

# Avnel Announces Filing of AIF and Year-End Consolidated Financial Statements and MD&A for the year ended December 31, 2016

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ST. PETER PORT, Mar 30, 2017 - [Avnel Gold Mining Ltd.](#) ("Avnel" or the "Company") (TSX:AVK) is announcing that it has filed its 2016 Annual Information Form ("AIF") and its audited Consolidated Financial Statements and the related Management Discussion & Analysis ("MD&A") for the three and twelve month periods ended December 31, 2016 on SEDAR.

## Fourth Quarter 2016 Highlights:

- Completed an optimisation feasibility study (the "OFS") to enhance the results of the definitive feasibility study for the Kalana Main Project (the "Feasibility Study"). The OFS shows the potential for improved economics and a project construction schedule of 19 months, 3 months shorter than the Feasibility Study. (The OFS does not incorporate any changes to the project's underlying Canadian NI 43-101 compliant Mineral Reserves and Resources and the production profile and the mining plan of the project outlined in the Feasibility Study remain unchanged, but as a result of the optimisation process, the project's cost structure has been reduced. Please see "Kalana Main Project Optimisation", below.)
- Completed a 8,635m exploration drill program at the Kalanako deposit
- Issued tender document for the construction of the tailings storage facility
- Received a receipt from the Ontario Securities Commission, as principal regulator, for a base shelf prospectus that was filed in each province of Canada except Quebec. The base shelf prospectus, as amended, qualifies an aggregate offering amount of C\$325,000,000 of debt securities, ordinary shares, warrants, subscription receipts and units in the 25-month period following the date of the receipt (October 7, 2016).

## Full Year 2016 Highlights:

- Completed the Feasibility Study for the Kalana Main Project and filed a National Instrument 43-101 *Standards of Disclosure for Mineral Project* ("NI 43-101")-compliant technical report in support of the Feasibility Study on SEDAR
- Announced an updated Mineral Resource Statement for the Kalana Main Project
- Received approval of the environmental and social impact assessment (the "ESIA") for the development of the Kalana Main Project
- Appointed Mr Charles Graham as Project Manager and Mr Raymond Deen as Project Controls Manager for the Kalana Main Project
- Appointed ABS Africa to assist Avnel to develop strategies, policies and action plans to meet the requirements of the Environmental and Social Management plan.
- Appointed Epoch Resources, who completed the Tailings Storage Facility design for the Feasibility Study, and commenced detailed engineering design to enable tender for construction to be issued.
- Appointed ESDCO, a Malian Consultant who completed the socio-economic and Resettlement Action Plan (the "RAP") for the Feasibility Study, to design and manage the implementation of the RAP for Kalana Town and other impacted areas
- Announced infill and extension drilling programme on the Kalanako deposit and regional exploration activity in Q4 2016 and Q1 2017
- Appointed Anne-Séverine Le Doaré to the Board of Directors
- Appointed DRA Mineral Services and Group 5 Joint Venture to execute the Engineering, Procurement and Construction ("EPC") for the Kalana Project, subject to final contractual documentation

## Significant Events Subsequent to December 31, 2016:

- Announced Kalana Main Project optimisation
- Discussions advanced with banks and financial institutions on financing the Kalana Main Project

- In January and February 2017, 67,063,700 C\$20c warrants were exercised for aggregate proceeds of \$10.2 million.

## 2017 Outlook

In March 2016 a positive Feasibility Study for the Kalana Main Project was completed and the related ESIA and associated ESMP have been approved by the Malian authorities. The approval of the ESIA was the key government approval required to advance the Kalana Main Project towards construction as the Kalana Exploitation Permit was awarded to Avnel in 2003 with an initial term of 30 years plus two ten year extensions. The Company continues to advance the Kalana Main Project towards a construction decision through its 80% ownership in Société d'Exploitation des Mines d'Or de Kalana, S.A. ("SOMIKA").

In January 2017 the company announced the results of an Optimisation of the Feasibility Study (see Kalana Main Project Optimisation below). The results enhanced the financial parameters for the project and reduced the execution risk for construction and operations. An EPC Contract for the construction of the gold plant and associated infrastructure has been awarded to a Joint Venture of two international engineering companies namely DRA Mineral Services and Group Five. The EPC Contract has improved the construction period by 3 months and the fixed cost is within the Feasibility Study capex. A Power Supply Contract has been negotiated with an international power provider, subject to final documentation. The hybrid power plant will utilise solar and fossil fuels, reducing annual fuel consumption with financial and environmental benefits. The company will issue a request for tender to international contract mining companies for the mining of the Kalana Main Project. Assuming positive results the project financials will be enhanced and the execution risk reduced.

The company will advance the planned resettlement ("RAP") of impacted persons resulting from the future operation. Final urban planning approval for the extension of Kalana Town is expected by Quarter 3, 2017, and this will allow construction of new housing and public infrastructure to commence when funding is available. The RAP Commission to oversee the process was established by the Malian authorities and will implement the plan in consultation with all stakeholders according to Malian legislation and IFC Performance Standards.

The Company is committed to construct and operate the Project in compliance with Malian legislation, the Equator Principles and IFC Performance Standards. Resources are being applied to the health, safety and environmental policies and systems to meet this commitment.

Discussions are progressing with banks and other financial institutions to provide financing for the development of the Kalana Main Project. The Company anticipates that the Kalana Main Project will be sufficiently advanced to consider a construction decision in 2017, subject to the availability of adequate financing on a timely basis.

With respect to operations at the small, Soviet-era, underground mine (the "Kalana Mine"), gold production in the year to December 31, 2016 was 9,633 ounces. The Company continues to sustain operations to partially offset the cost of providing underground access to facilitate due diligence activities necessary to secure mine development financing. The continued operation of the underground mine also helps to maintain socio-economic stability in the local community as the workforce prepares to transition to activities related to the construction and operation of the proposed Kalana Main Project. The Company intends to sustain operations for as long as it is economically feasible and safe to do so, without incurring any significant capital expenditures, until such a time as the Company is able to commence construction of the Kalana Main Project.

The directors recognise the continuing requirement for short term funding, working capital purposes, and in the longer term to build the proposed open pit mine operations of the Company which are dependent upon its ability to raise adequate financing. The directors believe that the required financing will be raised and in conjunction with management are actively pursuing various financing options with the major shareholders and are engaged in ongoing discussions with banks, financial institutions and other mining companies regarding proposals for financing. While these discussions are ongoing, it cannot be guaranteed that such financing will be available on a timely basis or on acceptable terms.

## Kalana Main Definitive Feasibility Study

The Company issued a news release on March 30, 2016 announcing a summary of the results of a feasibility study for the Kalana Main Project (the "Feasibility Study"). The Feasibility Study was led by Snowden Mining

Consultants Pty Ltd. ("Snowden") with the support of several leading consulting firms, all of whom have extensive experience in Mali, including Mr. Ivor Jones of Denny Jones Pty. Ltd. ("Denny Jones"), DRA Projects (Pty) Ltd. ("DRA"), and Epoch Resources (Pty) Ltd. ("Epoch Resources"). The Company filed a NI 43-101 compliant technical report (the "Kalana Technical Report") in support of the Feasibility Study and the ESIA on SEDAR on May 6, 2016. Avnel has an 80% equity interest in SOMIKA, the Malian company that holds the Kalana Exploitation Permit, which includes the Kalana Main Project. The non-IFRS performance measures reported in this MD&A in respect of the Feasibility Study results are based upon 100% ownership of the Kalana Main Project.

The life of the Kalana Main Project is 21.5 years from construction to closure in the Feasibility Study. The proposed open pit mine at the Kalana Main Project (the "Kalana Open Pit Mine") covers the full footprint of the existing Kalana Mine underground infrastructure. The Kalana Mine's underground workings, offices, the gold plant, and other buildings are scheduled to be reclaimed 15 months after the start of construction. The pre-strip is scheduled to commence 16 months after the start of construction. Hot commissioning and commercial production are scheduled to commence 22 and 25 months after the start of construction, respectively. The life of mine ("LoM") is defined as 18 years, including the six months of mining pre-strip and the processing of stockpiled material after mining of the open pit is scheduled to cease.

The mine plan provides for mining production from the Kalana Main deposit, from a single open pit with 12 stages, using trucks and excavators. Run of mine ("RoM") ore will be delivered from the mine to the processing plant, which consists of a simplistic conventional two-stage crushing circuit and a single-stage milling circuit to achieve a target grind size of 80% passing 75 microns. The processing plant design is based on annual throughput rates of 1.5 million-tonnes-per annum ("Mtpa") for saprolite and 1.2 Mtpa for saprock and fresh rock material. Gold is to be extracted by gravity concentration and a carbon-in-leach ("CIL") plant to produce a gold doré via elution, electrowinning, and smelting. LoM average recovery is projected to be 93% at an average head grade of 2.8 g/t Au resulting in LoM production of 1.82 million ounces.

The plant design philosophy incorporates a requirement that the processing plant be constructed in a manner that would expedite the construction of the leaching and adsorption circuit with the intention of processing historic tailings from the underground Kalana Mine prior to the hot commissioning of the mill. These tailings are intended to be recovered by hydraulic mining and processed through the CIL circuit over a 5-month period starting 17 months after the commencement of construction. Ore from the pre-strip stockpiles will be fed to the plant during the hot commissioning period prior to commercial production. This production represents an opportunity to generate pre-commercial production cash flow that could partially offset development capital requirements.

The site will be developed to include the process plant, the Kalana Open Pit Mine, mining services area, tailings storage facility, waste rock dump, accommodation facilities, stormwater management systems, and sewerage treatment. A 5-kilometre long diversion of the public road between the communities of Kalana and Yanfolila will also be required.

The site has an existing limited nominal grid supply of 5 mega-volt-ampere ("MVA") at 33 kilovolts ("kV") from the local utility and currently operates with 2 MW. Mali has an electrical power capacity deficit and it is not currently feasible to obtain reliable, additional power from the grid that will meet the requirements for the proposed Kalana Main Open Pit Mine. As a result, the power distribution design for the new process plant is expected to be provided by a power plant comprising heavy fuel oil ("HFO") generators, which will be constructed as part of the development phase. The existing grid supply will be retained and used to power the mining services infrastructure and accommodation.

The initial capital expenditure estimated to bring the Kalana Main Project to commercial production is \$196.3 million. The pre-production capital expenditure includes construction of the processing plant and related infrastructure, purchase of the initial mining fleet (not lease financed), construction of the TSF, the initial stages of the Town of Kalana partial relocation and Owner's team costs. After-tax operating revenue generated during the pre-production period from the processing of historic tailings and commissioning ore is approximately \$41.2 million and is expected to offset the initial capital expenditure. As a result, the total net capital expenditure to commercial production is \$163.2 million, including an initial investment in working capital of \$8.1 million. Total LoM sustaining capital is estimated at \$123.0 million and includes capital for the process plant and infrastructure, allowances to divert the Kalanako stream, mobile fleet rebuilds and additional fleet purchases, plus other sustaining capital and closure costs.

Mine operating costs will vary depending on the amount of bulk and selective material, the depth of the material, the distance hauled to the waste dump or RoM pad, and the type of ore mined. Total mining costs are \$2.97 per tonne of material moved over the LoM, excluding the pre-strip, grade control and maintenance reduction. Pre-stripping commences in the pre-production period and the associated mining costs for ore and waste are included in the pre-stripping capital expenditure.

Processing plant operating costs also vary depending on the type of ore. Plant processing operating costs

for saprolite, saprock, and fresh ores are \$12.82 per tonne of ore ("/t ore"), \$18.28/t ore, and \$17.68/t ore, respectively. Plant processing operating costs for the historic tailings ore is \$8.44/t ore. Mine site G&A operating costs are \$6.17/t ore.

Average annual gold production over the first five full years of commercial production is approximately 148,000 recovered ounces at an average cash operating cost of \$460 per ounce produced which includes mining, plant processing and mine site G&A operating costs. Including refining, transportation, and royalties, the average total cash cost is \$507 per ounce sold. Including sustaining capital expenditures and mine operator fees to be earned by Avnel, the average on-site all- in sustaining capital cost ("AISC") is \$595 per ounce sold during the first five years of commercial production. Over the 18-year LoM, the average total cash operating cost is \$648 per ounce produced, the average total cash cost is \$695 per ounce sold, and the AISC is \$784 per ounce sold.

On a 100% ownership basis and utilising a constant gold price of \$1,200 per ounce, the Kalana Main Project has an unlevered post-tax internal rate of return ("IRR") of 38%, an unlevered post-tax net present value ("NPV") of \$196 million at an 8% discount rate (\$257 million at a 5% discount rate), and an undiscounted payback period of initial capital of 1.2 years. The Proven and Probable Mineral Reserve for the Kalana Main Project is 21.0 million tonnes at an average grade of 2.8 grams of gold per tonne ("g/t Au") containing 1.96 million ounces of gold.

Included in these after-tax estimates are management fees and engineering fees paid to Avnel for the operation of the Kalana Main Mine (the "Mine Management Fee"). As per the Company's Operator Agreement with SOMIKA, the Mine Management Fee is calculated as 0.75% of SOMIKA's turnover (gross revenue) and 2.5% of brut exploitation excess (or "EBE", which is equivalent to Earnings Before Interest, Taxes, and Depreciation or "EBITD") as calculated in accordance with Le Système Comptable Ouest Africain ("SYSCOA"). The engineering fees is calculated at 4% of capital costs.

Excluded from this analysis is SOMIKA's repayment of existing inter-company loans, accrued interest, and accrued Mine Management and Engineering Fees associated with the underground Kalana Mine to Avnel. Avnel estimates that these amounts total approximately \$124 million as at December 31, 2016.

## Kalana Main ESIA

The ESIA is the culmination of more than two years of environmental baseline studies, engineering studies conducted as part of the Feasibility Study, archaeological and cultural heritage studies, water management studies, ecological studies, social baseline studies and comprehensive community consultations. Additionally, the Town of Kalana and the surrounding communities have overwhelmingly endorsed the development of the Kalana Main Project. The only significant government approval required to develop new mines on the permit is an ESIA and the associated ESMP.

The ESIA and other related documentation were submitted to the Malian authorities for review in the first quarter of 2016 and were approved by the Ministry of Environment and Sustaining Development on April 28, 2016. The approval of the ESIA was the key government approval required to advance the Kalana Main Project towards the construction phase as the Kalana Exploitation Permit was awarded to Avnel in 2003 with an initial term of 30 years.

The Company is not aware of any non-compliance at the existing underground Kalana Mine with its environmental obligations. The Kalana Mine is audited by the Ministry of Environment and Sustainable Development annually.

## Mineral Resources

The In Situ Mineral Resource Statement for the Kalana Project as at March 2016, which is inclusive of mineral reserves, is summarised in the following table:

### Mineral Resource Statement<sup>1,2,3,4,5</sup> (March 2016)

	Tonnes	Grade	Contained Gold
	(Mt)	(g/t Au)	(Moz)
Measured			
Kalana Main	9.5	4.20	1.28
	9.5	4.20	1.28
Indicated			

Kalana Main	13.5	4.10	1.77
Kalana Main Tailings	0.7	1.75	0.04
	14.2	3.97	1.81
Measured and Indicated			
Kalana Main	23.0	4.14	3.06
Kalana Main Tailings	0.7	1.75	0.04
	23.7	4.07	3.10
Inferred			
Kalana Main	1.7	4.51	0.24
Kalanako	0.4	5.55	0.07
	2.1	4.71	0.31

1 - Mineral Resources are disclosed on a total project basis at 100%. Avnel owns an 80% equity interest in SOMIKA, the Malian company that holds the Kalana Exploitation Permit.

2 - Mineral resources are inclusive of mineral reserves and are reported above a cut-off grade 0.90 g/t Au at a gold price of \$1,400 per ounce, with the exception of Kalanako, which is reported at a gold price assumption of \$1,500 per ounce.

3 - Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. The estimate of Mineral Resources may be materially affected by environmental, permitting, legal, marketing, or other relevant issues. The Mineral Resources are estimated using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), CIM Definition Standards on Mineral Resources and Reserves prepared by the CIM Standing Committee on Reserve Definitions and adopted by the CIM Council.

4 - Kalana Main includes depletion by production to September 2015. There has been minor production since September 2015.

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

## Mineral Reserves

The Mineral Reserve Statement for the Kalana Main Project is presented in the table below:

Deposit	Classification	Tonnes Grade Ounces		
		(Mt)	(g/t Au)	(Moz)
Kalana Main	Proven	5.1	3.0	0.49
Kalana Main	Probable	15.9	2.8	1.43
Kalana Main	Proven and Probable	21.0	2.8	1.92
Tailings	Probable	0.7	1.8	0.04
Total Proven and Probable		21.7	2.8	1.96

1 - Mineral reserves are disclosed on a total project basis at 100%, are inclusive of mineral resources, and defined using a gold price of \$1200/oz. Avnel owns an 80% equity interest in SOMIKA, the Malian company that owns the Kalana Exploitation Permit. Some amounts in this table may not compute due to rounding and truncation.

2 - Kalana Main includes depletion by production to September 2015. There has been minor production since September 2015.

3 - Mineral reserves are estimated using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), CIM Definition Standards on Mineral Resources and Reserves prepared by the CIM Standing Committee on Reserve Definitions and adopted by the CIM Council.

## Kalana Main Project Optimisation

On January 9, 2017, the Company announced results from the OFS, which indicate opportunities for a number of cost reductions from those set out in the Feasibility Study. If accepted, the OFS modifications

could result in an increase of 25% in the after-tax NPV to \$321 million, at a 5% discount rate, compared to \$257 million estimated in the Feasibility Study and an improvement in the after-tax internal rate of return (IRR) to 50%, compared to the 38% IRR in the Feasibility Study (base case gold price of \$1,200 per ounce).

The OFS does not incorporate any changes to the project's underlying NI 43-101 compliant Mineral Reserves and Resources and the production profile and the mining plan of the project outlined in the Feasibility Study remain unchanged, but as a result of the optimisation process, the project's cost structure has been reduced.

The results of the OFS represent potential alternative scenarios and do not supersede the Feasibility Study. Investors should rely on the Feasibility Study. See "Forward-Looking Statements" and "Technical Information" in this MD&A. Information of a scientific or technical nature in this section has been prepared under the supervision of Mr. Roy Meade, President of the Company, who is a "qualified person" as defined by NI 43-101.

Initial capital expenditure has been lowered by \$25 million to \$171 million and, accounting for pre-commercial production revenue generated from processing historic tailings from the existing underground Kalana Mine, the net funding requirement to commercial production, including contingency, is estimated at \$139 million, approximately \$24 million lower than previously estimated in the Feasibility Study.

## Project Economics

### Economic Metrics (\$1,200/oz Gold) Feasibility Study OFS

Pre-tax NPV @ 5%	\$345 m	\$434 m
Post-tax NPV @ 5%	\$257 m	\$321 m
Pre-tax NPV @ 8%	\$266 m	\$341 m
Post-tax NPV @ 8%	\$196 m	\$250 m
Pre-tax IRR	44%	62%
Post-tax IRR	38%	50%
Undiscounted Payback Period	1.2 yrs	1.1 yrs

OFS Economic Metrics	Low Case	Base Case	High Case
Gold Price	\$1,000/oz	\$1,200/oz	\$1,400/oz
Pre-tax NPV @ 5%	\$212 m	\$434 m	\$656 m
Post-tax NPV @ 5%	\$154 m	\$321 m	\$482 m
Pre-tax NPV @ 8%	\$162 m	\$341 m	\$520 m
Post-tax NPV @ 8%	\$116 m	\$250 m	\$381 m
Pre-tax IRR	39%	62%	83%
Post-tax IRR	31%	50%	66%
Undiscounted Payback Period	1.6 yrs	1.1 yrs	0.9 yrs

## Mineral Reserves and Resources

The OFS does not incorporate any changes to the project's underlying National Instrument 43-101 compliant Mineral Reserves and Resources.

## Mine Production and Operating Costs

The production profile and the mining plan of the project outlined in the Feasibility Study remain unchanged, but as a result of the optimisation process, the project's cash operating cost over the Life of Mine ("LOM") has been reduced by 9%. For the first five years, the cash operating cost has been reduced to \$427/oz, making the project highly profitable even at materially lower gold prices.

The key changes to the assumptions in the Feasibility Study are:

- 28% reduction in fuel cost attributable to no customs duty paid on imports
- 10% lower plant power cost due to hybrid power plant and lower fuel costs
- 3% lower mining costs owing to optimised haulage design in the later years of the mine life

Costs	Feasibility OFS Study	Feasibility OFS Study
	First 5 Years	Life Of Mine
Cash Operating Cost \$/oz \$460	\$427 -7% \$648	\$592 -9% -7%
All-in Sustaining Cost \$/oz \$589	\$561 -5% \$784	\$730

### *Capital Expenditure*

Economic Metrics	Feasibility Study OFS	
Initial Capex to Commercial Production	\$196 m	\$171 m
Net Funding to Commercial Production (Including Tailings Net Revenue)	\$163 m	\$139 m
Sustaining Capex	\$123 m	\$122 m
Total capex	\$319 m	\$293 m

- Initial capital expenditure lowered by \$25 million to \$171 million
- Once accounting for pre-commercial production revenue generated from processing historic tailings from the underground Kalana Mine, the net funding requirement to commercial production, including contingency, is estimated at \$139 million.

The material changes leading to the reduction of initial capital expenditure compared to the Feasibility Study are summarised below:

- EPC contract has improved capital estimate of overall plant and infrastructure cost, leading to a reduction in the contingency estimate provided in the Feasibility Study
- The power plant supply has been changed to an over the fence provider eliminating the capital cost of the owner purchased power plant
- The oxygen plant supply has been changed to a service provider's owned and operated plant eliminating the capital cost of the owner purchased oxygen plant
- The decision to introduce a mineral sizer to crush saprolite ore in Phase 2 increased capital cost but is partially offset by the deferral of the jaw crusher and ROM system to Phase 3.

### **Construction Schedule**

Key project milestones after start of construction:

- Month 13: Commence pre-strip
- Month 15: Commence processing tails through new CIL section of the plant
- Month 19: Commence hot commissioning of mill
- Month 22: Commercial production

The project construction timetable will be reduced by 3 months. On completion of Phase 1, existing tailings will be processed using the CIL and gold recovery circuits. The Feasibility Study assumed Phase 1 would be complete in month 17 and the optimised schedule is 15 months. On completion of Phase 2, the mill will be commissioned to process saprolite ore. The Feasibility Study assumed Phase 2 would be complete in month 22 and the optimised schedule is 19 months. The improved construction schedule has an economic benefit for the project.

### **Processing Flow Sheet**

The OFS incorporates certain design refinements undertaken since the release of the Feasibility Study, including the removal of a standby cone crusher (saving \$0.8 million) and the addition of a mineral sizer (adding \$1.4 million).

These minor changes will serve to de-risk ore handing at the project in the event of exceptional rain fall. Further, the changes provide increased flexibility for different character of saprolite ore from Kalanako or

other satellite deposits. The Company views the likelihood of additional saprolite ore feed from nearby deposits to be high.

The Feasibility Study proposed saprolite would pass through a jaw crusher prior to milling. Fresh ore would also pass through the jaw crusher and then be crushed in a secondary crushing circuit. As fresh ore will not be milled until, at the earliest, month 30 of the project, the capital expenditure for the run of mine bin, jaw crusher and secondary crusher will be postponed from Phase 2 to Phase 3.

### **Hybrid Power Plant and Contract**

As part of the optimisation process, Avnel advanced discussions with KPS Africa Pty Ltd ("KPS"), an international power provider to the mining industry, to provide an "over the fence" power supply based on a hybrid plant utilizing fossil fuel and solar energy sources. The power provider will fund the project capital and charge the company a rate per kWh. The capital cost, including sustaining capital in the Feasibility Study was significantly reduced to provide only for civil works.

For the first 5 years operating cost per kWh will be impacted by the recovery of capital investment. The project predicts that 20% of the power requirements will be generated from the solar plant, leading to significant cost reductions and a lower environmental impact. Project risk is reduced by the power provider being contracted for the operation and maintenance of the power plant, plus the risk of any higher fossil fuel prices.

DRA Mineral Services ("DRA") provided KPS with detailed power requirements to enable KPS to design and cost the hybrid power plant and provide Avnel with a commercial proposal that has been used in the optimisation model.

KPS is a Pacific Energy group business. Pacific Energy Limited (ASX:PEA) is an ASX-listed energy supply business and owns and operates 20 power stations with a total power generation capacity approaching 239MW. KPS has been delivering its resource sector clients, including some of the world's biggest mining companies, 'off-grid' power supply solutions for in excess of 25 years. Detailed contract negotiations are complete subject to legal reviews.

### **Resettlement Action Plan**

The OFS shows an increase in resettlement related capex of \$2 million from the Feasibility Study. The additional funds are to provide enhancements to homes for those affected by the village relocation.

### **EPC Contract**

Avnel has agreed in principle to appoint a Joint Venture of DRA Mineral Services and Group 5 Projects (Pty) Ltd. to be the engineering, procurement and construction ("EPC") contractor for the project. The EPC covers Phase 1 and Phase 2 of the gold plant construction to enable the processing of the existing tailings and saprolite ore. Phase 3 will enable the processing of fresh rock and will be implemented as an engineering, procurement, construction management ("EPCM") contract.

The capital cost for the plant and infrastructure was reviewed based on the EPC (Phases 1 and 2) and EPCM (Phase 3). The capital cost including contingency, provided by Avnel is in line with the Feasibility Study capital estimate.

### **Mining optimisation**

Snowden reviewed the mining schedule and optimised the haulage profiles for the later years of the mine life. This resulted in a decrease in mining cost of \$20 million over the life of the mine.

As part of the ongoing optimisation of the project, an in-depth review of fuel costs was commissioned. During this effort, the complex fuel price structure in Mali was further reviewed in the context of the provisions of Mali's 1999 Mining Code. The study concluded that under the 1999 Mining Code, the operation will continue to be exempt from excise duty (TIPP). Currently fuel is purchased from suppliers in Bamako (Mali) who have paid customs duty to deliver stock to Bamako. The price invoiced to SOMIKA includes customs duty that can be reclaimed by SOMIKA. There are major delays in refunds being received, currently 3 years outstanding. When SOMIKA's consumption is sufficient to enable a vendor to import fuel directly to mine site, the vendor will invoice SOMIKA the price excluding customs duty. This is the practice at most major fuel consumers in

Mali. The Feasibility Study was based on a conservative estimate that assumed a price including customs duty, given the low oil prices at the time of the Feasibility Study. At current fuel prices delivered in Mali and an exchange rate of CFA600/\$, the price excluding duties is 28% lower than the Feasibility Study estimate. The change in fuel price reduces mining costs by \$62 million, approximately 9%, over the LOM.

Snowden Mining Industry Consultants were responsible for the mining optimisation for both an owner mining option and a contract mining option. Avnel provided the data related to fuel price in Mali including customs duty after detailed discussions with fuel suppliers and other mining operations. Snowden applied the revised fuel cost to the mining cost estimate.

DRA were responsible for the revised process flow sheet and operating plant cost estimate. DRA retained the gold recovery parameters as per the Feasibility Study. DRA provided KPS with detailed power requirements to enable KPS to design and cost the hybrid power plant and provide Avnel with a commercial proposal that has been used in the optimisation model.

DRA and Group 5 JV submitted an EPC proposal for Phases 1 and 2 and EPCM proposal for Phase 3.

### **Kalana Main Project Update**

In preparation for the approval to commence construction of the Kalana Main Project, a number of activities have progressed during the fourth quarter 2016:

1. EPOCH Resources (Pty.) Ltd., a specialist tailings storage consultant, was appointed in June 2016 to commence the final design for the TSF (Tailings Storage Facility), SWCD (Storm Water Control Dam) and WRD (Waste Rock Dump). In 2015/2016 EPOCH completed a Feasibility Study design and cost estimate. EPOCH completed the detailed design for this work package, including detailed engineering drawings, a revised bill of quantities, construction specifications and complete tender document. The tender package was put out to tender in November 2016 with award of the contract expected to be in 2017.
2. As part of the optimisation process, Avnel is in advanced discussions with KPS to provide an "over the fence" power supply based on a hybrid plant utilizing fossil fuel and solar energy sources. The power provider will fund the project capital and charge the company a rate per KWh. If implemented the capital cost in the Feasibility Study will be significantly reduced. For the first 5 years operating cost per KWh will be impacted by the recovery of capital investment. The project predicts that 20% of the power requirements will be generated from the solar plant, leading to significant cost reductions and lower environmental impact. Project risk is reduced by the power provider being contracted for the operation and maintenance of the power plant, plus the risk of any higher fossil fuel prices. During the quarter discussions were held between Avnel, KPS and DRA to establish detailed power draw schedules over the project. KPS completed a supply design and provided a commercial proposal to Avnel. This proposal was used in the OFS.
3. SOMIKA has appointed ABS Africa, a South African Environmental Consultant, to assist in the drafting of the action plans required to comply with the ESIA and IFC Performance standards. ABS Africa prepared the ESIA, which was completed in Q1 2016 and approved by the Malian authorities.
4. ESDCO, a leading Malian environmental consultancy, has been appointed to provide external consultant expertise for the implementation of the approved RAP in line with Malian legislation and IFC Performance Standards. The RAP will be implemented by a steering commission (the "Commission") headed by the Prefet of Yanfolila. The Commission members include local government administration officials, representatives of Technical Agencies (environment/forestry/land usage, health and education), the Mayor of the Commune, village chiefs, associations representing youth/women/disadvantaged individuals/hunters, artisanal miners, transport companies. Recently an Association has been formed to represent the interests of impacted persons and has been formally recognised and will participate in the Commission. ESDCO completed the RAP and socio-economic study as part of the ESIA. ESDCO has a major role to play as an independent expert within the Commission. The Commission formally commenced in December 2016 after the local government elections in Mali in November.
5. An ESIA is being prepared for the 5.5 km public road diversion around the new mine infrastructure. This will replace the existing public road to Kalana Town. The ESIA will be submitted in 2017 and approval is expected in Q2 2017.
6. The site for the relocation of impacted persons was identified by the community in Q1 2016. During Q3 2016 SOMIKA completed a geotechnical survey of the site and the results were provided to ESDCO urban development specialists and the administration authorities. The Mayor has submitted a letter to the Governor of Sikasso providing a request to allow development of an urban area south of Kalana Town for the RAP. This is the first step in the formal process of approval for the new urban area.

## Kalanako Deposit

Located less than 3 km northeast of the Kalana Main Project and the milling facilities proposed in the OFS and the Feasibility Study, the Kalanako prospect is an old area of traditional mining activity. Several mineralised trends have been established from RC and diamond drilling at Kalanako, resulting in a single northwest-southeast corridor of 1,500 meters by 250 meters. These mineralised zones are typically less than 10-20 meters wide and appear to be steeply dipping to the East, often contain high-grade intercepts near surface (i.e. in the weathered zone).

The depth of saprolite and saprock is between 70 m and 130 m, much deeper than that observed at the Kalana deposit. Diamond drilling at Kalanako intersected numerous high strain zones, packets of densely laminated quartz veins or vein stockwork with sulphides and locally highly altered and mineralised felsic intrusive rocks. Mineralisation is associated with these felsic intrusive rocks or quartz stockwork that occur along northwest-southeast striking shear zones, parallel or less than 10° in azimuth from the main IP boundary between a low and a high IP gradient domain.

The March 2015 MRE for the Kalanako deposit was based upon information from 46 diamond drill holes and 232 RC drillholes. Historical drill-hole intersection were independently summarised and press-released in October 2016. A maiden Inferred *In Situ* Mineral Resource for Kalanako has been reported, which is summarised in the subsection titled "Mineral Resource Estimates".

An infill drilling programme of 8,635 meters has been successfully achieved in December 2016, on time and on budget and with an excellent productivity and safety record (no Lost Time Injury). This programme was focused on Kalanako's saprolite and saprock weathered domains, a depth considerably deeper than observed at Kalana Main (drillhole depth of 50-175 meters). A large part of the Kalanako prospect remains undrilled. The drilled portion of Kalanako is located at the central part of a 5 km long geophysical structure defined as a contact between low and high IP gradient domains. Kalanako is open on strike. Some large collapses above old artisanal underground developments in the north and more modern artisanal pits in the south, highlights the continuity of the mineralisation along the main northwest-southeast structure. Future drilling campaigns would target extensions along strike following our low-risk infill programme.

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

	2016	2015	2014
Total revenue	12,031	11,360	12,024
Total expenses	16,067	16,048	19,114
Other Income/ (expense)	3,755	1,840	(3,211)
Net loss	(284)	(2,848)	(10,296)
Net profit/(loss) from continuing operations attributable to owners of the parent	1,234	(1,214)	(8,482)
Earnings/(loss) per share attributable to owners of the parent	\$0.004	(\$0.004)	(\$0.038)
Basic weighted average shares outstanding	306,685,353	289,403,275	223,119,693
Balance Sheet			
Working Capital Surplus (excluding derivative financial liabilities)	4,492	8,803	9,817
Total Assets	24,815	27,958	25,930
Total Non-current liabilities (excluding derivative financial liabilities)	3,653	3,349	3,136
Shareholders' Equity	34,494	32,738	28,072

## Full Year 2016 Results of Operations

Total revenue increased to \$12,031,000 in the twelve months to December 31, 2016 from \$11,360,000 in the twelve months to December 31, 2015. The increase in revenue is primarily a result of a 7% increase in the realised average sales price of gold from \$1,164 per ounce in the twelve months to December 31, 2015 to \$1,246 per ounce in the twelve months to December 31, 2016 and a 1% decrease in the number of ounces of gold sold relative to the prior year.

Total expenses remained constant in the current and prior year at just over \$16,000,000. Exploration costs expensed were \$508,000 in the twelve months to December 31, 2016 compared to \$260,000 in the twelve months to December 31, 2015. Operating costs per ounce of gold sold for the twelve months to December

31, 2016 decreased 4% to \$1,027 per ounce from \$1,073 per ounce in the prior year.

Avnel recorded a net loss of \$284,000 (\$0.004 earnings per share attributable to owners of the parents) for the twelve months ended December 31, 2016 compared to a net loss of \$2,848,000 (\$0.004 earnings per share attributable to owners of the parents) in the prior year. Included in the twelve months to December 31, 2016 is a net gain on the fair value of derivative financial instruments of \$3,955,000, compared to a net gain of \$2,166,000 in the twelve months of 2015, arising from a change in the fair value of warrants outstanding. Fair value accounting gains and losses reported have no cash effect on the Company.

As compared to the consolidated statement of financial position as at December 31, 2015, Avnel's cash and cash equivalents as at December 31, 2016 decreased by \$3,491,000 to \$3,720,000. The reduction mainly arose from exploration and evaluation expenditures of \$1,521,000 and cash used in operations of \$2,854,000 that was partly offset by cash provided by financing of \$874,000. As at December 31, 2016 the Company had a working capital surplus of \$4,492,000, compared to a working capital surplus of \$8,803,000 as at December 31, 2015 excluding derivative financial liabilities. Total assets reduced from \$27,958,000 as at December 31, 2015 to \$24,815,000 at December 31, 2016.

Total non-current liabilities increased from \$3,349,000 as at December 31, 2015 to \$3,653,000 at December 31, 2016, excluding derivative financial liabilities

Total stockholders' equity increased to \$34,494,000 as at December 31, 2016 from \$32,738,000 as at December 31, 2015.

## **Non-IFRS Measures**

Avnel's audited consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and the accounting policies adopted by the Company in accordance with IFRS.

Management uses both IFRS and non-IFRS measures to monitor and assess the operating performance of the Company's operations. Throughout this MD&A, management uses certain non- IFRS performance measures to provide additional information, as the Company believes that certain investors use these measures to assess gold mining companies. These non-IFRS performance measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Non-IFRS performance measures do not have standardised definition under IFRS and therefore may not be comparable to similar measures presented by other organisations:

"Cost per Tonne Milled" is calculated by dividing the relevant mining and processing costs and total costs by the tonnes of ore processed in the period. Management uses this measure as a possible indication of the mining and processing efficiency of the mine.

"Cash Operating Cost" is calculated as reported production costs, which includes costs such as mining, processing, administration, non-site costs (transport and refining of metals, and community and environmental), less royalties paid. These costs are then divided by the number of ounces produced to arrive at "Cash Operating Cost per Ounce Produced" and are divided by the number of ounces sold to arrive at "Cash Operating Cost per Ounce Sold", after taking into account certain inventory movements. These terms are commonly used by gold mining companies to assess the level of gross margin available to the company, typically by subtracting Cash Operating per Ounce Sold from the average per ounce price realised during the period. These terms are also often used as an indication of a mining company's ability to generate cash flow from operations.

"On-site All-in Sustaining Cost" is defined in the Feasibility Study as mine site cash operating costs, which includes costs such as mining, processing, administration, plus transport and refining of metals, stamp duty, and royalties, plus sustaining capital costs, which includes community and environmental. These costs are then divided by the number of ounces of expected production to arrive at "On-site All- in Sustaining Cost per Ounce"

## **Forward-Looking Statements**

*This MD&A contains "forward-looking statements" within the meaning of Canadian securities laws that are based on the Company's expectations, estimates and projections regarding its business and the gold market and economic environment in which it operates. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections, and other forward-looking statements*

*will not occur. These assumptions may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Forward-looking statements in this MD&A include, among other things, cash flow estimates, production estimates and similar statements relating to the economic viability of a project, exploration results and budgets, mineral reserve and resource estimates, timelines, strategic plans, including our plans and expectations relating to the development and exploitation of the Kalana Main Project, costs and timing of and availability of financing for the development an open pit mine based on the Feasibility Study, the potential benefits and implementation of the OFS, the availability of project financing, the Company's ability to raise funds, the continued operation of, and production at, the existing Kalana Mine, the completion of transactions, market prices for gold and other statements that are not statements of fact. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Therefore, actual results of the Company could differ materially from those discussed in such forward-looking statements as a result of these risks and uncertainties and readers should not place undue reliance on such statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements, where as a result of new information, future events or otherwise, unless required by applicable law.*

### **Technical Information**

*Except where indicated, the disclosure contained or incorporated into this MD&A of an economic, scientific or technical nature has been summarised or extracted from the NI 43-101 compliant technical report titled "NI43-101 Technical Report on Kalana Main Project", dated effective 30 March 2016, prepared by Snowden Mining Industry Consultants (Pty) Ltd. ("Snowden"), Denny Jones Ltd ("Denny Jones"), DRA Projects SA (Pty) Ltd ("DRA") and Epoch Resources (Pty) Ltd ("Epoch Resources"). The Kalana Technical Report was prepared under the supervision of Mr. Allan Earl (Executive Consultant - Mining Engineering of Snowden), Mr. Ivor Jones (Executive Consultant - Applied Geosciences of Denny Jones), Mr. Glenn Bezuidenhout (Principal Process Engineer of DRA), Mr. Sybrand van der Spuy (Civil Engineer of DRA), Mr. Guy Wiid (Principal Consultant - Tailings and Waste Rock Facilities of Epoch Resources), and Mr. Stephanus (Fanie) Coetzee (Principal Consultant - Environmental and Social of Epoch Resources), all of whom are independent "Qualified Persons" as such term is defined in NI 43-101. Readers should consult the Kalana Technical Report to obtain further particulars regarding the Kalana Project, which contains the Kalana Main Project, the Kalana Mine, plus a number of mineral exploration prospects.*

*Information of a scientific or technical nature in this MD&A arising since the date of the Kalana Technical Report has been prepared under the supervision of Mr. Roy Meade, the Company's President, and Dr Olivier Féménias, the Company's Vice-President, Geology, both of whom are non-independent "Qualified Persons".*

*Mineral resources and mineral reserves reported in this MD&A have been classified within the meaning of the CIM Definition Standards for Mineral Resources and Mineral Reserves (November 2010). Mineral resources may be affected by further infill and exploration drilling that may result in increases or decreases in subsequent resource estimates. Mineral resources may also be affected by subsequent assessments of mining, environmental, processing, permitting, taxation, socio-economic, and other factors. Actual recoveries of mineral products may differ from reported mineral reserves and mineral resources estimates due to inherent uncertainties in acceptable estimating techniques. In particular, inferred mineral resources have a great amount of uncertainty as to their existence, economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category of mineral resource. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Investors are cautioned not to assume that all or any part of the mineral deposits in these categories will ever be converted into proven and probable mineral reserves.*

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