

**AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED MARCH 31, 2009**

The following management's discussion and analysis (the "MD&A") for Avnel Gold Mining Limited ("Avnel" or "the Company") describes the operating and financial results of the Company for the period from January 1, 2009 to March 31, 2009. 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 March 31, 2009 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 and "Kalana Phase I Exploration, Mali, West Africa" dated November 4, 2004 (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, and Andrew Killick, a consultant to the Company, each of whom 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 90% indirect interest in the Fougadian exploration and exploitation permit (the "Fougadian Exploration Permit"), through its subsidiary, Avnel Mali SARL. The State of Mali holds the remaining 20% interest in SOMIKA and 10% interest in the Fougadian Exploration Permit. SOMIKA is the owner of a gold mine located in the southwest of Mali (the "Kalana Gold Mine") and is the holder of an exploration permit in respect of 387.4 kilometres squared in south western Mali (the "Kalana Permit"). Avnel's strategic objective, through SOMIKA, is to commercially exploit the underground reserves at the Kalana Gold Mine, and enhance the economics of the Kalana Gold Mine through the conversion of existing open pit mineral resources into open pit reserves and to increase the resource base of open pit resources.

The Kalana Gold Mine 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. From 2004 to 2008, Avnel increased gold production at the Kalana Gold Mine from 7,396 ounces in 2004 to 25,359 ounces in 2007. In 2008, production decreased to 21,407 ounces. At the same time, Avnel has invested significantly in the capital expenditures and underground development required to expand production to a planned annual rate of 60,000 tonnes. The Kalana Gold Mine development was behind schedule up to 2007 and it is now anticipated that underground production will increase from 48,000 tonnes in 2008 to above 50,000 tonnes in 2009 and 2010. The mineral reserves that can be mined from existing underground infrastructure will be depleted during 2010 and Avnel has commenced addressing strategies for optimising the exploitation of its extensive resource base in and in the immediate proximity of the Kalana Gold Mine.

Selected Interim Information

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

	Three months ended March 31	
	2009	2008
Total Revenue.....	6,484	5,496
Total Expenses.....	8,092	5,089
Net (Loss)/Income	(3,091)	201
(Loss)/Income per share	(\$0.04)	\$0.003
Weighted average shares outstanding	75,844,572	65,409,927
Balance Sheet	<u>March 31, 2009</u>	<u>March 31, 2008</u>
Working Capital	(1,929)	169
Total Assets	29,598	30,959
Long Term Debt	10,941	10,941
Shareholders' Equity	9,723	13,605

Revenue has increased to \$6,484,000 in the first quarter of 2009 from \$5,496,000 in the same quarter of 2008. Gold sales of 6,895 ounces increased in the first quarter of 2009 compared to 5,959 ounces sold in the first quarter of 2008. Average sales price increased from \$920 per ounce in the first quarter of 2008 to \$939 per ounce in the first quarter of 2009. Spot prices decreased slightly from last year but the hedge price more than offset the spot price decrease. Sales in the first quarter of 2009 included 4,000 ounces sold forward at \$960 per ounce.

Avnel recorded net loss of \$3,091,000 (\$0.04 per share) for the three months ended March 31, 2009 compared to net income of \$201,000 (\$0.03 per share) in the first quarter of 2008. Whilst revenue has increased by 18% from 2008, costs have increased by 59% due mainly to higher depreciation charges.

As compared to the balance sheet as at December 31, 2008, Avnel's cash and cash equivalents as at March 31, 2009 increased by \$1,186,000. The increase comprised of the net of cash generated by operating activities of \$1,421,000 and cash utilised on capital equipment of \$512,000.

The working capital deficit has increased from a deficit of \$639,000 at December 31, 2008 to a deficit of \$1,929,000 at March 31, 2009. This was largely due to increased liabilities and reduced inventories.

Total assets decreased from \$31,843,000 as at December 31, 2008 to \$29,598,000 at the end of the quarter. The largest contributing factor to the decrease in total assets was the increased depreciation charge for the period, resulting from the significant reduction of proved and probable reserves of 52,000ozs as at 1 January 2009 compared reserves of 341,000ozs to 1 January 2008.

Long term debt of \$10,941,000 at March 31, 2009 remained the same as at December 31, 2008. Shareholders' equity decreased to \$9,723,000 at March 31, 2009 from \$12,665,000 at the end of 2008. This decrease is mainly due to the loss of \$3,091,000 in the first quarter.

Results of Operations

Mining Operations

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

	Three months ended March 31	
	2009	2008
Tonnes milled	12,783	10,290
Gold grade - grams per tonne (g/t)	13.06	17.06
Recovery rate - %	86.8	89.5
Gold production - ounces	4,663	5,050
Cost per tonne milled	\$285	\$301
Operating cost per ounce of gold sold	\$722	\$552
Operating cost per ounce of gold produced	\$782	\$614

Gold production of 4,663 ounces in the first three months of 2009 was 21% below plan and 8% lower than the production in the first quarter of 2008. The lower gold production than plan was due to lower mill throughput (12%) and lower head grade (10%).

Tonnes milled in the first quarter of 2009 were 24% above the production achieved in the corresponding period of 2008. The increase in ore production is due to more mining areas now being available. Production was negatively impacted by mechanical problems with underground equipment and power outages due to overloads. These problems were addressed during the quarter.

The gold grade of ore milled in the first quarter of 2009 was 23% lower than that obtained in the first quarter of 2008. The grade was 10% lower than the planned grade (14.5g/t) as the grades in Vein 17 were lower than forecast. Gold recovery of 86.8% in the first quarter of 2009 was in line with plan.

Development advanced 196 metres in the first quarter of 2009 compared to the planned 402 metres and 617 metres in the first quarter of 2008. Development was lower than plan due to delays caused by mechanical and electrical equipment problems.

Diamond drilling continued and 1,628 metres were completed. The drill holes were targeting Vein 19 and 19A between the 180m level and 220m level. The results show that the veins contain good grades over several narrow channel widths. When the mineralised zone is combined as a number of narrow quartz veins within the metasediments, the mineralised package extends over several metres but at lower grades. This mineralisation is not suitable for narrow vein mining with only gravity recovery as currently practised at Kalana but will be suitable for a mass mining method with a larger gold plant which is designed to recover all gold, not just free milling gravity gold.

Mine operating costs for the three months ended March 31, 2009 amounted to \$5,180,000, and included gold bullion stock movement of \$1,366,000 from the year end, compared with \$3,456,000 in the first quarter of 2008, an increase of 50%. One of the key factors driving the increase in costs is that the number of tonnes milled in the first quarter of 2009 was 24% greater than in the same quarter of 2008.

Cash operating costs of \$285 per tonne milled in the first quarter of 2009 were 5% lower than the cost per tonne in the corresponding period of 2008. Cash operating costs per ounce sold of \$722 per ounce of gold sold in the first quarter of 2009 increased significantly from \$552 per ounce in the same period for 2008. The main factor increasing the costs per ounce of gold sold is the decrease in grade and higher operating costs.

Gold Sales

Gold sales data is as follows:

	Three months ended March 31	
	2009	2008
Gold ounces sold		
- at spot price	2,895	5,959
- under forward contracts	4,000	-
- total	6,895	5,959
Average realized gold price per ounce		
- at spot price	\$909.38	\$919.90
- under forward contracts	\$959.98	\$ -
- total	\$938.74	\$919.90
Metal revenue - \$000		
Gold sales if all sales were at spot prices	\$6,253	\$5,482
Net effect of forward sales	\$ 219	-
Total gold sales	6,472	5,482
Silver sales	12	14
Metal revenue	6,484	5,496

Gold prices remained at a high level compared to recent years. Gold spot prices commenced 2009 at \$875 per ounce and increased to \$917 per ounce on March 31, 2009, with the London PM Fix averaging \$909 per ounce during the quarter.

Exploration

On October 17, 2006, Avnel was awarded the Fougadian Exploration Permit which lies south of the Kalana Permit, on which the Kalana Mine is operating. 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. Avnel has a 90% indirect interest and the Malian State holds a 10% in the Fougadian Exploration Permit, provided a decision is made to construct a mine. 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 has previously completed a blanket geochemical soil sampling programme over the entire license area and this defined 14 anomalies considered worthy of further investigation. The best developed anomaly, Avnel 1, is defined by an area where values generally exceed 32ppb Au and attain a maximum of 1731ppb Au. It extends for almost 4 kilometres in a N-S direction and for 1.5 kilometres in an E-W direction.

In March 2008, Avnel advanced its exploration of the Fougadian Exploration Permit by commencing a drilling program. The drill program was focused on the Avnel-1 gold-in-soil geochemical anomaly that is the largest and the most important in terms of gold and arsenic values on the Fougadian Permit.

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.

The results of this drilling programme are presently being assessed and thus far a quality control / quality assurance study has been completed on the assay data, individual borehole logs have been compiled and a petrographic study has been completed. An interpretation of the mineralized intersections is still in progress. In summary, out of the 50 holes drilled 15 (30%) intersected values above 1g/t Au.

Kalana Main Project

Towards the end of 2008 a project was initiated to; (i) capture the very large geological database generated in paper form by SONAREM and SOGEMORK (two Malian state companies operating with financial and technical assistance from the former Soviet Union) into a digital database and (ii) re-interpret that data to assess the potential for gold mineralisation outside of the flat dipping quartz vein structures mapped and assayed by SONAREM and SOGEMORK. 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.

Initial work on the exploration of the Kalana permit area was carried out by SONAREM and SOGEMORK, between 1967 and 1982. In this period, 815 diamond drill holes (totalling 81,524 m) were drilled focusing on an area adjacent to the Kalana village. This area eventually became the Kalana Gold Mine.

In a second phase of drilling between 1989 and 1991, a further 56 holes (totalling 16,000 m) were drilled by SOGEMORK to test the deeper parts of the Kalana Gold Mine. The result of the exploration drilling was a final drill spacing of approximately 50 m by 50 m. Sampling of core was generally only carried out where high gold grades were apparent (i.e. the gold bearing quartz veins) as the perception was that only the high grade free milling quartz veins could be profitably mined with the technology available in Mali at that time. The quartz veins and their immediate hanging and foot walls were analysed with the result that only a fraction of the core was analysed (likely being significantly less than 10%).

The majority of the drill holes were either vertical or sub vertical as the veins targeted were flat dipping. As such this drilling was not optimally oriented to intersect steeply dipping mineralized zones.

Borehole information was interpreted by SOGEMORK on northeast-southwest sections that are spaced at intervals of between 45 m and 50 m. In addition, there are longitudinal sections aligned northwest-southeast at intervals of approximately 60 m. The SOGEMORK exploration staff interpreted rock types, structure and the mineralized features, such as quartz veins and areas of stockwork, on these sections in great detail.

SONAREM-SOGEMORK also conducted exploration within the Kalanako I prospect area that is approximately 3.0 km to the northeast of the Kalana Gold Mine. SONAREM-SOGEMORK reported a historical resource of 600,000 tonnes at a grade of 3.6 g/t Au. Snowden cannot comment on the reliability of this historical resource as information regarding the estimate was not available for Snowden's review.

From 1963 until the 1980s, intermittent exploration activities were carried out by SONAREM-SOGEMORK on grids in the southern part of the Kalana Permit area. Most of the work within these grids involved mapping, selective sampling, and ground geophysics. No drilling or systematic soil geochemistry was conducted in the southern grid areas.

The focus of the Kalana Main Project is to study the potential for disseminated and stockwork styles of gold mineralisation and identify 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. The relatively widespread distribution of Au values outside of quartz veins does raise the prospect of a re-evaluation of Kalana resulting in the delineation of a more extensive mineralized body. For example, underground Borehole H1, drilled from 100 Level and inclined at an angle of 75° towards the southwest, passed through a zone with an average grade of 1.86g/t over 174.311m (corrected vertical interval of 168.37m). The majority of the quartz veins in this core had intersection angles in the range 40-65°.

The first step in this project, for which a budget of \$800,000 has been allocated, is to electronically compile the entirety of the database to enable a geological re-interpretation to be conducted using modern data management

methods. The database compiled by SONAREM and SOGEMORK in respect of the Kalana underground mine alone is extensive and consists of in excess of 871 diamond drill holes, totalling 97,524 metres.

At this stage no mineral resources have been outlined (in excess of those set out in the 2005 Snowden Technical Report) that demonstrate economic quantities of mineralisation styles other than the flatly dipping quartz veins and stockworks.

It has been decided to focus on capturing data for a selected part of the Kalana body that may have near-surface bulk-minable mineral resource to initiate any drilling that might be required for the area identified by Snowden in 2004 as a potential open pit.

Other Expenses

General and administrative costs reduced to \$618,000 for the three months ended March 31, 2009 compared to \$850,000 for the same quarter of 2008. The decrease is mostly accounted for by a decrease in salary costs

Depreciation, depletion and reclamation expenses increased to \$2,145,000 in the first quarter of 2009 compared to \$600,000 in 2008. This resulted from the significant reduction of proved and probable reserves of 52,000ozs as at 1 January 2009 compared reserves of 341,000ozs to 1 January 2008 as notified in the AIF and MD & A for the year ended 31 December 2008.

Interest expense was \$170,000 for the quarter ended March 31, 2009 compared to \$195,000 in 2008. The decrease is largely 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 \$1,312,000 resulted from the 7% weakening of the US dollar against the CFA Franc.

Summary of Quarterly Results

Consolidated Statement of Operations for the Quarters Ended

Quarter ended	Mar 31 <u>2009</u>	Dec 31 <u>2008</u>	Sep 30 <u>2008</u>	June 30 <u>2008</u>	Mar 31 <u>2008</u>	Dec 31 <u>2007</u>	Sep 30 <u>2007</u>	June 30 <u>2007</u>
Revenue	\$6,484	\$3,382	\$ 5,592	\$ 3,330	\$5,496	\$3,516	\$ 3,487	\$ 4,657
Net (loss)/income	\$(3,091)	\$(1,101)	\$(455)	\$ (2,102)	\$201	\$(633)	\$(1,320)	\$ 280
(Loss)/income per share	\$(0.041)	\$(0.015)	\$(0.007)	\$ (0.030)	\$0.003	\$(0.01)	\$(0.02)	\$ 0.004

The Company's revenue increased significantly in the first quarter compared to the last quarter as a result of holding gold bullion at the year end to meet the gold hedge in January 2009, due to the cessation of production in December 2008 because of the breakdown of the winder gearbox. The loss per quarter has increased, due to lower production caused mainly by lower grades, higher operating costs and higher depreciation.

Liquidity and going concern

The consolidated financial statements have been presented on the basis that the Company is a going concern. Accordingly, the financial statements do not include adjustments relating to the carrying value of assets, the amounts and classification of liabilities, or other adjustments that might result should the Company be unable to continue as a going concern. The Company has current liability debts of \$2.9 million due for repayment on 31 December 2009, and this debt repayment and continuing operations of the Company are dependent on its ability to generate future cash flows from its mining operations or obtain additional financing. There is a risk that additional financing will not

be available on a timely basis or on acceptable terms. Management are actively looking at re-financing options to address this issue and expect that financing options will be available to enable the Company to continue to operate as a going concern. In the event that the Company is unable to repay this debt, refinance such debt, or secure additional financing and continue as a going concern, material adjustments would be required to the carrying value of the assets and liabilities and the balance sheet classifications used.

The Company's cash flow and profitability is dependent primarily 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. With the world economy in recession sources of finance are more difficult to obtain and more expensive. Since the Company has subsidiaries operating in UK, Mali and the Cayman Islands, exposure also arises from fluctuations in currency exchange rates, political risks and varying levels of taxation. While the Company seeks to manage these risks, many of these factors are beyond its control.

Contractual Obligations

The Company has the following contractual obligations at March 31, 2009:

Contractual Obligations - \$000	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Current portion of long-term debt (1)	2,880	2,880	-	-	-
Long-term Debt (1)	10,941	-	10,941	-	-
Operating Leases (2)	353	53	300	-	-
Total Contractual Obligations	\$ 14,174	\$ 2,933	\$ 11,241	\$ -	\$ -

Notes:

- (1) The long term debt of Avnel consists entirely of shareholder loans provided by Elliott and the Fern Trust, the two major shareholders of Avnel.
At March 31, 2009 long term debt comprised of convertible loan notes of \$10,940,992 and the current portion of long-term debt of \$2,879,673.
- (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 £246,000 up until the end of the lease, which at the March 31 2009 exchange rate, is equivalent to \$350,000.
- (3) The Company has entered into an operating lease for an office building in Bamako, Mali. The lease expires in June 2009 and it is proposed to enter a new lease. The remaining commitment as at March 31, 2009 was \$3,000.

Capital Resources

Long term 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 mature on June 30, 2010.

The Company also has term loans provided by Elliott and the Fern Trust with an aggregate principle amount outstanding of \$880,000, bearing interest at a rate of 8% payable bi-annually. The term loans are due for repayment on December 31, 2009.

In addition the Company has the Loan Facility of \$3,000,000 with an aggregate principal of \$2,000,000 drawn at March 31, 2009. The loan matures on December 31, 2009 and bears interest at a rate of 10% per annum, payable bi-annually.

The Company expended \$4,803,000 on capital in 2007 and \$1,782,000 on capital in 2008. The Company forecasts that capital expenditure in 2009 will be \$1,800,000.

Contingent Liability

The three year period Malian tax audit on SOMIKA for years ended 2005, 2006 and 2007 was carried out during the year. The tax audit 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 has taken internal and external advice on these issues and have been in discussion with all parties involved, and is unable to estimate the amount of any potential loss at this time. However management 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 \$116,000 in the quarter ended March 31, 2009. The Company has an ongoing supply agreement with AEL Mali SARL.

Avnel entered into a forward sales agreement on March 4, 2008 in respect of 10,000 ounces for the period through to April 2009 at an average price of \$956 per ounce with Elliott. As at March 31, 2009, the Company had met all its obligations under this agreement. During the quarter ended March 31, 2009, forward sales of \$3,840,000 were recorded.

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 \$27,000 in rental costs during the quarter ended March 31, 2009. 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, 2009 (“the AIF”), which section is incorporated by reference into and forms an integral part of this MD&A. A copy of the AIF can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Going Concern

The Company has a significant going concern risk in that it relies on the cash flow of one operating mine. 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. The continuing operations of the Company are dependent on its ability to generate future cash flows from its mining operations or obtain additional financing, although there is a risk that additional financing will not be available on a timely basis or on acceptable terms. In the event that the Company is unable to secure additional financing and continue as a going concern, material adjustments would be required to the carrying value of the assets and liabilities and the balance sheet classifications used.

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

Insurance and Uninsured Risks

Avnel maintains insurance against risks that are typical in the gold mining industry. Although the Company maintains insurance in amounts that it believes to be adequate, the insurance coverage maintained may not be adequate in the event of unforeseen circumstances, and 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 property 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. SOMIKA is currently conducting test programs to assess the optimum process to ameliorate the risks associated with production, storage and disposal of these hazardous materials.

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 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.

Financial Instruments

In 2008, the Company sold forward 10,000 ounces of gold at an average price of \$956 per ounce. The Company believes that these forward sales qualify as normal sales contracts under SFAS 133 and recorded the revenues when the gold sold forward was delivered. These forward sales agreements were entered into with Elliott. At March 31, 2009, the Company had 750ozs remaining to be delivered into the forward sales agreements.

The Company has no other financial instruments or long-term commitments outstanding.

Disclosure of Outstanding Share Data

As at March 31, 2009, the Company had issued 79,187,189 common shares.

The following table shows the number of options or rights to purchase common shares of the Company as at March 31, 2009.

Warrants issued through the IPO on June 30, 2005	6,518,713
Convertible Loan Notes	15,219,736
Minority shareholder warrants	1,567,024
CEO Compensation Options	2,500,000
Long Term Incentive Plan	2,874,000
Total as at March 31, 2009	28,679,473

Outlook

For the remainder of 2009, Avnel is planning gold production of approximately 16,600 ounces at an average operating cost of approximately \$609 per ounce of gold produced, net of royalties. Tonnes milled is planned to be approximately 43,000 tonnes at an average head grade of 14.0 g/t. Development of vein 18 between 150m and 100m levels will commence in the 2nd quarter and this will provide a new mining reserve to replace Vein 17 that will be depleted by the end of the year.

Based on the diamond drill results in the 1st quarter, it has been decided to stop underground diamond drill operations. The target areas lie below the existing infrastructure at No 2 Shaft and it is not considered appropriate to continue with this program. The company is investigating a surface drill program to upgrade the open pit resources at the Kalana Mine down to a depth of 250 metres.

Underground development will focus on ore raises and winzes to open up the remaining reserve blocks that can be mined from the 180m level via the existing No2 Shaft infrastructure.

The company has commenced a cost reduction program. The program will focus on reducing capital expenditure and operating costs.

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 March 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 control framework the Company used to design its internal controls over financial reporting is based on the principles set out in the guidance on internal control (COCO Framework), formerly known as Guidance of the Criteria of Control Board, and published by the Canadian Institute of Chartered Accountants.

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 mitigated 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 March 31, 2009, and concluded that the Company's internal control over financing reporting was not effective during the period. During this process, the CEO identified certain deficiencies in internal control over financial reporting resulting primarily from a significant turnover of key management and accounting personnel during the year, lack of accounting expertise at the Company's remote Malian operations, and lack of segregation of duties. None of these deficiencies were individually or cumulatively considered to be material weaknesses and the risks arising from these deficiencies are not considered to be significant.

During 2008 Avnel appointed the current Chairman of the Board of Directors as the CEO of the Company. This creates a potential conflict as there is an inherent lack of segregation of duties and absence of oversight between management and the Board. To alleviate any potential conflict between the Board and management, a Lead Director has been appointed who is also Chairman of the Audit Committee.

Mr. Roy Meade, an executive director of the Company, took on the duties of Director Mining responsible inter-alia for mining, in Mali on 1 January 2009. The Company also appointed Mr. Alan McFarlane as VP Finance with effect from February 1, 2009. The Company's Financial Controller of its Malian operations was on maternity leave for part of the period. High turnover in senior personnel, and the absence for extended periods of appropriate approval authorities and signing officers, created deficiencies which impacted internal control procedures. The Company is aware that turnover of key management and accounting personnel represents a significant risk to internal control over financial reporting and is endeavouring to put in place policies to retain key personnel.

The Company has taken such action as it considers appropriate to minimize any potential risks from these deficiencies, including increased Director and Audit Committee oversight when deemed appropriate. The Company continues to review and assess its internal controls over financial reporting and is seeking to put enhanced procedures and controls in place. At the present time, the Company does not anticipate hiring additional accounting or administrative staff and accordingly, will continue to rely on review procedures to detect potential misstatements in reporting of material to the public.

The Company believes that its internal controls over financial reporting need to be enhanced to provide reasonable, but not absolute, assurance that the objectives of the control system are met. The design of a control system must reflect that there are staffing and financial resource constraints, and that the benefits of controls must be considered relative to their costs to the Company.

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 May 13, 2009. For further information about the Company, please visit the Company's website at www.avnelgold.com or the website of the System for Electronic Document Analysis and Retrieval at www.sedar.com.