

# Avnel Reports First Quarter 2017 Financial Statements and MD&A

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ST. PETER PORT, May 11, 2017 - [Avnel Gold Mining Ltd.](#) ("Avnel" or the "Company") (TSX:AVK) is reporting that it has filed its unaudited Interim Consolidated Financial Statements and the related Management Discussion & Analysis ("MD&A") for the three-month period ended March 31, 2017 on SEDAR.

## First Quarter 2017 Highlights

- Announced Kalana Main Project optimisation
- Discussions ongoing 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.
- Assay results from the Q4 2016 drill program at Kalanako were received.

## Subsequent to March 31, 2017:

- The Company has issued a Request for Tender ("RFT") for contract mining to experienced West African Mining Contractors
- The Company has invited additional experienced contractors to tender for the construction of the Tailings Storage Facility ("TSF")
- The Company has invited Malian construction companies to tender for the construction of the Technicians' camp and the Gendarmes' Camp

## Outlook

In March 2016 a positive Feasibility Study for the Kalana Main Project was completed and the related environmental and social impact assessment (the "ESIA") and associated environmental and Social Management Plan (the "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 engineering procurement and construction (the "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 issued 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 advanced the resettlement action plan (the "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 ongoing 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 quarter to March 31, 2017 was 1,765 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 Project Update**

In preparation for the approval to commence construction of the Kalana Main Project, a number of activities have progressed during the first quarter 2017:

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. In March the tender was re-issued to additional experienced earthworks contractors. Tenders are expected in Q2 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. Subsequently a draft Power Supply Agreement has been negotiated and awaits approval once project financing is in place.
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. During Q1 2017 an Environmental Manual has been completed to guide the implementation of the ESMP.

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 Préfet 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. During Q1 2017 the Commission met on several occasions with local population to establish the RAP process and the Grievance Mechanism Plan. ESDCO has re-affirmed through interviews with all Impacted Persons the individual assets that will be impacted and the compensation procedures. Compensation can be in cash or alternative accommodation.
5. An ESIA was prepared for the 5.5 km public road diversion around the new mine infrastructure and the relocated power line. This will replace the existing public road to Kalana Town. The ESIA was submitted in April 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. The urbanisation plan will be completed in Q2 2017.
7. ESDCO completed the architectural design and location for the relocated Technician Camp and Gendarmes Camp/offices that are within the exclusion zone. The necessary authorisation for the location and construction has been approved by the relevant authorities. Request for tender has been issued and tenders are expected in Q2 2017.
8. The company has continued negotiating the EPC contract with DRA/Group 5 and final documentation is being reviewed by legal advisors. Due to the delay in project start the EPC price will have to be reviewed taking into consideration potential inflation and exchange rate changes.

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

Three months ended March 31

|  | 2017        | 2016        |
|--|-------------|-------------|
| Total revenue  | 2,400       | 3,251       |
| Total expenses   | 3,806       | 3,811       |
| Other expense  | (2,142 )    | (185 )      |
| Net loss   | (3,548 )    | (745 )      |
| Net loss from continuing operations attributable to owners of the parent | (3,066 )    | (419 )      |
| Net loss per share attributable to owners of the parent                  | \$ (0.008 ) | \$ (0.001 ) |
| Basic weighted average shares outstanding                                | 366,424,570 | 304,330,124 |

| Balance Sheet  | March 31 2017 | December 31, 2016 |
|--|---------------|-------------------|
| Working capital surplus ( excluding derivative financial instruments)      | 12,927        | 4,492             |
| Total Assets   | 32,549        | 24,815            |
| Total non-current provisions ( excluding derivative financial instruments) | 3,707         | 3,653             |
| Shareholders' Equity   | 44,567        | 34,494            |

### Results of Operations, Three Months Ended March 31, 2017

Metal revenues decreased to \$2,400,000 in the quarter to March 31, 2017 from \$3,251,000 in the quarter to March 31, 2016. The decrease in revenue is a result of a 27% decrease in ounces sold from 2,696 ounces in the quarter to March 31, 2016 relative to 1,956 ounces in quarter to March 31, 2017, that was partly offset by a 2% increase in the realised average sales price of gold from \$1,203 per ounce in the quarter to March 31, 2016 to \$1,224 per ounce in the quarter to March 31, 2017.

Total expenses remained at \$3,800,000 in the quarter to March 31, 2017 compared to \$3,811,000 in the quarter to March 31, 2016. Operating costs per ounce of gold sold for the quarter to March 31, 2017 increased from \$832 per ounce to \$1,311 per ounce resulting from reduced production.

Avnel recorded a net loss of \$3,548,000 (\$0.008 attributable loss per share) for the quarter ended March 31, 2017 compared to a net loss of \$745,000 (\$0.001 attributable loss per share) in the quarter to March 31, 2016. Included in the quarter to March 31, 2017 is a loss on the fair value of derivative financial instruments of \$2,012,000, compared to a loss of \$175,000 in the quarter to March 31, 2016. The fair value accounting gains reported have no cash effect on the Company.

As compared to the balance sheet as at December 31, 2016, Avnel's cash and cash equivalents as at March 31, 2017 increased by \$7,055,000 from \$3,720,000 to \$10,775,000 arising from cash proceeds from the exercise of warrants of \$10,205,000, offset by cash used in operations of \$2,721,000 and cash used in investing activities of \$456,000.

There was a working capital surplus of \$12,927,000 as at March 31, 2017 compared to a working capital surplus of \$8,336,000 as at December 31, 2016. Total assets increased from \$24,815,000 as at December 31, 2016 to \$32,549,000 at March 31, 2017. Total provisions increased from \$3,653,000 as at December 31, 2016 to \$3,707,000 at March 31, 2017. Total stockholders' equity increased to \$44,567,000 as at March 31, 2017 from \$34,494,000 as at December 31, 2016.

### ABOUT AVNEL GOLD

Avnel Gold is a TSX-listed gold mining, exploration and development company with operations in south-western Mali in West Africa. The Company's strategic objective is to develop the Kalana Main Project into an open-pit mining operation through its 80% ownership in SOMIKA. A secondary objective of the Company is to explore the remainder of the 387 km<sup>2</sup> Kalana Exploitation Permit to discover new mineral deposits.

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*No stock exchange, securities commission or other regulatory authority has approved or disapproved the information contained in this news release.*

## **CAUTIONARY STATEMENTS**

### **Forward-Looking Statements**

*This news release includes certain "forward-looking statements". All statements, other than statements of historical fact, included in this release, including the future plans and objectives of Avnel Gold, are forward-looking statements that involve various risks and uncertainties. There can be no assurance that forward-looking statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from Avnel Gold's expectations include, among others, risks related to international operations, the actual results of current exploration activities, conclusions of economic evaluations and changes in project parameters as plans continue to be refined as well as future prices of gold and silver, as well as those factors discussed in the section entitled "Risk Factors" in Avnel Gold's most recently completed Annual Information Form, which is available on SEDAR ([www.sedar.com](http://www.sedar.com)). Although Avnel Gold has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.*

### **Technical Information**

*Except where indicated, the disclosure contained or incorporated into this news release of an economic, scientific or technical nature, has been summarised or extracted from the National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("NI 43-101") compliant technical report titled "NI43-101 Technical Report on Kalana Main Project", dated effective 1 April 2016 (the "Kalana Technical Report"), 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. The Company filed the Kalana Technical Report in support of the Feasibility Study and the ESIA on SEDAR on May 6, 2016.*

### **Non-IFRS Measures**

*Avnel's interim consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and the accounting policies adopted in accordance with IFRS. Management uses both IFRS and non-IFRS measures to monitor and assess the operating performance of the Company's operations. 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 organizations:*

*"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 PEA by Snowden as mine site cash operating costs, which includes costs such as mining, processing, administration, but excludes non-site costs (transport and refining of metals and royalties), plus sustaining capital costs, which includes community, environmental, and closure costs. These costs are then divided by the number of ounces of expected production to arrive at "On-site All-in Sustaining Cost per Ounce".*

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