

**AVNEL GOLD MINING LIMITED  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED JUNE 30, 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 April 1, 2009 to June 30, 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 June 30, 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 (the "2005 Snowden Technical Report") and "Kalana Phase I Exploration, Mali, West Africa" dated November 4, 2004 (together with the 2005 Snowden Technical Report, the "Technical Reports"). The Technical Reports were prepared by G.M. Greenway, Principal Resource Geologist, and D.H. Kullmann, Principal Consultant Mining Engineer, of Snowden, each of whom is a "Qualified Person" as such term is defined in National Instrument 43-101 — *Standards of Disclosure for Mineral Projects* ("National Instrument 43-101").

Technical information in this publication arising subsequent to the date of the Technical Reports, if any, regarding the Kalana Gold Mine and the Kalana Permit is provided by Avnel management under the supervision of Roy Meade, a Company director, 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 mineral reserves that can be mined from existing underground infrastructure are currently under review and Avnel has commenced addressing strategies for optimising the exploitation of its extensive resource base at and in the immediate proximity of the Kalana Gold Mine. See below under the heading “ Kalana Main Project”.

The Company announced by press release on August 11, 2009 that it had entered into an option agreement dated August 10, 2009 (the “Option Agreement”) with IAMGOLD Corporation ("IAMGOLD") whereby IAMGOLD has the option to acquire up to an initial 51% indirect interest in the Company’s 80% interest in SOMIKA and up to an initial 51% undivided interest in all of the loans made by Avnel to SOMIKA (the “Guernsey Loans”) by spending US\$11,000,000 on exploration activities over a three year period, subject to extension, and by delivering a resource calculation of at least 2 million ounces of gold as well as proceeding with a feasibility study. The principal focus of the exploration work to be done by IAMGOLD will be on the northern most part of the Kalana Permit area encompassing the Kalana Gold Mine. A copy of the press release announcing the Option Agreement can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) and the company’s website. Together with IAMGOLD, the Company believes that it will have the expertise, experience and funding to take the Kalana Main Project forward and, if successful, to a production decision for a bulk mining operation. The Company and IAMGOLD may also further explore the remainder of the 387.4 sq. km. Kalana Permit which is in a geologically prospective setting and on which the Company has had some initial exploration success.

The main details of the Option Agreement are as follows:

1. IAMGOLD paid Avnel a signing fee of US\$1 million and will pay a continuation fee of a further US\$1 million in cash on the first anniversary of the Option Agreement subject to IAMGOLD not terminating the option.
2. IAMGOLD is required to spend US\$11 million (net of fees and overheads) within three years (subject to a one year extension) to explore the potential for further gold mineralisation principally in and around the area of the existing Kalana Gold Mine.
3. If IAMGOLD, on the completion of exploration, delivers a National Instrument 43-101 compliant resource study establishing the existence of not less than 2 million ounces of gold and a feasibility study work plan to move forward with a feasibility study, it will have the option to acquire a 51% indirect interest in Avnel’s 80% interest in SOMIKA and an undivided 51% interest in the Guernsey Loans. If IAMGOLD funds the exploration costs within the required time period but does not deliver the required resource study and feasibility study work plan it will have the option to acquire a 25% indirect interest in Avnel’s interest in SOMIKA and an undivided 25% interest in the Guernsey Loans.
4. After IAMGOLD has acquired an indirect interest in SOMIKA under the Option Agreement, it will enter into a shareholders' agreement (the “Shareholders’ Agreement”) with Avnel (the terms of which are agreed) to govern IAMGOLD's and Avnel’s indirect joint ownership interest in SOMIKA.
5. Under the Shareholders' Agreement, if IAMGOLD exercises its right to acquire a 51% interest under the Option Agreement, IAMGOLD will have the right to acquire up to an additional 19% interest if, among other requirements, it solely funds the preparation of and delivers a feasibility study that supports the development or re-development of a gold mine in the Kalana Permit area. If Avnel participates in the funding of the feasibility study by reimbursing IAMGOLD for 25% of its feasibility study costs, IAMGOLD’s additional interest will be reduced to 14%.
6. Pursuant to the Shareholders' Agreement, during the period of the preparation of the feasibility study, Avnel and IAMGOLD will share all operating costs related to the Kalana Mine and Permit Area on a pro-rata basis based on their indirect partnership in SOMIKA.
7. Under the Shareholders' Agreement, if IAMGOLD does not deliver the feasibility study, its interest will drop to 35%.

8. The holder of the majority indirect interest in SOMIKA from time to time will be the operator of the Permit Area.
9. Pursuant to the Shareholders' Agreement, upon delivery of the feasibility study, IAMGOLD will pay a cash fee to Avnel based the number of ounces of gold categorized as reserves in the feasibility study and the number of ounces of gold in excess of 650,000 ounces categorized as resources (excluding reserves) in the feasibility study multiplied by different dollars per ounce depending on the previous 180 day trading average gold price.
10. Pursuant to the Shareholders' Agreement, upon delivery of the feasibility study, as a precondition to IAMGOLD increasing its indirect interest in SOMIKA, IAMGOLD is required to provide a completion guarantee to secure project financing for the development and construction of the mine outlined in the feasibility study or, if it cannot provide such a guarantee or determines project financing on acceptable terms is not available, IAMGOLD shall itself provide the project financing in an amount equal to 60% of the development costs. Avnel and IAMGOLD shall fund the remaining 40% of development costs on a pro-rata basis based on their indirect ownership interest in SOMIKA.
11. In addition, on August 10, 2009, Avnel issued to IAMGOLD warrants to acquire up to 2 million common shares of Avnel at a exercise price of Cdn.\$0.45 per share. The warrant exercise period expires on the earlier of (i) August 10, 2012 and (ii) the exercise by IAMGOLD of its option under the Option Agreement or otherwise the termination or forfeiture of the option.

### **Kalana Main Project**

Towards the end of 2008 a project (the "Kalana Main 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 and analysis of core was generally only carried out over the quartz veins and their immediate hanging and foot walls with the result that only a fraction of the core was analysed (likely being significantly less than 10%). This was due to the perception that only the high grade free milling quartz veins could be profitably mined with the technology available in Mali at that time.

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 did not comment on the reliability of this historical resource as

information regarding the estimate was not available for Snowden's review during preparation of the 2005 Snowden Technical Report.

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°.

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.

### Selected Interim Information

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

|                                     | Three months ended June 30 |            | Six months ended June 30 |            |
|-------------------------------------|----------------------------|------------|--------------------------|------------|
|                                     | 2009                       | 2008       | 2009                     | 2008       |
| Total Revenue.....                  | \$ 4,738                   | \$ 3,330   | \$ 11,222                | \$ 8,826   |
| Total Expenses.....                 | \$ 6,433                   | \$ 5,067   | \$ 14,525                | \$ 10,156  |
| Net Loss.....                       | \$ (1,395)                 | \$ (2,102) | \$ (4,486)               | \$ (1,901) |
| Loss per share                      | \$ (0.018)                 | \$ (0.030) | \$ (0.058)               | \$ (0.030) |
| Weighted average shares outstanding | 79,187,189                 | 70,981,761 | 77,525,114               | 68,195,844 |

### Balance Sheet

|                           | June 30,<br>2009 | December 31<br>2008 |
|---------------------------|------------------|---------------------|
| Working Capital           | \$ (12,592)      | \$ (639)            |
| Total Assets.....         | \$ 27,054        | \$ 31,843           |
| Long Term Debt.....       | \$ -             | \$ 10,941           |
| Shareholders' Equity..... | \$ 8,327         | \$ 12,665           |

Revenue has increased to \$4,738,000 in the second quarter of 2009 from \$3,330,000 in the same quarter of 2008. Gold sales of 5,085 ounces increased in the second quarter of 2009 compared to 3,679 ounces sold in the second quarter of 2008. Average sales price increased from \$903 per ounce in the second quarter of 2008 to \$930 per ounce in the second quarter of 2009. Sales in the second quarter of 2009 included 750 ounces sold forward at \$964 per ounce compared to sales in the second quarter of 2008 of 750 ounces at \$948 per ounce.

Avnel recorded net loss of \$1,395,000 (\$0.018 per share) for the three months ended June 30, 2009 compared to net loss of \$2,102,000 (\$0.03 per share) in the second quarter of 2008. Whilst revenue has increased by 42% in the second quarter of 2009 compared to the second quarter of 2008 due to higher gold sales volumes and prices, costs have increased by 27% 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 June 30, 2009 increased by \$650,000 to \$927,000. The increase comprised of the net of cash generated by operating activities of \$1,176,000 less net cash utilised on capital equipment of \$526,000.

The working capital deficit has increased from a deficit of \$639,000 at December 31, 2008 to a deficit of \$12,592,000 at June 30, 2009. This was largely due to the \$10.9 million convertible loan notes becoming a current liability as they are due on June 30, 2010.

Total assets decreased from \$31,843,000 as at December 31, 2008 to \$27,054,000 at the end of the quarter. The main contributing factors are: reduced gold bullion stocks held from year end and an increased depreciation charge for the period resulting from the significant reduction of proved and probable reserves of 52,000ozs as at January 1, 2009 compared to reserves of 341,000ozs at January 1, 2008.

Shareholders' equity decreased to \$8,327,000 at June 30, 2009 from \$12,665,000 at the end of 2008. This decrease is mainly due to the losses of \$4,486,000 in the first half of the year.

## Results of Operations

### Mining Operations

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

|   | <u>Three months ended June 30</u> |             | <u>Six months ended June 30</u> |             |
|---|-----------------------------------|-------------|---------------------------------|-------------|
|   | <u>2009</u>                       | <u>2008</u> | <u>2009</u>                     | <u>2008</u> |
| Tonnes milled:                            |                                   |             |                                 |             |
| Underground ore                           | 11,568                            | 12,110      | 24,351                          | 22,400      |
| <hr/>                                     |                                   |             |                                 |             |
| <hr/>                                     |                                   |             |                                 |             |
| Gold grade - grams per tonne (g/t):       |                                   |             |                                 |             |
| Underground ore                           | 12.2                              | 12.37       | 12.63                           | 14.82       |
| <hr/>                                     |                                   |             |                                 |             |
| <hr/>                                     |                                   |             |                                 |             |
| Recovery rate - %                         | 85.6                              | 86.3        | 86.1                            | 87.2        |
| Gold production – ounces                  | 3,879                             | 4,150       | 8,542                           | 9,200       |
| Gold production from mill reline-ounces   | 492                               |             |                                 |             |
| Cost per tonne milled                     | \$277                             | \$239       | \$281                           | \$268       |
| Operating cost per ounce of gold sold     | \$763                             | \$846       | \$740                           | \$664       |
| Operating cost per ounce of gold produced | \$827                             | \$698       | \$802                           | \$652       |

Gold production of 3,879 ounces in the three months ending June 30, 2009 was 39% below plan and 6% lower than the production in the second quarter of 2008. The lower gold production than plan was due to lower mill throughput (22%) and lower head grade (20%).

492 ounces of gold were recovered during the mill reline in May and are shown as additional gold production. This gold was trapped behind the liners that were installed in October 2008. This gold was recovered when the plant was standing due to the underground flooding of the mine. The gold recovered was deposited during the period from October 2008 to May 2009.

Tonnes milled in the second quarter of 2009 were 6% lower than the production achieved in the corresponding period of 2008. This was due to the flooding of the 180m level on May 21, 2009 resulting in the underground ore production stopping. Underground production commenced on June 6, 2009. It is estimated that the production loss was 2,300 tonnes and 700 ounces during this period.

The gold grade of ore milled in the second quarter of 2009 was 4% lower than that obtained in the second quarter of 2008. The grade was 20% lower than the planned grade (15.3g/t). Production from the higher grade zone on vein 17 was lower than plan resulting in a decrease in overall grade. The mining grade in the remainder of vein 17 was in line with plan at 13g/t due to better than planned mining widths (1.27m versus 1.6m). Vein channel grades were lower than expected in the quarter. Ore development grade was 5g/t with disappointing results from vein 18, vein 18C and Vein 1 ore development

Gold recovery of 85.6% in the second quarter of 2009 was 1% lower than plan due to the lower head grade..

Development advanced 133 metres in the second quarter of 2009 compared to the planned 302 metres and 535 metres in the first quarter of 2008. Development activities were reduced in the north side of the mine as initial development ore grades and diamond drill assay results indicated lower grades than forecast. Development focused on extending the mining areas on vein 17 and vein 18C where good grades have been mined. Development of vein 18 between 180m level and 100m level has shown ore grades to be lower than expected. The quartz vein is thin with erratic grades. Over a mining width of 1.2m the potential grade is 10g/t which is marginally economic.

The head grade in the second quarter showed a downward trend from 14g/t in April to 9g/t in June. The grade recovered to 10g/t in July. Management are currently reviewing the planned mineable mineral reserves.

Based on the diamond drill results in the first quarter, management has made a decision 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 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 June 30, 2009 amounted to \$4,016,000, and included gold bullion stock movement of \$670,000, compared with \$3,212,000 in the second quarter of 2008. Cash operating costs of \$277 per tonne milled in the second quarter of 2009 were 16% higher than the cost per tonne in the corresponding period of 2008. Cash operating costs per ounce sold of \$763 per ounce of gold sold in the second quarter of 2009 reduced from \$846 per ounce in the same period for 2008.

### Gold Sales

Gold sales data is as follows:

|  |                           | Three months ended June 30 |          |
|--|---------------------------|----------------------------|----------|
|  |                           | 2009                       | 2008     |
| <b>Gold ounces sold</b>                      | - at spot price           | 4,335                      | 2,929    |
|  | - under forward contracts | 750                        | 750      |
|  | - total                   | 5,085                      | 3,679    |
| <b>Average realized gold price per ounce</b> | - at spot price           | \$924.22                   | \$891.52 |
|  | - under forward contracts | \$963.89                   | \$947.72 |
|  | - total                   | \$930.07                   | \$902.98 |
| <b>Metal revenue - \$000</b>                 |                           |                            |          |
| Gold sales if all sales were at spot prices  |                           | \$6,253                    | \$3,293  |
| Net effect of forward sales                  |                           | \$ 219                     | \$29     |
| Total gold sales                             |                           | \$6,472                    | \$3,322  |
| Silver sales                                 |                           | \$412                      | \$8      |
| Metal revenue                                |                           | \$6,484                    | \$3,330  |

Gold prices remained at a high level compared to recent years. Gold spot prices commenced 2009 at \$875 per ounce and had increased to \$935 per ounce on June 30, 2009, with the London PM Fix averaging \$922 per ounce during the quarter.

### Exploration

On December 14, 2006, Avnel was awarded the Fougadian Exploration Permit which lies south of the Kalana Permit, on which the Kalana Gold Mine is operating. The Fougadian Exploration Permit covers an area of 150 square kilometres. The permit was awarded in accordance with the 1999 Mining Code and a foundation agreement (the "Foundation Agreement") was signed between Avnel Mali SARL, 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 Fougadian 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 Exploration Permit.

Two diamond drill holes were completed to a depth of 190 metres in order to provide information on the bedrock structure that was 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 of 2008, covering only a 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 was completed in May. That synthesis has indicated the presence of two sub-parallel zones of mineralization. The highest grade intersection was 7.45g/t Au over an intersection width of 2m and the widest intersection width was 14m at 0.92g/t Au, using a cut-off of 0.5g/t. Nine intersections contain 1g/t Au or more over intersection widths ranging from 2 to 12m. Although no clearly economic mineralization has been delineated thus far the results are considered encouraging enough to justify further drilling of the Avnel 1 target. Avnel is currently preparing an application for a renewal of the Fougadian Exploration Permit for a 3 year period.

#### **Other Expenses**

General and administrative costs reduced to \$573,000 for the three months ended June 30, 2009 compared to \$847,000 for the same quarter of 2008. The decrease is mostly accounted for by a decrease in employment related costs.

Depreciation, depletion and reclamation charge increased to \$1,645,000 in the second quarter of 2009 compared to \$489,000 in the second quarter of 2008, resulting in the charge for the 6 months to June 2009 of \$3,790,000 compared to the 6 months to June 2008 charge of \$1,089,000. The increase in the depreciation and depletion resulted from the significant reduction of proven and probably reserves to 52,000 ozs as at January 1, 2009 compared to reserves of 341,000 ozs. as at January 1, 2008 as disclosed in the Company's AIF and MD&A for the year ended December 31, 2008.

Interest expense was \$172,000 for the quarter ended June 30, 2009 compared to \$198,000 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.

### **Summary of Quarterly Results**

#### **Consolidated Statement of Operations for the Quarters Ended**

| <b>Quarter ended</b> | <b>June 30</b>     | <b>Mar 31</b>      | <b>Dec 31</b>      | <b>Sep 30</b>      | <b>June 30</b>     | <b>Mar 31</b>      | <b>Dec 31</b>      | <b>Sep 30</b>      |
|----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                      | <u><b>2009</b></u> | <u><b>2009</b></u> | <u><b>2008</b></u> | <u><b>2008</b></u> | <u><b>2008</b></u> | <u><b>2008</b></u> | <u><b>2007</b></u> | <u><b>2007</b></u> |

|                                |           |           |           |           |            |         |          |           |
|--------------------------------|-----------|-----------|-----------|-----------|------------|---------|----------|-----------|
| <b>Revenue</b>                 | \$4,738   | \$6,484   | \$3,382   | \$ 5,592  | \$ 3,330   | \$5,496 | \$3,516  | \$ 3,487  |
| <b>Net (loss)/income</b>       | \$(1,395) | \$(3,091) | \$(1,101) | \$(455)   | \$ (2,102) | \$201   | \$(633)  | \$(1,320) |
| <b>(Loss)/income per share</b> | \$(0.018) | \$(0.041) | \$(0.015) | \$(0.007) | \$ (0.030) | \$0.003 | \$(0.01) | \$(0.02)  |

The increased losses in 2009 arise mainly from the increased depreciation charges resulting from the reduction of life of mine reserves from 52,000ozs as at January 1, 2009 compared to reserves of 341,000ozs at January 1, 2008 as disclosed in the Company's AIF and MD&A for the year ended December 31, 2008

### 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 total current liability debts of \$13.8 million, \$2.9 million due for repayment on December 31, 2009, and \$10.9 million due June 30, 2010. This debt repayment and continuing operations of the Company are dependent on its ability to restructure and re-negotiate the debt and/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 the 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 June 30, 2009:

| Contractual Obligations - \$000      | Total         | Less than<br>1 year | 1-3 years  | 4-5 years | After<br>5 years |
|--------------------------------------|---------------|---------------------|------------|-----------|------------------|
| Short-term debt (1)                  | 13,821        | 13,821              | -          | -         | -                |
| Operating Leases (2)                 | 390           | 136                 | 254        | -         | -                |
| <b>Total Contractual Obligations</b> | <b>14,211</b> | <b>13,957</b>       | <b>254</b> | <b>-</b>  | <b>-</b>         |

Notes:

- (1) The short term debt of Avnel consists entirely of shareholder loans provided by Elliott and the Fern Trust, the two major shareholders of Avnel.  
At June 30, 2009 the short term debt comprised of convertible loan notes of \$10,940,992 and \$2,879,673 of loan facilities.
- (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 £230,000 up until the end of the lease, which at the June 30, 2009 exchange rate, is equivalent to \$379,000.
- (3) The Company has entered into an operating lease for an office building in Bamako, Mali expiring in June 2010. The remaining commitment as at June 30, 2009 was \$10,500.

### Short Term Debt and Capital Resources

All debt of the Company is short term and is with related parties

The Company has a secured bridge loan with a related party of \$2,000,000. The loan matures on December 31, 2009 and bears interest at a rate of 10% per annum, payable bi-annually.

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

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

### **Contingent Liability**

A Malian tax audit on SOMIKA for the years ended 2005, 2006 and 2007 was carried out during 2008. 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. Subsequent to the year end the major areas of disagreement have been accepted by the tax authorities and a revised tax assessment has been received.

Management are currently reviewing the potential care and maintenance costs of the underground mine including retrenchment.

### **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 \$91,000 in the quarter ended June 30, 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 June 30, 2009, the Company had met all its obligations under this agreement. During the quarter ended June 30, 2009, forward sales of \$723,000 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 \$34,000 in rental costs during the quarter ended June 30, 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](http://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 restructure, re-negotiate its debt and/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*

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

#### *Environmental Risks and Hazards*

The Company is committed to environmental protection, to safe operations and to the control of environmental risks. The Company adheres to the requirements of the Malian Government and has adopted policies and procedures as expected in the mining industry. The Company is committed to maintaining the aforementioned risks at levels as low as can be reasonably achieved, taking into account social and economic factors, and that continued improvement in environmental and health and safety performance be achieved.

#### *Governmental Regulation*

All phases of Avnel's operations are subject to environmental regulation in the jurisdiction in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of

proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Avnel's operations. Environmental hazards may exist on the properties which are unknown to Avnel at present and which have been caused by previous or existing owners or operators of the properties.

#### *Hazardous Materials*

Certain hazardous materials are presently stored on the Kalana Gold Mine site, including diesel fuel, arsenic trioxide and sulphide concentrates tailings that remain from the SOGEMORK operations in the 1980s. 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 certain shareholders advanced funds to the Company in 2004. The Company still considers that 8.5% is an appropriate credit-adjusted risk-free rate.

Transactions expressed in foreign currencies are translated into U.S. dollars at the rate of exchange prevailing on the date of transaction. Monetary assets and liabilities expressed in foreign currencies are re-converted into U.S. dollars at the rates of exchange prevailing on the balance sheet date.

The financial statements of overseas subsidiaries are remeasured into their functional currency. Mining properties and other non-current assets are remeasured at historical rates. Monetary assets and liabilities are remeasured at current rates. Revenue and expense transactions are remeasured at the average rate for the period. Remeasurement gains and losses are included in income.

#### **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 June 30, 2009, the Company had fully 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 June 30, 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 June 30, 2009.

|  |                   |
|--|-------------------|
| Warrants issued through the IPO on June 30, 2005 | 6,518,713         |
| Convertible Loan Notes                           | 14,079,717        |
| Minority shareholder warrants                    | 1,532,824         |
| CEO Compensation Options                         | 2,500,000         |
| Long Term Incentive Plan                         | 2,874,000         |
| <b>Total as at March 31, 2009</b>                | <b>27,505,254</b> |

#### **Outlook**

For the remainder of 2009, Avnel is planning gold production of approximately 7,000 ounces at an average operating cost of approximately \$700 per ounce of gold produced, net of royalties. Tonnes milled is planned to be approximately 22,000 tonnes at an average head grade of 11.4 g/t

Based on the diamond drill results in the first 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 Gold 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 low development grades encountered in the second quarter are a concern as the mineral reserves may be lower than forecast.

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

Management are currently reviewing the planned mineable mineral reserves.

## **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 June 30, 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 June 30, 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 from a 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 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 August 14, 2009. For further information about the Company, please visit the Company's website at [www.avnelgold.com](http://www.avnelgold.com) or the website of the System for Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com).