

**AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

The following management's discussion and analysis (the "MD&A") for Avnel Gold Mining Limited ("Avnel" or the "Company") describes the consolidated operating and financial results of the Company for the period from January 1, 2014 to December 31, 2014. This MD&A should be read in conjunction with the audited consolidated financial statements and related notes as at and for the year ended December 31, 2014, that have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In this MD&A, the Company also reports certain non-IFRS measures, such as cash costs per ounce, which are defined herein. All amounts in this discussion are expressed in United States dollars, unless identified otherwise.

Avnel was incorporated under The Companies (Guernsey) Laws 1994 to 2001 on February 18, 2005 with the purpose of becoming the holding company for, and to carry on the business of, Avnel Gold, Limited, a Cayman Islands company ("Avnel Cayman"), pursuant to a reorganisation which was completed on February 22, 2005. The Company and its consolidated subsidiaries for financial reporting purposes are referred to herein as the "Company".

2014 Highlights

- Completed a Mineral Resource estimate ("March 2014 MRE") and a positive Preliminary Economic Assessment ("PEA") for a potential open pit mining operation at the Kalana Main Project
- Completed private placements for gross proceeds of approximately C\$10.4 million
- Announced an updated Mineral Resource estimate for the Kalana Main Project:
 - Reported that Indicated Resources had increased 55% to 2 million ounces (13.6 million tonnes grading 4.36 g/t Au at a 0.9 g/t Au cut-off)
 - Reported a Diluted Indicated Mineral Resource of 1.96 million ounces (19.7 million diluted tonnes at a diluted grade of 3.10 g/t Au at a cut-off of 0.9 g/t Au)

Subsequent to year-end:

- Announced the commencement of a Definitive Feasibility Study ("DFS") to be completed in the first quarter of 2016
- Announced an updated Mineral Resource Statement for the Kalana Project:
 - Diluted Indicated Mineral Resource of 2.17 million ounces at the Kalana Main deposit (22.1 million diluted tonnes at a diluted grade of 3.06 g/t Au at a 0.9 g/t Au cut-off)
 - Total Indicated Mineral Resources increased 67% to 2.15 million ounces since the PEA (15.2 million tonnes grading 4.40 g/t Au at a 0.9 g/t Au cut-off)
 - Total Inferred Mineral Resource increased 24% to 0.38 million ounces since the PEA (2.18 million tonnes grading 5.33 g/t Au at a 0.9 g/t Au cut-off)
- Initiated a 141-hole, 23,500 m drill program in support of the DFS at Kalana Main
- Appointed Mr. Roy Meade as President of the Company
- Appointed Mr. Andrew King and Mr. Keith McCandlish to the Board of Directors

Outlook

On February 5, 2015, the Company announced that, as a result of the increase in Mineral Resources reported in the Mineral Resource estimate reported on October 15, 2015 (the "September 2014 MRE") (relative to the PEA) and the analysis of preliminary engineering work that the Company had decided to advance the Kalana Main Project directly to the DFS level and discontinue the Preliminary Feasibility Study ("PFS"). The Company has determined that this course of action would result in the DFS remaining on-track for completion near the end of 2015. The Company also announced that it had increased the planned drill program for the first half of 2015 to 23,500 metres ("m") over 141-holes at a budgeted cost of \$3.8 million. Drilling completed during the first half of 2015 is planned to be included in the next revision of the Mineral Resource estimate for the Kalana Main deposit, which is scheduled to be completed near the end of the third quarter of 2015. The next revision of the Mineral Resource estimate is expected to form the basis for the DFS.

On March 26, 2015, the Company announced an updated Mineral Resource Statement for the Kalana Project that included the Kalana Main deposit, historic Kalana tailings, and an initial Mineral Resource for Kalanako, a satellite deposit located approximately 3 kilometres ("km") northeast of the Kalana Main deposit. The announcement reported that total pit-constrained Indicated Mineral Resources had increased to 2.15 million ounces (15.2 million tonnes grading 4.40 g/t Au at a 0.9 g/t Au cut-off prior to dilution) and that total Inferred Mineral Resources had increased to 0.38 million ounces (2.18 million tonnes grading 5.33 g/t Au at a 0.9 g/t Au cut-off prior to dilution). As part of this announcement, it was also reported that the diluted pit-constrained Indicated Mineral Resource above a diluted cut-off of 0.9 g/t Au had increased to 22.1 million tonnes grading 3.06 g/t Au (diluted) containing 2.17 million ounces. The increase in Mineral Resources is attributable to the final LeachWELL re-assay campaign, which continued to demonstrate that the original Fire Assays understated grade by approximately 40%.

As a result of the increase to Mineral Resources at Kalana Main, combined with the expected results from the current drill program, the Company has decided that the DFS should assess a larger operation than the 3,000 tonnes per day envisioned in the PEA. Accordingly, to account for the time required to complete the appropriate process plant engineering and mine planning, the Company is extending the timeline slightly to complete the DFS from late 2015 to the first quarter of 2016.

The Kalana Main Project is expected to be sufficiently advanced for the Company to consider a construction decision to develop an open pit mine in the first quarter 2016, subject to the availability of project financing and a positive DFS. Consequently, the Company continues to forecast commencing open pit mine development during 2016.

Operations at the small, Soviet-era, underground mine at Kalana are scheduled to produce approximately 2,550 tonnes of material per month and we hope that development during 2015 will enable underground mining to continue in 2016. The primary sources of underground material are scheduled to be from veins 1 and 20C, which were developed for mining during 2014. Development will continue to focus on Vein 1 and Vein 20C on or below the 180 m level in 2015. Following the depletion of the underground material, the Company plans to continue to process surface stockpiles. Surface stockpiles are currently estimated to be 55,000 tonnes grading 7.7 g/t Au containing 13,000 ounces and are forecast to provide mill feed until the end of third quarter of 2016.

As a result, Avnel is forecasting gold production of 8,100 ounces from 49,000 tonnes of material at an average grade of 6.1 g/t at a budgeted recovery rate of 80% in 2015. Mill feed is scheduled to consist of 23,000 tonnes of underground material and 26,000 tonnes from surface stockpiles.

Under the prevailing gold price environment, the underground mine is not profitable and continues to be operated principally for exploration purposes and to maintain socio-economic stability in the local community; however, the underground mine is benefiting from the relative strengthening of the dollar as local goods and services, which are denominated in CFA, represented approximately 88% of the total goods and services purchased in 2014. The Company plans to continue underground mining through the completion of the DFS to enable a smooth transition for the workforce to a proposed open pit mining operation at the Kalana Main Project.

Overview of the Company

Avnel is a gold mining and exploration company whose principal asset is an 80% indirect equity interest in Société d'Exploitation des Mines d'Or De Kalana, S.A. ("SOMIKA"), with the Republic of Mali holding the remaining 20% equity interest that has free carry and anti-dilution rights. SOMIKA owns a long tenure (30 years plus two 10-year extensions) Exploitation Permit that was granted in 2003 and covers an area of 387.4 square kilometres (km²) located in southwestern Mali (the "Kalana Permit"). The Company also has a 100% indirect interest in the 75 km² Fougadian South Exploration Permit, through its subsidiary, Avnel Mali SARL, and is currently negotiating the renewal of the 75 km² Fougadian North Exploration Permit, which are collectively referred to as the "Fougadian Permit".

The Company's strategic objective, through SOMIKA, is to advance the development of Kalana Main Project by completing technical studies to demonstrate the presence of a commercially viable, bulk tonnage, open-pit gold mine. A secondary objective of the Company is to explore for additional gold deposits over the remainder of the Kalana and Fougadian permits.

On March 31, 2014, the Company reported a Mineral Resource estimate and the results of a Preliminary Economic Assessment ("PEA") prepared by Snowden Mining Industry Consultants. The PEA outlines a 14-year open-pit mine life at the Kalana Main Project recovering 1.46 million ounces of gold at an average "all-in sustaining cost" of \$577 per ounce with an initial capital cost of \$149 million. Utilizing a gold price of \$1,110 per ounce and a 10% discount rate, the PEA reported a net present value ("NPV") of \$194 million after-tax and imputed interest, and an internal rate of return ("IRR") of 53% on a 100% project basis. Similarly, utilizing a 5% discount rate and a \$1,300 per ounce gold price, the NPV was reported as \$424 million and an IRR of 74%. The Company is now advancing the project to Definitive Feasibility, which is scheduled to be completed in the first quarter of 2016.

On October 15, 2014, the Company announced the September 2014 MRE, which reported that the pit-constrained Indicated Resource for the Kalana Main deposit had increased 52% to 1.90 million ounces (12.9 million tonnes grading 4.57 g/t Au) relative to the March 2014 MRE. On March 26, 2015, the Company reported that the Indicated pit-constrained Mineral Resource for the Kalana Main deposit had increased a further 11% to 2.11 million ounces (14.5 million tonnes grading 4.52 g/t Au) since the September 2014 MRE.

As part of the planned work program for a DFS for the Kalana Main Project, the Company plans to complete a 141-hole, 23,500-m drill program at a budgeted cost of \$3.8 million. This drill program is expected to be completed near the end of the second quarter of 2015 and is intended to:

- 1) Better define the up-dip shape and continuity of known mineralisation near the west, north, and eastern margins of the pit shells;
- 2) Infill small gaps within the model to better define grade and continuity; and
- 3) Step-out near the limits of the pit shell to test for near surface gold mineralisation in highly prospective areas.

Drilling completed as part of this program is to be included in the next revision of the Mineral Resource estimate for the Kalana Main deposit, which is scheduled for completion near the end of the third quarter of 2015. This revision of the Mineral Resource estimate for the Kalana Main deposit is expected to form the basis for a DFS that is scheduled to be completed in the first quarter of 2016. Accordingly, the Kalana Main Project is expected to be sufficiently advanced to consider a construction decision to develop the open-pit mine in the first half of 2016, subject to the availability of project financing.

Kalana Main Preliminary Economic Assessment Summary

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

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

The Kalana Main PEA contemplates open pit mining using small-scale mining equipment to selectively mine the economic quartz and associated inter-vein mineralisation with larger equipment to remove waste material.

A pit optimisation was completed for Kalana Main Mineral Resource based upon the March 2014 Snowden resource model and optimisation parameters that are typical for the scale and style of the operation and its location, which are described below. No limitations were applied to mining

adjacent to the Village of Kalana that lies to the south and southeast of the pit. The preliminary pit shells were generated with no dilution.

To account for dilution and losses during the mining process, the Mineral Resource had a 50% tonnage modifying factor at a grade of 0.2 g/t Au and a mining recovery modifying factor between 92.5% and 95% applied in the mine production schedule. Inferred and Indicated Mineral Resources, which were constrained by the optimised open pit, were included in the mine production schedule. The tailings Mineral Resource will be recovered and processed in the first year of production.

A single pit shell was selected for design and scheduling on the basis of maximum NPV utilizing a gold price of \$1,110 per ounce. Open pit mining was envisioned as conventional free-dig in the oxide zones and drill and blast in the saprock and fresh rock. The selective nature of the mineralised veins will require high levels of grade control and geological direction and the fleet will consist of small trucks and excavators. A conceptual pit was designed to comply with overall slope criteria of 37° in saprolite and 45° in fresh rock.

The proposed open pit covers the full footprint of the existing Kalana underground mine infrastructure. The two vertical shafts that provide access to the underground workings, the offices, the gold plant, and other buildings will be reclaimed prior to open pit mining. The open pit impacts a portion of the northern part of the Village of Kalana and about 300 houses will need to be relocated.

High-level annualised mining schedules were prepared for the PEA using linear-programming software to maximise project value, which yielded a three-stage open pit containing 15.1 million tonnes at 3.2 g/t Au and 128 million tonnes of waste plus 655,000 tonnes of tailings at 1.8 g/t Au. Higher grade mineralisation is preferentially processed and excess lower grade mineralisation stockpiled and processed later. The vertical mining rate has been limited to 30 m per year. No limits were placed on the amount of lower grade material that could be placed on the stockpile. All low-grade mineralisation (<0.9 g/t Au after dilution) was considered to be waste. In practice, this lower grade material may have some value and would be stockpiled separately from unmineralised waste.

Waste rock will be dumped immediately east of the pit in an area that currently contains the explosives magazine and existing tailings dam. The Kalanako stream will be controlled by dams with the overflow diverted further to the northeast. A portion of the unsealed road between Kalana and Yanfolila will be rerouted to the east. It is currently planned to locate the process plant and a new tailings storage facility in open ground to the west of the pit.

The PEA considers a new gold plant, ROM stockpiles, administration buildings, assay laboratory, store magazine, medical clinic, workshops, diesel storage farm, and mining contractor facilities. An accommodation camp for 50 senior staff on a single status basis is proposed. A second camp will be constructed for contractors during construction and then occupied by 110 junior staff after commissioning.

A new 1.2 million tonnes per year (3,000 tpd) conventional gravity and CIL process plant achieving 93% gold recovery for the pit and 83% for tailings will be commissioned following a two-year construction period. The plant flow sheet and design is expected to be similar to many process plants worldwide and is typical for similar gold mineralisation in West Africa.

Average gold recovery of 93% using a combination of conventional gravity recovery and CIL at a grind size of 80% passing 75 microns has been used in the PEA for material from the open pit. Recent test work subsequent to the PEA has shown that average gold recovery of up to 95% is achievable and additional test work is underway at different grind sizes to determine if the results may be further optimised. Gold recovery from the tailings is estimated at 83%.

The PEA outlines a potential 14-year open pit mine life recovering approximately 1.46 million ounces with gold production averaging of 138,000 ounces gold per year for the first four years and then averaging 98,000 ounces gold per year over the remaining life of mine.

The total capital cost estimated in the PEA is \$188 million comprising:

- \$134 million plant, mine services and infrastructure;
- \$15 million capitalised pre-strip;
- \$29 million sustaining capital and community infrastructure costs; and
- An allowance of \$10 million for mine closure, net of salvage costs.

The PEA capital cost estimate includes a 20% contingency, with the exception of the pre-strip, sustaining capital, and closure costs, which are estimated with no contingency.

The PEA assumes the use of a mining contractor over the life of the mine at an estimated average cost of \$3.32 per tonne mined. Processing and administration costs are estimated to average \$16.37 and \$4.50 per tonne processed over the life of the mine, respectively. The total site cash operating cost over the life of the mine is \$51.16 per tonne of ore processed or \$551 per ounce produced in the PEA.

Using a discount rate of 10%, the Kalana Main Project has a reported project NPV (after allowance for tax and imputed interest) of approximately \$194 million and an IRR of 53% after accounting for all operating costs, capital expenditures, tax, imputed interest, and royalty payments on a 100% project basis in the PEA. The determination of NPV and IRR are from the commencement of construction and do not include any costs associated with competing a DFS or any other technical studies or work programs that may need to be completed. Payback on construction capital and pre-production costs is expected to be 2 years after the start of production. The base case results and gold price sensitivity of the Kalana Main Project PEA as reported by Snowden are summarised in the following table:

Kalana Main PEA Project NPV and IRR Sensitivity Table (100% Project Basis)

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

The March 2014 Mineral Resource Estimate Summary

As part of the PEA, Snowden prepared a new Mineral Resource estimate. The March 2014 MRE is based on information collated from extensive drilling and underground mine workings at the Kalana Main Project. The mineralisation is hosted in narrow shallow dipping quartz and associated inter-

vein mineralisation defining together a vein package. It is a Paleoproterozoic orogenic gold deposit emplaced in Birimian terranes of the West African Craton.

The in-situ Mineral Resources in the March 2014 MRE for the Kalana Main PEA gold deposit contains:

- 1.25 million ounces of gold in the Indicated Mineral Resource category (8.5 million tonnes grading 4.53 g/t Au)
- 0.25 million ounces of gold in the Inferred Mineral Resource category (2.1 million tonnes grading 3.76 g/t Au)

The Mineral Resources are reported above a cut-off grade of 0.9 g/t Au. This cut-off grade was defined as an output of the PEA based on a gold price of \$1,110 per ounce. No mineral resources were reported outside the \$1,110 per ounce of gold optimised pit shell.

Kalana Main Project in-situ Mineral Resource Estimate - March 2014

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

(1) Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability. The estimate of Mineral Resources may be materially affected by environmental, permitting, legal, marketing, or other relevant issues. The Mineral Resources in this MD&A were estimated using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), CIM Standards on Mineral Resources and Reserves, Definitions and Guidelines prepared by the CIM Standing Committee on Reserve Definitions and adopted by CIM Council.

(2) The quantity and grade of reported Inferred resources in this estimation are uncertain in nature and there has been insufficient exploration to define these Inferred Resources as an Indicated or Measured Mineral Resource and it is uncertain if further exploration will result in upgrading them to an Indicated or Measured Mineral Resource category.

(3) Contained metal figures and totals may differ due to rounding of figures.

(4) Based on a cut-off grade of 0.9 g/t.

The March 2014 MRE is based upon 132,392 m of drilling from 771 holes drilled since 2009. The March 2014 MRE was superseded by the September 2014 MRE, which is summarised in the Company's news release dated October 15, 2014 and in the Company's 2014 AIF.

The current Mineral Resource estimate for the Kalana Project was reported on March 26, 2015 (the "March 2015 MRE"), which is summarized below and detailed in the 2014 AIF.

March 2015 Mineral Resource Estimate Summary

On March 26, 2015, the Company reported the March 2015 MRE, the most recent Mineral Resource Statement for the Kalana Project. A comparison between the March 2015 MRE and the March 2014 MRE reported as part of the March 31, 2014 PEA is presented in the following table:

Total Mineral Resources for the Kalana Project									
March 2015 MRE vs. March 2014 MRE^{1,2}									
(100% Project Basis Reported at a 0.9 g/t Au cut-off)									
	March 2015 MRE³			March 2014 MRE³			Change		
	(\$1,100/oz Au)			(\$1,110/oz Au)			(%)		
	Tonnes (millions)	Grade (g/t Au)	Ounces (millions)	Tonnes (millions)	Grade (g/t Au)	Ounces (millions)	Tonnes (%)	Grade (%)	Ounces (%)
INDICATED MINERAL RESOURCES									
Kalana Main	14.5	4.52	2.11	8.5	4.53	1.25	70%	(0%)	70%
Tailings ⁴	0.66	1.8	0.04	0.66	1.8	0.04	0%	0%	0%
TOTAL	15.2	4.40	2.15	9.2	4.33	1.29	66%	2%	67%
INFERRED MINERAL RESOURCES									
Kalana Main	1.8	5.28	0.31	2.1	3.7	0.25	-14%	43%	24%
Kalanako	0.38	5.55	0.07	-	-	-	-	-	-
TOTAL	2.18	5.33	0.38	2.1	3.7	0.25	4%	44%	52%

1 - Avnel Gold has an 80% equity interest in SOMIKA, the Malian company that owns the Kalana Exploitation Permit

2 - Some figures in this table may not compute due to rounding and truncation

3 - For detailed summaries of the March 2015 MRE and the March 2014 MRE please consult the Company's AIF for 2014.

4 - The Kalana tailings are reported at no cut-off as they are expected to be completely mined and reprocessed as per the PEA Technical Report

The March 2015 MRE for the Kalana Main deposit is based upon a total of 133,679 m of drilling from 800 drill holes, of which 771 were drilled between 2009 and 2012 by the IAMGOLD Corporation ("IAMGOLD"). Data added to the database since the PEA includes 10,868 LeachWELL re-assays plus the addition of three Ashanti Gold RC drill holes, four SOMIKA RC drill holes, and 20 Russian diamond drill holes for a grand total of 1,287 m. The evaluation of this additional data using enhanced interpretation techniques, plus an initial Mineral Resource for the Kalanako deposit, has resulted in a significant increase in the Mineral Resource base for the Kalana Project.

Pit-constrained Indicated Mineral Resources have increased 70% to 2.11 million ounces at the Kalana Main deposit since the PEA, which is attributable to a 70% increase in tonnes. The Indicated Mineral Resource estimate for the historic tailings from the Kalana Gold Mine is unchanged at 0.04 million ounces (0.66 million tonnes grading 1.8 g/t Au). Collectively, this represents a 66% increase in total Indicated Mineral Resources tonnes and a 2% increase in grade, for a total 67% increase in ounces to 2.15 million ounces (15.2 million tonnes grading 4.40 g/t Au) at the Kalana Project.

Similarly, Inferred Mineral Resources at the Kalana Main deposit have increased 24% to 0.31 million pit-constrained ounces since the PEA, which is attributable to a 14% decline in tonnes and a 43% increase in grade. Combined with the initial Mineral Resource of 70,000 ounces for the Kalanako deposit (0.38 million tonnes grading 5.55 g/t Au), this equates to a total Inferred Mineral Resource of 2.18 million tonnes grading 5.33 g/t Au for 0.38 million ounces at the Kalana Project.

Indicated and Inferred Mineral Resources for the Kalana Main deposit are pit-constrained using Whittle 4X shells and are reported at a cut-off of 0.9 g/t Au utilising a gold price of \$1,100 per ounce (down slightly from \$1,110 per ounce in the March 2014 MRE).

An important contribution to the Mineral Resource estimation process since the PEA is an improvement to the estimation of dilution. The addition of estimated local dilution compared to the global dilution assumption of 50% utilised in the PEA has resulted in the exclusion of some of lower grade and narrow mineralisation with the diluted grades falling below the 0.9 g/t Au cut-off grade. As detailed in the table below, the resultant pit-constrained and diluted Indicated Mineral Resource above the diluted cut-off grade of 0.9 g/t Au is estimated at 22.1 million tonnes grading 3.06 g/t Au (diluted) containing 2.17 million ounces with an estimated global dilution of 52%:

Kalana Main Deposit Mineral Resource Diluted Estimate – March 2015^{1,2}									
(100% Project Basis Above a Diluted Grade of 0.9 g/t Au)									
	Resource Tonnes	Resource Grade	Internal Dilution	External Dilution	Grade Internal Dilution	Grade External Dilution	Diluted Tonnes	Diluted Grade	Ounces Gold
	(millions)	(g/t Au)	(%)	(%)	(g/t Au)	(g/t Au)	(millions)	(g/t Au)	(millions)
Indicated Resource	14.5	4.52	17%	30%	0.39	0.24	22.1	3.06	2.17

1 – Avneel Gold has an 80% equity interest in SOMIKA, the Malian company that owns the Kalana Exploitation Permit

2 – The above assessment of dilution is reported following depletion from historical production

The diluted Kalana Main deposit Indicated Mineral Resource of 2.17 million ounces, combined with the 0.04 million ounces of Indicated Mineral Resource from historic tailings, results in a total Indicated Mineral Resource at the Kalana Main Project of 2.2 million ounces (22.8 million diluted tonnes at a diluted grade of 3.02 g/t Au).

Kalana Main “Exploration Target”

An iteration of the Whittle 4X evaluation process for the March 2015 MRE was a pit shell that included mineralisation down to the bottom of the model to approximately 400 m below surface (the “March 2015 Conceptual Pit”). Accordingly, the Exploration Target is defined as the portion of the model between the March 2015 MRE pit shell and the March 2015 Conceptual Pit.

This Exploration Target, which is outside the March 2015 MRE, is estimated to be between 5.3 and 6.6 million tonnes grading between 3.9 and 4.7 g/t Au for an estimated 0.7 to 1.0 million ounces of contained gold.

The aforementioned assessment of potential quantity and grade is conceptual in nature and there has not been sufficient exploration to define a Mineral Resource and the preliminary economics are not sufficient to support a reasonable expectation for economic extraction. It is uncertain if further exploration will result in any portion of the Exploration Target being delineated as a Mineral Resource.

This Exploration Target is largely based upon LeachWELL re-assay results and a wide spacing of drill holes. As a consequence of the wide spacing of drill holes, confidence in this part of the model is not sufficient to define a Mineral Resource and therefore is defined as an Exploration Target rather than as part of the Mineral Resource for the Kalana Main deposit. As a result, this Exploration Target represents additional potential upside to the Kalana Main deposit to be further defined in future exploration and evaluation programs.

Fougadian Exploration Permit

On October 17, 2006, Avnel was awarded the Fougadian Exploration Permit, which is immediately south of the Kalana Permit. The Fougadian Exploration Permit covers an area of 150 km² 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.

Fougadian Exploration Permits - Joint Venture Arrangements Agreement

In 2010, Avnel Gold and IAMGOLD entered into the Joint Venture Arrangements Agreement whereby IAMGOLD has the option to acquire up to an initial 51% interest in Avnel's 90% interest in the Fougadian Exploration Permit as described below.

The Fougadian Exploration Permit held by Avnel previously covered an area of 150 km² 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 (the "Fougadian North Permit"). In December 2014, the Fougadian North Permit expired and the Company is currently assessing its options and is in discussions with the Malian Ministry of Mines to potentially renew the permit.

IAMGOLD applied for an exploration permit in respect of the southern 75 km² and this was granted on June 20, 2012. This Permit is called the Fougadian South and was granted for 3 years, renewable twice and expires in 2015, but is eligible for renewal by the Company. The combined permits are referred to as the "Fougadian Exploration Permit" unless the context is stated otherwise.

Between 2006 and 2014, a number of exploration programs were conducted on the Fougadian Exploration Permit that included geophysical surveys, geochemical surveys, and drilling programs over several gold anomalies. A detailed review of these early stage exploration programs is provided in the Company's most recent Annual Information Form ("AIF").

The Company reported on October 15, 2014 that IAMGOLD has exited the Fougadian joint venture. Upon the lapse of the Option Agreement, under the terms of the agreement, all technical data, studies and other documents relating to the exploration activities not previously shared with Avnel are currently being assessed by the Company.

Current Underground Mining Operations

No significant capital expenditures were incurred in 2014. Development during 2014 exposed additional ore from Vein 1 and Vein 20C that is expected to enable underground mining to continue through 2015.

Under the prevailing gold price environment, the underground mine is not profitable and continues to be operated principally for exploration purposes and to maintain socio-economic stability in the local community; however, the underground mine is benefiting from the relative strengthening of the dollar as local goods and services, which are denominated in CFA francs, represented approximately 88% of the total goods and services purchased in 2014. The Company plans to

continue underground mining through the completion of the DFS to enable a smooth transition for the workforce to a proposed open pit mining operation at the Kalana Main Project.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total	12,024	14,574	16,804
Revenue.....			
Total Expenses.....	19,114	19,294	18,420
Other Income/ (expense).....	(3,211)	1,565	6,406
Net (loss)/profit	(10,296)	(3,155)	4,786
Net (loss)/profit from continuing operations attributable to owners of the parent.....	(8,482)	(1,405)	7,762
Net (loss)/profit per share attributable to owners of the parent	(\$0.038)	(\$0.005)	\$0.040
Basic weighted average shares outstanding	223,119,693	191,743,724	191,743,724
Balance Sheet			
Working Capital Surplus	9,817	8,629	12,226
Total Assets	25,930	26,524	31,051
Total Non-current liabilities	8,593	3,004	3,855
Shareholders' Equity	28,072	31,845	32,750

Full Year 2014 Results of Operations

Metal revenues reduced to \$12,024,000 in the year to December 31, 2014 from \$14,574,000 in the year to December 31, 2013. This was as a result of a 10% decrease in the realised average sales price of gold from \$1,407 per ounce in 2013 to \$1,262 per ounce in 2014, together with an 8% year-over-year decrease in ounces sold from 10,334 ounces in 2013 to 9,504 ounces in 2014.

Total expenses reduced by 1% from \$19,294,000 in 2013 to \$19,114,000 in 2014. Included in 2013 was a release of withholding tax provision for \$1,005,000 relating to services to SOMIKA outside Mali. Excluding the provision release, total expenses decreased by 6% in 2014 relative to 2013. Administration expenses increased from \$2,110,000 in 2013 to \$3,766,000 in 2014. In 2013 administrative expenses were reduced by the released withholding tax provision. The majority of the remaining 2014 increase relates to increased activity of the Company. Cash costs of production for 2014 increased slightly from \$1,329 per ounce to \$1,336 per ounce.

Avnel recorded a net loss of \$10,296,000 (\$0.038 attributable loss per share) for the year ended December 31, 2014 compared to a net loss of \$3,155,000 (\$0.005 attributable loss per share) in the year to December 31, 2013. Included in 2014 is a charge for the fair value of derivative financial instruments of \$2,901,000, arising from the issue of warrants in the third quarter of 2014, compared to a profit of \$1,600,000 in 2013. These fair value accounting (losses)/gains reported have no cash effect on the Company.

As compared to the balance sheet as at December 31, 2013, Avnel's cash and cash equivalents as at December 31, 2014 increased by \$1,910,000 from \$5,799,000 to \$7,709,000 arising from the equity issue in the year partly offset by cash used in operations and technical studies.

There was a working capital surplus of \$9,817,000 as at December 31, 2014 compared to a working capital surplus of \$8,629,000 as at December 31, 2013. The working capital figures reported exclude the other derivative financial liability movements reported on the Company's Consolidated Statement of Financial Position, which does not represent a cash liability for the Company.

Total assets reduced from \$26,524,000 as at December 31, 2013 to \$25,930,000 at December 31, 2014.

Total non-current liabilities increased from \$3,004,000 as at December 31, 2013 to \$8,593,000 at December 31, 2014, mainly on the recognition of the liability related to the fair value of derivative financial instruments of \$5,457,000, arising from the issue of warrants in the third quarter of 2014.

Total stockholders' equity reduced to \$28,072,000 as at December 31, 2014 from \$31,845,000 as at December 31, 2013. The retained deficit increased by \$8,482,000 as a result of the net loss in the year to December 31, 2014.

Mining Operations

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

	<u>2014</u>	<u>2013</u>
Tonnes milled:		
Underground ore	49,513	50,848
Total	<u>49,513</u>	<u>50,848</u>
Gold grade - grams per tonne (g/t):		
Underground ore	7.4	7.6
Total	<u>7.4</u>	<u>7.6</u>
Recovery rate - %	81.2	81.8
Gold production - ounces	9,548	10,176
Cost per tonne milled - \$ per tonne	258	266
Operating cost per ounce of gold sold - \$ per ounce	1,325	1,332
Operating cost per ounce of gold produced - \$ per ounce	1,336	1,329

Gold production of 9,548 ounces in 2014 was 6% lower than 2013, resulting from 3% fewer tonnes milled in 2014 at a lower head grade of 7.4 g/t in 2014 compared to 7.6 g/t in 2013.

Gold recovery in 2014 decreased to 81.2% from 81.8% in 2013 due to an increase in the fraction of fine gold that is not amenable to gravity recoverable processes utilised at the mine.

Mine development totalled 764 metres in 2014 compared to 1,008 metres in 2013. Ore development decreased to 750 metres in 2014 compared to 909 metres in 2013.

Gold Sales

Gold sales data is as follows:

		<u>2014</u>	<u>2013</u>
Gold ounces sold	- at spot price	9,504	10,334
Average realized gold price per ounce	- at spot price	1,262.44	1,406.63
Metal revenue - \$000			
Total gold sales		11,998	14,536
Silver sales		26	38
Metal revenue		<u>12,024</u>	<u>14,574</u>

Gold spot prices commenced in 2014 at \$1,225 per ounce and ended at December 31, 2014 at \$1,206 per ounce, with the London PM Fix averaging \$1,266 per ounce during the year.

Summary of Quarterly Results

Consolidated Statement of Operations for the Quarters Ended

Quarter ended (US\$'000 except per share amounts)	Dec 31 2014	Sept 30 2014	June 30 2014	Mar 31 2014	Dec 31 2013	Sept 30 2013	June 30 2013	Mar 31 2013
Total Revenue	3,722	2,709	2,809	2,784	2,763	2,930	4,684	4,197
Net (Loss)/profit from continuing operations	(2,948)	(3,079)	(2,100)	(2,169)	(1,710)	(1,766)	(899)	1,220
Net (Loss)/profit from continuing operations attributable to owners of the parent	(2,039)	(3,076)	(1,673)	(1,694)	(987)	(755)	(430)	1,230
Net Loss/profit per share from continuing operations attributable to owners of the parent	(\$0.008)	(\$0.012)	(\$0.009)	(\$0.009)	(\$0.005)	(\$0.004)	(\$0.002)	\$0.006

Fourth Quarter 2014 Results of Operations

Revenue in the fourth quarter of 2014 increased 35% to \$3,722,000 compared to revenue of \$2,763,000 in the fourth quarter of 2013. The increase in revenue is due to increased gold sales from 2,187 ounces to 3,105 ounces that was partly offset by lower realised gold prices that were reduced from \$1,260 per ounce to \$1,197 per ounce.

The net loss in the fourth quarter of 2014 was \$2,948,000 compared to a loss of \$1,710,000 in the fourth quarter of 2013. The increased loss was mainly due to a non-cash net loss of \$2,182,000 on financial derivatives in 2014 compared to no loss in the comparative period in 2013. In the fourth quarter of 2013 there was also a withholding tax provision release of \$1,005,000.

Cash operating costs of \$246 per tonne milled in the fourth quarter of 2014 was consistent with the comparative period in 2013. Cash operating costs in the fourth quarter of 2014 was \$938 per ounce reduced from \$1,489 per ounce in 2013 due to increased gold production.

Cash and cash equivalents decreased in the quarter by \$1,057,000 to \$7,709,000 from \$8,766,000 due to cash used in operations and technical studies for the Kalana Main Project.

Liquidity, Capital Resources and Going Concern

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. At December 31, 2014 the Company had net current assets \$9,817,000 including a cash balance of \$7,709,000.

Supported by the results of the March 2015 MRE and the March PEA, the directors consider that in the Kalana project the Company has a valuable asset. The directors recognise the continuing operations of the Company are dependent upon its ability to raise adequate financing and that additional funding will be required for the DFS and, over the longer term, to build the proposed Kalana Main open pit mine.

In the third quarter of 2014 Avnel closed a brokered private placement. Pursuant to the Private Placement, Avnel Gold issued 67,586,400 Units of the Company at a price of C\$0.15 per unit for gross proceeds of approximately C\$10.1 million. Each Unit consisted of an ordinary share and a share purchase warrant. The proceeds are being used to complete technical studies for the Kalana Main Project and general corporate purposes.

On September 18, 2014, the Company announced that it had closed a C\$300,000 non-brokered private placement. All of the shares issued under the Offering were purchased by Mr. Jeremy Link, the Company's Vice-President, Corporate Development.

Mr. Link subscribed for 2,000,000 Units at a price of C\$0.15 per Unit. Each Unit consisted of one ordinary share in the capital of the Company and one non-transferable ordinary share purchase warrant (a "Warrant"). Each Warrant entitles Mr. Link to purchase one ordinary share of Avnel Gold at a price of C\$0.25 at any time for a period of two years from the date of issue of the Warrants.

The Company intends to sustain the current underground operation as long as economically feasible, without spending significant capital expenditure, until such time as the DFS is completed and assessed to enable the Company to better evaluate future development options.

Mining Properties

The carrying value of the Company's property, plant and equipment, including mining properties and capitalised mine development costs, at December 31, 2014 was \$13.7 million and at December 31, 2013 was \$15.3 million. The carrying value of these assets is not necessarily indicative of the realisable value of such assets if they were to be offered for sale at this time.

As of December 31, 2014, management assessed indicators of impairment of the carrying value of the Company's mining assets and does not consider that there has been any evidence of impairment in the value of such assets.

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

Contractual Obligations

The Company has the following contractual obligations as at December 31, 2014:

Contractual Obligations - \$000	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating Leases (1)	228	152	76	-	-
Total Contractual Obligations	<u>228</u>	<u>152</u>	<u>76</u>	<u>-</u>	<u>-</u>

Notes:

- (1) The Company has entered into operating leases for office space and equipment with a company related to the Fern Trust, a major shareholder of the Company. Pursuant to these leases which expire in June 2016, future minimum payments will amount to \$228,000 up until the end of the lease.

Contingent Liability

Malian Taxation

The three-year period Malian tax audit on SOMIKA for the years ended 2009, 2010 and 2011 was carried out during 2012 and resulted in a partial report received in December 2012 covering only the 2009 year. A further report covering 2010 and 2011 was received in November 2013. The inspector was claiming \$7.2 million including penalties, disputing various tax items including tax allowances on interest, withholding tax on foreign suppliers and VAT exemption. Management believe strongly that the majority of the tax claims are incorrect and have taken external advice. Management responded to the inspector in December 2013 contesting the claim and held a working clarification meeting in January 2014. A re- assessment was received on July 14, 2014 for \$6.5 million, which does not give

rise to an obligation to pay. A letter dated July 16, 2014 disputing the re-assessment has been sent and discussions continue.

Related Party Transactions

SOMIKA purchases explosives from African Explosives Limited (“AEL”). Mr. Ibrahim Kantao is a director of the Company, SOMIKA and AEL and is also the Director-General of AEL Mali SARL. Such purchases amounted to \$609,000 in the year ended December 31, 2014 compared to \$699,000 in the year to December 31, 2013. 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 of the Company. The Company incurred \$159,000 in rental costs during the year ended December 31, 2014 compared to \$146,000 in the year to December 31, 2013. The Company’s lease expires in June 2016.

Business Risks

The risks associated with Avnel and the effect on future operating results and financial position of the Company are set out in detail under the section entitled “Risk Factors” in the Company’s Annual Information Form dated March 31, 2015 (the “AIF”), which section is incorporated by reference into and forms an integral part of this MD&A. A copy of the AIF can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Going Concern

Supported by the results of the March 2015 and March 2014 MRE and PEA, the directors consider the Kalana Main Project to be a valuable asset. The directors recognise the continuing operations of the Company are dependent upon its ability to raise adequate financing and that additional funding will be required to complete the DFS and, in the longer term, to build the proposed Kalana Main open pit mine.

Exploration, Development and Operating Risk

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

The Company’s operations are located in West Africa where a major health risk due to a recent outbreak of the Ebola virus has occurred, although it appears to be contained. There is a risk that the Ebola virus may impact the mine’s future operations both directly and indirectly. The Malian government has instituted procedures to reduce the risk of the Ebola virus becoming an epidemic and outside international agencies are providing support to control the outbreak.

Gold Prices

The Company also faces risk in respect of its exposure to gold prices. Gold prices are subject to significant fluctuation and are affected by a number of factors which are beyond Avnel’s control.

Such factors include, but are not limited to, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold-producing countries throughout the world. The price of gold and base metals has fluctuated widely in the past 10 years, and future serious price declines could cause continued development of and commercial production from our properties to be impracticable.

Foreign Exchange Risk/Gold Hedging

All gold revenues and a portion of operating costs are in United States dollars.

The Company may engage in hedging agreements or activities to minimise the effect of declines in gold prices on its operating results. While these hedging activities may protect the Company against low gold prices, they may also limit the price that the Company can realise on the gold it produces where the market price of gold exceeds the gold price in such forward sales or option contracts. As a result, the Company may be prevented from realising possible revenues in the event that the market price of gold exceeds the price stated in such forward sales or option contracts.

The Company's local costs are paid for in CFA franc, which is fixed to the Euro at a ratio of 655.957 CFA per Euro. Currency exchange rate fluctuations against the US dollar may increase the Company's costs and the Company may engage in hedging activities to protect the Company's costs. The Company to date has not hedged its foreign exchange risk relating to its non-US dollar expenses.

Capital Requirements

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

Insurance and Uninsured Risks

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

Environmental Risks and Hazards

The Company is committed to environmental protection, to safe operations and to the control of environmental risks. The Company adheres to the requirements of the Malian Government and has

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

Governmental Regulation

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

Global Financial Risk

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

Critical Accounting Estimates

The consolidated financial statements of the Company for the year ended December 31, 2014, have been prepared in accordance with IFRS. Management is required to make various estimates and judgements in determining the reported amounts of assets and liabilities, revenues and expenses for each period presented and in the disclosure of commitments and contingencies. Management considers the following critical accounting policies reflect its more significant estimates and judgements used in the preparation of the consolidated financial statements.

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

All costs, other than acquisition costs, are expensed prior to the establishment of proven and probable reserves. Gains or losses resulting from the sale or abandonment of properties are included in operations. Acquisition and development costs associated with properties brought into

production are charged to operations using the units of production method based on estimated proven and probable reserves that can be recovered. Costs of start-up activities and on-going costs to maintain production are expensed as incurred. Production facilities and equipment are stated at cost and are amortized over the estimated proven and probable reserves which can be recovered from the related property.

The Company evaluates the carrying value of its properties and equipment when events or changes in circumstances warrant and tests for recoverability of the long life asset value. With respect to properties, a test for recoverability is performed to determine if the estimated discounted future cash flows exceed the carrying amount of the asset. Measurement of any impairment loss is determined by the estimated fair value of the assets based on the best information available, including comparable asset values in the market and the use of valuation techniques. Any estimates of future cash flows are subject to risks and uncertainties and it is reasonably possible that changes in estimates could occur which may affect the expected recoverability of investments in mining properties. The carrying value of the Company's estimate of mineral resource has been estimated as at in excess of the net book value of the Company's assets at the balance sheet date using comparative market value of resources, taken from recent mine transactions conducted at arm's length between willing parties. Based on these estimates management believe that no impairment to the carrying values exist at the balance sheet date. The Company has not recorded any impairment losses in any of the periods.

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

During 2006, the Company commissioned an environmental report by an independent party. This estimated a cash flow for the retirement and rehabilitation of the underground Kalana Gold Mine of \$2,236,000. The environmental liability is based on the work required to be carried out on the tailings facilities to ensure stabilisation of the facility and re-vegetation of the tailings surface area, the capping of the underground shafts and the reclamation of plant, workshops and buildings where appropriate. The area disturbed by mining operations will then be re-vegetated. There will then be an ongoing monitoring of the water quality and re-vegetation programmes. It is possible that the closure plan will change if a new open pit mine is developed, which is dependent on ongoing exploration, positive technical studies, and availability of project financing.

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.

Financing Use of Proceeds Analysis

In 2014, the Company raised aggregate net proceeds of US\$9.0 million through private placements as described above under "*Liquidity, Capital Resources and Going Concern*".

The Company's news releases dated June 26, 2014 and September 18, 2014 pertaining to the private placements stated that the Company anticipated using the net proceeds for (i) working capital expenditures at the Kalana Main Project; (ii) the completion of a PFS for the Kalana Main Project in order to bring the project closer to the feasibility study phase; and (iii) general corporate purposes. The Company utilised certain of the net proceeds in connection with the PFS, but subsequently announced on February 5, 2015 that as a result of the September 2014 MRE and engineering work to date, it could not complete the PFS without planned drilling and therefore determined to advance the Kalana Main Project directly to the DFS stage and discontinue the PFS. In the 6 months to December 31, 2014 the Company had utilised the proceeds as follows:

US\$m	Actual Use of Proceeds for the 6 months to December 31, 2014
Working Capital Expenditures for Kalana Main Project	\$0.9
PFS Study work for Kalana Main Project	\$2.0
General Corporate Purposes	\$1.4
Total	\$4.3

Disclosure of Outstanding Share Data

As at March 30, 2015, the Company had issued 261,430,124 common shares.

The following tables show the number of options or rights to purchase common shares of the Company as at March 30, 2015.

Avnel's issued share purchase options consist of:

- (a) 2,500,000 amended CEO options issued on February 23, 2005, which can be exercised at a price of US\$0.275 per option to obtain one Avnel Common Share, expiring on February 23, 2023; and
- (b) 6,704,000 Employee Long Term Incentive Plan options issued between August 2005 and December 31, 2014, which can be exercised at a price of between C\$0.20 and C\$0.76 per option to obtain one Avnel Common Share, expiring between August 2015 and March 2023:

Date of Grant	Vesting Date	Expiration Date	Exercise Price (\$C)	Number Outstanding
August 31, 2005	August 31, 2005	August 19, 2015	0.76	899,000
August 8, 2008	August 8, 2008	August 6, 2018	0.45	1,500,000
November 9, 2010	November 9, 2010	November 9, 2015	0.28	170,000
January 1, 2011	January 1, 2011	December 31, 2016	0.35	170,000
January 1, 2011	January 1, 2011	December 31, 2016	0.35	170,000
January 1, 2011	January 1, 2011	December 31, 2016	0.35	160,000
November 15, 2011	November 15, 2011	November 15, 2021	0.60	1,500,000
March 25, 2013	March 25, 2013	March 25, 2023	0.35	50,000
September 5, 2014	September 5, 2014	September 5, 2019	0.25	300,000
September 5, 2014	September 5, 2014	September 5, 2019	0.20	500,000
September 5, 2014	September 5, 2014	September 5, 2019	0.20	920,000
September 5, 2014	September 5, 2015	September 5, 2019	0.20	245,000
September 5, 2014	September 5, 2016	September 5, 2019	0.20	120,000
				<u>6,704,000</u>

Warrants and Compensation Options

The following table shows the number of warrants (and similar instruments) to purchase Common Shares of the Company as at December 31, 2014.

Date Issued	Type	Date Expiring	Exercise Price (C\$)	Number Outstanding
July 17, 2014	Warrants	January 17, 2017	0.20	67,586,400
July 17, 2014	Broker Compensation Options	July 17, 2017	0.15	1,222,776
July 17, 2014	Broker Warrants	January 17, 2017	0.20	810,000
July 17, 2014	Broker Compensation Units	July 17, 2016	0.15	810,000
Sept 18, 2014	Warrants	September 18, 2016	0.25	2,000,000
				<u>72,429,176</u>

With the exception of the warrants issued on September 18, 2014, each warrant entitles the holder to purchase one ordinary share in the capital of the Company at a price of \$0.20, at any time for a period of 30 months from the date hereof, provided that in the event that the ordinary shares trade on the Toronto Stock Exchange, or other recognised stock exchange or market, as applicable, at a volume-weighted average price of \$0.30 or more for a period of at least 20 consecutive trading days, the company shall be entitled to accelerate the exercise period to a period ending at least 30 days from the date that notice of such acceleration is provided to the holders of warrants.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure Controls and Procedures

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

Based on current securities legislation in Canada, management, including the Chief Financial Officer ("CFO") of the Company, evaluated the design and effectiveness of the Company's disclosure controls and procedures as of December 31, 2014, and concluded that such disclosure controls and procedures were operating effectively at that date. There were no significant changes to the Company's disclosure controls process during the year ended December 31, 2014.

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

Internal controls over financial reporting

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

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

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

The Company's management, including the CFO, have evaluated the design and effectiveness of internal controls over financial reporting as at December 31, 2014, and have concluded that the Company's internal control over financial reporting was effective during the year 2014.

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

certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

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

Additional Information

This MD&A has been prepared as of March 31, 2015. Additional information about the Company, including the Company's Annual Information Form, is available at www.avnelgold.com or the website of the System for Electronic Document Analysis and Retrieval at www.sedar.com.

Non-IFRS Measures

Avnel's audited consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and the accounting policies adopted in accordance with IFRS. These audited consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to present fairly our financial position as at December 31, 2014 and December 31, 2013, the results of operations, comprehensive income and cash flows for the twelve months ended December 31, 2014 and December 31, 2013.

Management uses both IFRS and Non-IFRS Measures to monitor and assess the operating performance of the Company's operations. Throughout this MD&A, management uses the following terms which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other organizations:

"Cash Operating Cost" is calculated as reported production costs, which includes costs such as mining, processing, administration, non-site costs (transport and refining of metals, and community and environmental), less royalties paid. These costs are then divided by the number of ounces sold to arrive at "Cash Operating Cost per Ounce Sold". Management uses these metrics to convey to investors the actual cash cost for each ounce of gold sold.

"All-in Sustaining Cost" is defined in the PEA by Snowden as mine site cash operating costs, which includes costs such as mining, processing, administration, but excludes non-site costs (transport and refining of metals and royalties), plus sustaining capital costs, which includes community and environmental costs, plus closure costs. These costs are then divided by the number of ounces produced to arrive at "All-in Sustaining Cost Per Ounce". Management uses these metrics to convey to investors the actual cash cost for each ounce of gold sold, adjusted for amounts paid for the long-term sustenance of the project.

Forward-Looking Statements

This MD&A contains forward-looking statements which are based on the Company's expectations, estimates and projections regarding its business and the gold market and economic environment in which it operates. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections, and other forward-looking statements will not occur. These assumptions may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Forward-looking statements in this MD&A include, among other things, statements about the potential financing, development and operation of an open-pit mine based on the preliminary economic assessment of the Kalana Main Project, the completion of a definitive feasibility study on the Kalana Main Project and the continued operation of, and production at, the existing Kalana Gold Mine. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Therefore, actual results of the Company could differ materially from those discussed in such forward-looking statements as a result of these risks and uncertainties and readers should not place undue reliance on such statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements, where as a result of new information, future events or otherwise, unless required by applicable law.

Technical Information

Except where indicated, the disclosure contained or incorporated into this MD&A of an economic, scientific or technical nature, has been summarised or extracted from the *National Instrument 43-101 – Standards of Disclosure for Mineral Projects* ("NI 43-101") compliant technical report titled "Kalana Mineral Resource Estimate and Preliminary Economic Assessment – Mali, NI 43-101 Technical Report" dated effective 31 March 2014 (the "Kalana Technical Report"), prepared by Snowden Mining Industry Consultants Pty Ltd. ("Snowden"). The Kalana Technical Report was prepared by Mr. Allan Earl, Executive Consultant, and Mr. Ivor W.O. Jones, Executive Consultant, both of Snowden at that time. Both Mr. Allan Earl and Mr. Ivor W.O. Jones are independent "Qualified Persons" as such term is defined in NI 43-101. Readers should consult the Kalana Technical Report to obtain further particulars regarding the Kalana Project, the Kalana Main Project, and the underground Kalana Gold Mine. The Kalana Technical Report, which constitutes the current technical report for the Kalana Main Project, was filed on SEDAR on March 31, 2014 and is available for review at www.SEDAR.com.

Information of an economic, scientific, or technical nature in this MD&A regarding the September 2014 Mineral Resource estimate (the "September 2014 MRE"), as defined above, and the March 2015 Mineral Resource estimates (the "March 2015 MRE"), as defined above, is summarised or extracted from reports prepared by Denny Jones Pty Ltd ("Denny Jones"). The September 2014 MRE and the March 2015 MRE were prepared by Ivor W.O. Jones, Principal Consultant, at Denny Jones.

The Mineral Resources reported in this MD&A have been classified within the meaning of the CIM *Definition Standards for Mineral Resources and Mineral Reserves* (November 2010). The Mineral Resource may be affected by further infill and exploration drilling that may result in increases or decreases in subsequent resource estimates. The Mineral Resource may also be affected by subsequent assessments of mining, environmental, processing, permitting, taxation, socio-economic, and other factors. Grade has been estimated using Multiple Indicator Kriging ("MIK"). Actual recoveries of mineral products may differ from reported Mineral Reserves and Mineral

Resources estimates due to inherent uncertainties in acceptable estimating techniques. In particular, Inferred Mineral Resources have a great amount of uncertainty as to their existence, economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category of Mineral Resource. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. Investors are cautioned not to assume that all or any part of the mineral deposits in these categories will ever be converted into Proven and Probable Mineral Reserves.

Unless stated otherwise, all Mineral Resources reported in this MD&A are classified as Indicated or Inferred Mineral Resources in accordance with the *CIM Standards on Mineral Resources and Reserves, Definitions and Guidelines* prepared by the CIM Standing Committee on Reserve Definitions and adopted by CIM Council.

Information of a scientific or technical nature in this MD&A arising since the date of the Kalana Technical Report, excluding the September 2014 MRE and March 2015 MRE, has been prepared under the supervision of Mr. Roy Meade, the Company's President and Dr. Olivier Femenias, the Company's Vice-President, Geology, both of whom are non-independent "Qualified Persons" as such term is defined in NI 43-101.