade was 2.17g/t. 25% of the assays are above 0.7g/t with an average value of 8.5g/t. It was decided to re-assay samples where the grade was higher than 0.7g/t utilising fire screen assay with a screen size of 106 micron. Preliminary results suggest that the screen fire assays are approximately 20% higher than the standard fire assays without significant relation to the grade of the sample. Further re-assaying is planned to evaluate the impact of screen fire assaying and different sample preparation protocols. The lithological and mineralogical descriptions were integrated into a Geosoft program that produced a lithological and mineralogical map of the underground tunnels. The maps showed extensive zones of pyrite and arsenopyrite.

### *Geophysics*

- Interpretation of the airborne geophysics program in 2009 is ongoing using field data from the regolith mapping program. A structural and lithological network (lineaments, faults, bedding, major boundaries etc.) has been drawn; gold corridors and numerous circular structures have been identified. The interim results confirm the known major structures on the Permit.
- At the Kalanako prospect, where drilling occurred in the 1980s, the magnetic anomaly indicates that the north-west trending zone between two structures may be wider than currently understood. This will be tested by RC drilling during 2010.
- The survey also identified an anomaly associated with artisanal workings at Dadjan, a few kilometres south of Kalana. This may be tested by RC drilling during 2010.

### **Fougadian Exploration Permit**

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

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

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

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

### Selected Interim Information

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

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Total Revenue .....	4,001	4,738	7,583	11,222
Total Expenses .....	3,580	6,433	8,465	14,525
Net Loss .....	(1,821)	(1,395)	(4,222)	(4,486)
Loss per share	(0.022)	(0.018)	(0.052)	(0.058)
Weighted average shares outstanding	81,893,392	79,187,189	81,843,428	77,525,114
<b>Balance Sheet</b>			<b>June 30, 2010</b>	<b>June 30, 2009</b>
Working Capital			(15,849)	(12,592)
Total Assets .....			22,751	27,054
Long Term Debt.....			-	-
Shareholders' Equity.....			1,083	8,327

On August 5, 2010 the Company completed a private placement for Cdn 2,605,000 and debt equitisation whereby Avnel repaid all of its outstanding indebtedness (See liquidity and going concern below).

Revenue reduced to \$4,001,000 in the second quarter of 2010 from \$4,738,000 in the same quarter of 2009. Gold sales of 3,338 ounces decreased in the second quarter of 2010 compared to 5,085 ounces sold in the second quarter of 2009. Average sales price increased from \$930 per ounce in the second quarter of 2009 to \$1,196 per ounce in the second quarter of 2010. Sales in the second quarter of 2009 included 750 ounces sold forward at \$964 per ounce. There were no forward sales in the second quarter of 2010.

Avnel recorded net loss of \$1,821,000 (\$0.022 loss per share) for the three months ended June 30, 2010 compared to net loss of \$1,395,000 (\$0.018 loss per share) in the second quarter of 2009. Whilst revenue decreased by 16% in the second quarter of 2010 compared to the second quarter of 2009 due to lower gold sale volumes partly offset by higher gold prices, costs have reduced by 58% due to lower operating and depreciation costs.

As compared to the balance sheet as at December 31, 2009, Avnel's cash and cash equivalents as at June 30, 2010 reduced by \$1,074,000 to \$953,000. The reduction in cash comprised of the net of cash used by operating activities of \$792,000, net cash utilised on capital equipment of \$117,000 and repayment of temporary bank overdrafts of \$165,000.

The working capital deficit has increased from a deficit of \$12,779,000 at December 31, 2009 to a deficit of \$15,849,000 at June 30, 2010.

Total assets decreased from \$25,530,000 as at December 31, 2009 to \$22,751,000 at the end of the quarter. The main contributing factors being: reduced gold bullion stocks held from year end and the depreciation charge for the period.

Shareholders' equity decreased to \$1,083,000 at June 30, 2010 from \$5,139,000 at the end of December 31, 2009. This decrease is mainly due to the losses of \$4,222,000 in the first half of the year.

## Results of Operations

### Mining Operations

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

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Tonnes milled:				
Underground ore	12,280	11,568	25,853	24,351
Gold grade - grams per tonne (g/t):				
Underground ore	8.06	12.2	8.24	12.63
Recovery rate - %	86.7	85.6	83.1	86.1
Gold production – ounces	2,760	3,879	5,920	8,542
Cost per tonne milled	\$225	\$277	\$227	\$281
Operating cost per ounce of gold sold	\$742	\$763	\$947	\$740
Operating cost per ounce of gold produced	\$1,000	\$827	\$989	\$802

Gold production of 2,760 ounces in the three months ending June 30, 2010 was 2% below plan and 29% lower than the production in the second quarter of 2009. The lower gold production than plan was due to higher mill throughput (17%) offset by lower head grade (19%).

Tonnes milled in the second quarter of 2010 were 6% higher than the production achieved in the corresponding period of 2009. This was due to the flooding of the 180m level on May 21, 2009 resulting in the underground ore production stopping for 3 weeks. Underground productivity has increased since the retrenchment of employees in November 2009.

The gold grade of ore milled in the second quarter of 2010 was 34% lower than that obtained in the second quarter of 2009. The grade was 19% lower than the planned grade (10.0g/t). Production from the higher grade zone on vein 17 east of the fault was lower (8.3g/t) than plan (12g/t) resulting in a decrease in overall grade. Approximately 15% of tonnes were mined from Vein18C above 150m level at less than the planned 6g/t. Ore development grade was 4g/t with disappointing results from vein 17 east of the fault.

Gold recovery of 86.7% in the second quarter of 2010 was 4% higher than plan and 1% higher than the second quarter of 2009.

Development advanced 232 metres in the second quarter of 2010 compared to the planned 41 metres and 133 metres in the second quarter of 2009. Development advanced east from the 180 haulage to access the potential down dip extensions of Vein 17 west and east of the fault. This area is planned to be mined in the fourth quarter 2010 and 2011. Ore development continued east on Vein 17 on 150 m level and increased the potential mining areas, although at lower grades

The head grade in the second quarter showed a downward trend from 8.4g/t in quarter 1 2010 to 8.1g/t in the second quarter 2010. The grade in June 2010 fell to 7.0g/t.

Mine operating costs for the three months ended June 30, 2010 reduced to \$2,603,000, compared with \$4,016,000 in the second quarter of 2009. Due mainly to employment cost reductions and efficiencies. Cash operating costs of \$225 per tonne milled in the second quarter of 2010 were 19% lower than the cost per tonne in the corresponding period of 2009. Cash operating costs per ounce sold of \$742 per ounce of gold sold in the second quarter of 2010 reduced from \$763 per ounce in the same period for 2009.

### Gold Sales

Gold sales data is as follows:

	Three months ended June 30	
	2010	2009
<b>Gold ounces sold</b>		
- at spot price	3,338	4,335
- under forward contracts	-	750
- total	3,338	5,085
<b>Average realized gold price per ounce</b>		
- at spot price	\$1,195.66	\$924.22
- under forward contracts	-	\$963.89
- total	\$1,195.66	\$930.07
<b>Metal revenue - \$000</b>		
Gold sales if all sales were at spot prices	\$3,992	\$4,687
Net effect of forward sales	-	\$ 42
Total gold sales	\$3,992	\$4,729
Silver sales	\$9	\$9
Metal revenue	\$4,001	\$4,738

Gold prices remained at a high with gold spot prices commencing 2010 at \$1,121 per ounce and increasing to \$1,244 per ounce on June 30, 2010, with the London PM Fix averaging \$1,215 per ounce during the quarter.

### Other Expenses

General and administrative costs reduced to \$520,000 for the three months ended June 30, 2010 compared to \$573,000 for the same quarter of 2009. The decrease is mostly accounted for by a decrease in legal costs and employment related costs.

Depreciation charges reduced to \$457,000 in the second quarter of 2010 compared to \$1,645,000 in the second quarter of 2009, This resulted from the restatement of proved and probable reserves that can be mined down to the 300m elevation of 193,000ozs as at 1 January 2010 compared to reserves of 52,000ozs to 1 January 2009 as notified in the AIF and MD & A for the year ended 31 December 2009.

Interest expenses reduced to \$135,000 for the quarter ended June 30, 2010 compared to \$172,000 in 2009. The decrease is due to a decrease in the LIBOR U.S. dollar 6 month rate that is used to calculate interest on the convertible loan notes.

The exchange loss of \$2,106,000 resulted from the 10% weakening of the CFA Franc against the US Dollar in the second quarter.

## Summary of Quarterly Results

### Consolidated Statement of Operations for the Quarters Ended

Quarter ended	June 30	Mar 31	Dec 31	Sep 30	June 30	Mar 31	Dec 31	Sep 30
	<u>2010</u>	<u>2010</u>	<u>2009</u>	<u>2009</u>	<u>2009</u>	<u>2009</u>	<u>2008</u>	<u>2008</u>
Revenue	\$4,001	\$3,582	\$4,802	\$4,396	\$4,738	\$6,484	\$3,382	\$ 5,592
Net loss	\$(1,821)	\$(2,401)	\$(1,989)	\$(1,420)	\$(1,395)	\$(3,091)	\$(1,101)	\$(455)
Loss per share	\$(0.022)	\$(0.029)	\$(0.025)	\$(0.018)	\$(0.018)	\$(0.041)	\$(0.015)	\$(0.007)

The Company's revenue decreased in the second quarter of 2010 compared to the second quarter of 2009 as gold sales reduced 34% as a result of reduced production. The loss in the second quarter of 2010 has increased 31% due to reduced operation costs being offset by reduced gold sales and increased exchange losses due to the weakening CFA against the US dollar.

### Liquidity and going concern

On August 5, 2010 the Company completed a private placement (the "**Private Placement**") of 13,025,000 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 Cdn\$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 Private Placement. The gross proceeds of the Private Placement was C\$2,605,000 and Avnel intends to use these proceeds for general corporate purposes. IAMGOLD participated in the Private Placement purchasing 5,000,000 units being 3% of the outstanding common shares. On August 10, 2010 IAMGOLD paid the second option fee of US\$1,000,000.

Concurrently with the closing of the Private Placement, Avnel equitised all of its outstanding indebtedness through the issuance of 71,492,382 Units to the holders of such indebtedness at the Issue Price. These transactions eliminated all of Avnel's debt and provide the Company with enhanced financial strength through a debt-free balance sheet to continue working with IAMGOLD to advance the Company's goal of fully exploring the upside potential at its Kalana mine and Permit.

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. With the world economy moving slowly out of recession, sources of finance are still difficult to obtain and are expensive.

## Contractual Obligations

The Company has the following contractual obligations at June 30, 2010:

Contractual Obligations - \$000	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Short-term debt (1)	13,821	13,821	-	-	-
Operating Leases (2)	252	132	120	-	-
<b>Total Contractual Obligations</b>	<b>14,073</b>	<b>13,953</b>	<b>120</b>	<b>-</b>	<b>-</b>

Notes:

- (1) The short term debt of Avnel consists entirely of shareholder loans provided by Elliott and the Fern Trust, the two major shareholders of Avnel.  
At June 30, 2009 the short term debt comprised of convertible loan notes of \$10,940,992 and a \$2,879,673 loan facilities. The loan maturities were extended from June 30, 2010 to August 5, 2010 to allow the private placement to close. The short term debt was fully equitised on August 5, 2010.
- (2) The Company has entered into operating leases for office space with a company related to Fern. Pursuant to these leases which expire in June 2012, future minimum payments will amount to £159,000 up until the end of the lease, which at the June 30, 2010 exchange rate, is equivalent to \$240,000.
- (3) The Company has entered into an operating lease for an office building in Bamako, Mali expiring in June 2011. The remaining commitment as at June 30, 2010 was \$12,000.

## Short Term Debt and Capital Resources

The Company restructured its balance sheet on August 5, 2010 (see liquidity and going concern above)

All debt of the Company at June 30, 2010 is short term and is with related parties

The Company had a secured bridge loan with a related party of \$2,000,000 and bears interest at a rate of 10% per annum, payable bi-annually.

The loan maturity was extended from June 30, 2010 to August 5, 2010 to allow the private placement and debt equitisation to close.

The Company also had unsecured term loans provided by related parties with an aggregate principle amount outstanding of \$880,000, bearing interest at a rate of 8% payable bi-annually. The term loans were due for repayment on June 30, 2010, the loan maturity was extended from June 30, 2010 to August 5, 2010 to allow the private placement and debt equitisation to close.

Other debt of the Company consists of convertible loans provided by Elliott International L.P. and Elliott Associates L.P. (collectively "Elliott") and the Fern Trust, the two major shareholders of Avnel (the "Shareholder Loans") with an aggregate principle amount outstanding of \$10,941,000. Each convertible loan note is convertible by the holder into Common Shares at Cdn\$0.898299 per Common Share and bears interest at the six month U.S. LIBOR rate plus 2% payable bi-annually. The Company may elect to pay the interest in Common Shares in lieu of cash and may, upon maturity, elect to repay the outstanding principal amount in Common Shares at Cdn\$0.898299 per Common Share if the 40-day weighted average trading price of the Common Shares prior to the conversion date is equal to or greater than \$1.20. The convertible loan notes maturity was extended from June 30, 2010 to August 5, 2010 to allow the private placement and debt equitisation to close.

**Contingent Liability**

The three year period Malian tax audit on SOMIKA for 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 \$210,000, VAT \$280,000 and penalties and interest \$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.

**Related Party Transactions**

SOMIKA purchases explosives from African Explosives Limited (“AEL”). Mr. Ibrahim Kantao, a director of the Company and SOMIKA, is also the Director-General of AEL Mali SARL. Such purchases amounted to \$138,000 in the quarter ended June 30, 2010. 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 significant shareholder. The Company incurred \$30,000 in rental costs during the quarter ended June 30, 2010. The Company’s lease expires in June 2012.

**Business Risks**

The risks associated with Avnel and the effect on future operating results and the 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 30, 2010 (“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 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, and 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.

### *Hedging Activities*

All gold revenues and a portion of operating costs are in U.S. dollars. The Company 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 plans to develop the Kalana Gold Mine and the Kalana Permit 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 cover since 31 July, 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 although it has obtained an insurance quote from the leading Malian insurance company. 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.

### *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 properties which are unknown to Avnel at present and which have been caused by previous or existing owners or operators of the properties.

### *Hazardous Materials*

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.

### *Global Financial Risk*

Current global financial conditions have been characterized 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 on 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.

### **Critical Accounting Estimates**

The consolidated financial statements of the Company have been prepared in accordance with U.S. GAAP. 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 believes 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 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 arms length between willing parties. Based on these estimates management believe that no impairment to the carrying values exist at the balance sheet date. The Company has not recorded any impairment losses in any of the periods.

The fair value of a retirement or rehabilitation obligation is recognised as an asset and a liability in the period when it is incurred. The liability is discounted and an accretion expense is recognised using the credit-adjusted risk free rate in effect when the liability is incurred. The retirement asset is included in mining properties and charged to operations using the units of production method based upon estimated proven and probable reserves which can be recovered.

During 2006, the Company commissioned an environmental report by an independent party. This estimated an increase in estimated cash flow for the retirement and rehabilitation of the Kalana Gold Mine from \$1,000,000 to \$2,236,000. The increase in fair value of this liability was calculated at \$325,000. 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.

The Company has used a credit-adjusted risk-free rate of 8.5% to discount future cash flows in arriving at the fair value of its asset retirement and rehabilitation obligations. This is also the rate at which certain shareholders advanced funds to the Company in 2004. The Company still considers that 8.5% is an appropriate credit-adjusted risk-free rate.

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.

### **International Financial Reporting Standards**

In February 2008, the Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly accountable enterprises to use IFRS. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

The Company has developed a three phase changeover plan to adopt IFRS as follows:

- Phase 1 – Scope and Plan: This first phase involves the development of an initial project plan and structure, The identification of differences between IFRS and existing US GAAP, and an assessment of their applicability and the expected impact on the Company.
- Phase 2 – Design and Build: The second phase includes the detailed review, documentation and selection of accounting policy choices relating to each IFRS standard. In this phase, accounting policies will be finalised, first-time adoption exemptions and exceptions will be considered, and draft financial statements and note disclosures will be prepared.
- Phase 3 – Implement and Review: The final phase involves the actual implementation of IFRS standards. This phase will involve the finalisation of IFRS conversion impacts, and approval and implementation of accounting policies.

The Company is in the process of completing Phase 1 of the changeover plan and will then move on to Phase 2. While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences with respect to recognition, measurement and disclosure which the Company is beginning to assess.

### **Disclosure of Outstanding Share Data**

As at August 5, 2010, the Company had issued 166,410,774 common shares.

The following table shows the number of options or rights to purchase common shares of the Company as at August 5, 2010.

Private Placement warrants	44,698,705
IAMGOLD warrants	2,000,000
Meade Compensation Options	2,500,000
Long Term Incentive Plan	2,399,000
<b>Total as at August 5, 2010</b>	<b>51,597,705</b>

## **Outlook**

For the remainder of 2010, Avnel is planning gold production of 5,700 ounces at an average cash operating cost of approximately \$960 per ounce of gold produced; net of royalties, from tonnes milled 24,000 tonnes, at an average grade of 8.5g/t. This is based on an assumption that additional ore will be mined in excess of the mineral reserves as at 31 December 2009 (see below). The company intends to sustain the operation as long as feasible whilst the exploration program progresses. This is important as the underground mine provides data to the exploration project as the mine has access to over 4 kilometres of galleries. 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 access for future exploration activity.

The Company has increased the development plan to advance development 768 metres during 2010. Development will focus on opening up Vein 17 east of the fault on 180m level, Veins 18C and 20C below 180m level and vein 18 west on 180 m level. It is also planned to advance 180m level north to explore Veins 19/19A. Dependent on results, development will continue. Surface drilling in the first quarter provided new information on the extent of Vein 17 east of the fault, as well as potential to extend mining of Vein 18 west on 180m level. Surface drilling during quarter two confirmed high grade, narrow veins exist in the Vein 19/19A mineral resources.

It is forecast that the potential mineable reserves available from the current mine infrastructure are approximately 40,000 tonnes containing 12,000 ounces. This includes extensions of Vein 17 east and down dip from existing development. This may provide approximately 12 months of operations to June 2011. The economics of these potential reserves is based on the gold price remaining in a range of \$1,180 to \$1,230 per ounce and the Euro/US Dollar rate being at 1/1.3.

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

## **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 of the Company ("CEO"), who also performs functions similar to the Chief Financial Officer of the Company, evaluated the design and effectiveness of the Company's disclosure controls and procedures as of December 31, 2009, and concluded that such disclosure controls and procedures were operating effectively at that date.

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 of the Company (the "Board") is responsible for ensuring that management fulfills its responsibilities. The audit committee of the Company (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 pays particular attention to segregation of duties matters surrounding its internal controls over financial reporting as the Company has only limited staff resources at the present time such that "ideal" segregation of duties is not feasible. This risk is compensated by management and Board review where appropriate.

The Company's management, including the CEO, who also performs functions similar to the Chief Financial Officer of the Company, have evaluated the design and operating effectiveness of internal controls over financial reporting as at December 31, 2009, and concluded that the Company's internal control over financing reporting was effective during the period.

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.

On July 26, 2010 the Company re-filed its annual certifications and Management Discussion and Analysis ("MD&A") for the year ended December 31, 2009. Under the original MD&A, the Company had stated that the Company's management had concluded that the Company's internal controls over financial reporting were not effective during the year 2009 due to certain immaterial deficiencies. In actuality, pursuant to National Instrument 52-109, given that these deficiencies were determined to be immaterial, the Company should have disclosed that the Company's management had concluded that its internal controls over financial reporting were effective for the year 2009. The certifications and a revised MD&A disclosing the Company's effective internal control over financial reporting were re-filed at the request of the Ontario Securities Commission after the Commission's review of Avnel's compliance with the certification requirements outlined in National Instrument 52-109.

#### **Additional Information**

This MD&A has been prepared as of August 13, 2010. For further information about the Company, please visit the Company's website 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).