

**Amendment No. 1 dated June 22, 2005
to the Prospectus dated May 27, 2005**

The prospectus dated May 27, 2005, as amended by this amendment, constitutes a public offering of securities only in Ontario where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. The securities offered herein have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or any state securities laws and, subject to certain limited exemptions, may not be offered, sold or delivered directly or indirectly in the United States or to U.S. Persons (as that term is defined in Regulation S under the U.S. Securities Act). This prospectus does not constitute an offer to sell or solicitation of an offer to buy any of the securities offered hereby in the United States or to U.S. Persons. See "Plan of Distribution".

Initial Public Offering



Avnel Gold Mining Limited
Minimum 11,666,667 Units (C\$8,666,667)
Maximum 20,000,000 Units (C\$15,200,000)

The prospectus dated May 27, 2005 (the "Prospectus") of Avnel Gold Mining Limited ("Avnel" or the "Company") relating to the offering for sale to the public of a minimum of 11,666,667 and a maximum of 20,000,000 units (the "Units") of the Company at a price of C\$0.76 per Unit, each Unit consisting of one common share (the "Common Shares") of Avnel and one-half of one Common Share purchase warrant, each whole Common Share purchase warrant entitling the holder to purchase one Common Share (the "Warrant Shares") at a price of C\$1.06 per Warrant Share at any time before 5:00 p.m. (Toronto time) on the fifth anniversary of the Closing Date is hereby amended and is to be read subject to the additional information set forth below. Unless otherwise defined in this Amendment No. 1, terms used herein have the meanings given to them in the Prospectus.

Summary of Amendments

The Company and the Agents have agreed (i) to extend the latest date upon which the closing of the Offering may occur from June 17, 2005 to June 30, 2005 and (ii) not to use the book entry system for settlement. The Prospectus is supplemented with updated management's discussion and analysis ("MD&A") and financial statements in respect of the period from January 1, 2005 to March 31, 2005. Accordingly, the purpose of the amendment is (i) to reflect the extension of time to June 30, 2005 as it applies to the definition of the Closing Date as such term is used in the Prospectus, (ii) to remove the references to the book entry system in the Prospectus and (iii) to supplement the Prospectus with MD&A and financial statements for the period from January 1, 2005 to March 31, 2005.

Specific Amendments

The Prospectus is amended as follows:

1. the second sentence of the fourth paragraph on the face page of the Prospectus is amended by deleting the reference to the date "June 17, 2005" therein and replacing it with the date of "June 30, 2005";

2. the fifth paragraph on the face page of the Prospectus is deleted in its entirety;
3. the reference to “Book Entry System” in the Table of Contents on page two of the Prospectus is deleted in its entirety;
4. the section entitled “MD&A” at pages 69 to 74 of the Prospectus is hereby supplemented with the MD&A set out at Schedule “A” hereto;
5. the section entitled “Book Entry System” on page 92 of the Prospectus is deleted in its entirety; and
6. the financial statements set out at pages F-1 to F-18 of the Prospectus are hereby supplemented with the financial statements set out at Schedule “B” hereto.

Purchaser’s Statutory Rights of Withdrawal and Rescission

Securities legislation in Ontario provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment thereto. The securities legislation in Ontario further provides a purchaser with remedies for rescission or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of Ontario. The purchaser should refer to any applicable provisions of the securities legislation of Ontario for the particulars of these rights or consult with a legal advisor.

SCHEDULE "A"



AVNEL GOLD MINING LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE PERIOD JANUARY 1, 2005 TO MARCH 31, 2005

The following discussion and analysis (the "MD&A") for Avnel Gold Mining Limited ("Avnel" or the "Company") describes the operating and financial results of the Company for the period from January 1, 2005 to March 31, 2005. 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 (the "Reorganization"). Accordingly, the information contained in this MD&A is presented on a pro forma basis as if the Reorganization was completed as of January 1, 2005. This MD&A should be read in conjunction with the unaudited interim financial statements for the period ended March 31, 2005 and related notes thereto. Additional information is available in the historical and pro forma consolidated financial statements of Avnel and Avnel Gold, Ltd. and the related notes thereto. The financial information contained in the selected interim financial information and the discussion of results of operations was prepared in accordance with U.S. GAAP. Management of Avnel is of the opinion that there are no material differences between U.S. GAAP and Canadian GAAP as they relate to the financial statements of Avnel, as described in note 1 to the unaudited interim financial statements of the Company. All amounts in this discussion are expressed in U.S. dollars, unless identified otherwise. This information is presented as of June 17, 2005.

This MD&A contains forward-looking statements that involve numerous risks and uncertainties and 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. 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.

Overview

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 (the "Reorganization").

Avnel Cayman was incorporated on September 28, 2001 for the sole purpose of submitting a tender in October 2001 for the Kalana exploration and exploitation permit (the "Permit"), including the Kalana Gold Mine and concession, in southwest Mali, West Africa. Avnel Cayman was awarded the tender on December 23, 2002. The principal asset of Avnel Cayman is an 80% interest in Société d'Exploitation des Mines d'Or de Kalana ("SOMIKA"), the current owner and operator of the Kalana Gold Mine and Concession. Avnel Cayman is party to a foundation agreement with the Malian

Government (the “Foundation Agreement”) pursuant to which Avnel Cayman operates the mining and exploration activities of SOMIKA. SOMIKA re-commissioned the Kalana Gold Mine at the end of 2003 and achieved commercial gold production in March 2004. Expenditures in 2003 were entirely related to capital expenditure to upgrade the existing mine facilities. Revenue generation began in March 2004 upon sale of the first gold produced from the Kalana Gold Mine.

Avnel’s strategic objective, through SOMIKA, is to commercially exploit the reserves at the Kalana Gold Mine, and enhance the economics of the Kalana Gold Mine through underground exploration to increase mineral reserves and through surface exploration (including feasibility studies) to convert resources into reserves. Avnel’s intention is to continue exploration of the Permit area to identify new ore resources. Avnel will focus on identifying these new resources prior to committing to expanding production at the Kalana Gold Mine. The size and location of any new discovery will influence the scale of expansion at the Kalana Gold Mine.

After re-commencing production in January 2004, and reaching commercial production in March 2004, the Kalana Gold Mine produced 35,667 ore tonnes, recovering 7,396 ounces of gold in 2004. During 2005, the mine production rate is planned to increase to 42,000 tonnes per annum, recovering 15,000 ounces as new mining areas are opened up by development and shaft deepening to access new veins planned for 2005 and 2006. The underground mine is expected to achieve the 60,000 tonnes per annum design capacity of the plant in 2007 when sufficient ore reserves are available to be mined.

The revamped gravity plant has been commissioned and is now recovering approximately 75% of underground gold reporting to the mill. A metallurgical test program was carried out to establish the optimum gravity recovery circuit and the potential to increase gold recovery. The results indicate that gold recovery can be increased to 90% plus by constructing a CIL plant. A further test program has commenced to assess the economic viability of a low capital cost route to approximately 90% of the gold.

A feasibility study is required to convert the Kalana surface resources into reserves. It is anticipated that these resources can be expanded by additional drilling and metallurgical test work. Avnel will continue to explore the Permit to identify the economic potential within 20 km of the current mine. Exploration commenced in February 2004; \$509,000 was spent on exploration and a further \$177,000 on feasibility studies in 2004. Management of Avnel expects to incur exploration expenses of approximately \$1.0 million in 2005. The Company strategy is to understand the full potential on the Permit before committing to investment to extract the known surface resources of the Kalana orebody.

Avnel is in the process of completing an initial public offering (the “Offering”) of units (the “Units”) consisting of one common share (a “Common Share”) and one-half of one common share purchase warrant (a “Warrant”). The Offering will be for a minimum of 11,666,667 Units, for gross proceeds of Cdn\$8,866,667, and a maximum of 20,000,000 Units, for gross proceeds of Cdn\$15,000,000. The Toronto Stock Exchange has conditionally approved the listing of the Common Shares under the symbol “AVK” and the Warrants under the symbol (“AVK.W”). The Company currently expects to complete the Offering on or around June 30, 2005. The proceeds of the Offering will mainly be used for development at the Kalana Gold Mine, completion of Avnel’s exploration projects on the Permit and the repayment of shareholder loans.

Selected Interim and Annual Financial Information

The following selected interim and annual financial information is derived from the pro forma unaudited interim financial statements of Avnel and Avnel Cayman and the historical audited annual financial statements of Avnel Cayman which are included in the prospectus. The Reorganization has been accounted for as an exchange between entities under common control whereby the assets and liabilities of Avnel Cayman are initially recognized at their carrying amounts in the financial statements of Avnel at the date of the transfer. The results and cash flows for the period for the three month period ended March 31, 2005 comprise the results and cash flows of Avnel and Avnel Cayman for the three months ended March 31, 2005 as if they had been combined throughout the period from January 1, 2005 to March 31, 2005.

	As at or for the Three Months ended March 31, 2005	As at or for the Three Months ended March 31, 2004	As at or for the Year ended December 31, 2004
		(\$ thousands)	
Total Revenue	1,349	365	2,621
Total Expenses	2,381	641	6,719
Net Income (Loss).....	(1,577)	(406)	(5,411)
Balance Sheet			
Working Capital (Deficiency).....	(2,684)	(2,191)	(2,959)
Total Assets.....	19,979	17,970	18,514
Long Term Debt.....	21,280	14,756	19,255
Shareholders' Deficit	(6,980)	(537)	(5,538)

Avnel recorded a net loss of \$1.6 million (\$7.88 per share) for the period from January 1, 2005 to March 31, 2005 compared to a net loss of \$0.4 million (\$2.03 per share) for the three months ended March 31, 2004 for Avnel Cayman.

As compared to the balance sheet of Avnel Cayman as at December 31, 2004, Avnel's cash and cash equivalents as at March 31, 2005 increased by \$287,000 due to financing received from shareholders of \$2,025,000 exceeding cash utilized in operations of \$1,141,000 and capital additions of \$597,000. Working capital increased from negative \$2,959,000 as at December 31, 2004 to negative \$2,684,000 as at March 31, 2005 for the same reason. Total assets increased from \$18,514,000 as at December 31, 2004 to \$19,979,000 as at March 31, 2005 which reflects the expenditure on development, property and equipment. Long term debt of \$19,255,000 as at December 31, 2004 increased to \$21,280,000 as at March 31, 2005 as a result of additional indebtedness incurred by way of advances from shareholders to fund the operating loss of approximately \$300,000, capital expenditures and corporate expenditures of the Company. The shareholders' deficit increased from \$5,538,000 at the year ended December 31, 2004 to \$6,980,000 as at March 31, 2005. This increase results principally from the loss incurred during the period.

Results of Operations

Review of the three month period ended March 31, 2005 compared to the three month period ended March 31, 2004

Gold produced in the three month period ended March 31, 2005 amounted to 3,178 ounces (2004 – 1,397 ounces) from 10,224 tonnes of ore milled (2004 – 7,319 tonnes) at a grade of 11.5 g/t (2004 – 8.78 g/t) and a recovery rate of 84.1% (2004 – 67.6%). In the first quarter of 2005, production exceeded budget by 3% due to higher grades mined underground and higher gold recovery. The milled throughput included 3,172 tonnes of coarse sand reclaimed from stockpiles at a grade of 4.93g/t. Production commenced in January 2004 and commercial production was achieved in March 2004 with the first gold sales.

In the three months ended March 31, 2005, 3,199 ounces of gold were sold at an average price of \$419 per ounce for total proceeds of \$1,340,000. These sales included 2200 ounces sold pursuant to forward sales contracts at an average price of \$410.89 per ounce which resulted in a net loss of \$41,000 from the proceeds which would have resulted from selling at the spot price. In the comparable period of 2004 gold sales amounted to 881 ounces of gold were sold at an average price of \$413 per ounce for total proceeds of \$365,000 as gold sales only began in March. There were no forward gold sales in the first quarter of 2004.

Mine operating costs were \$1,624,000 for the quarter to March 31, 2005 (2004 - \$458,000) from the mining of 7,051 tonnes of ore (2004 - 7,625 tonnes) at a gold grade of 14.45 g/t (2004 – 8.78 g/t). During this period in 2005 cash operating costs were \$511 per ounce of gold produced and \$159 per tonne milled. The budget was \$1,763,000 at a cash operating cost of \$573 per ounce of gold produced. The costs for the first quarter of 2004 include only those for the period subsequent to commercial production being achieved.

General and administrative costs were \$395,000 for the three months ended March 31, 2005 (2004 - \$15,000). The increase in costs include those associated with the completion of the Reorganization and compensation expenses of \$137,000 resulting from the grant of stock options during the period. Management expects that in future periods general and administrative expenses will increase in order that Avnel may meet its reporting and regulatory commitments.

Depreciation, depletion and reclamation expenses amounted to \$281,000 in the first quarter of 2005 compared to \$92,000 in the corresponding period of 2004. Depletion costs are calculated on the unit-of-production basis and the increase results primarily from the low gold sales in 2004 as production and sales had only just commenced.

During the period, Avnel continued with its exploration program on the 387.4 km² area property held in accordance with the Permit. The Company commenced preparation for the drilling program to commence in April 2005. Exploration expenditures were \$81,000 in the period compared to \$76,000 in the quarter to March 31, 2004.

Interest expense was \$466,000 for the three months to March 31, 2005 (2004 - \$107,000). The increase results from the increased debt level incurred to fund development. In addition in the first quarter interest costs of \$200,000 were capitalized prior to the commencement of commercial production. Management expects interest expense to continue to increase as additional borrowing is raised to fund the continuing development of the mine.

Liquidity and Capital Resources

As of March 31, 2005, Avnel had cash of \$656,000 and negative working capital of \$2,684,000. In the three month period ended March 31, 2005, operating activities required cash funding of \$1,141,000 as the mine continues to operate at below design capacity until additional mining areas are opened up.

In the three month period ended March 31, 2005, Avnel used \$597,000 in cash for mine development, capital additions and exploration. The expenditure was related to the sinking of No 2 Shaft and the No 1 Sub Incline Shaft at the Kalana Gold Mine and associated mining equipment, work on the feasibility study.

Net funds received from financing activities amounted to \$2,025,000 in the three month period ended March 31, 2005. The financing was granted through shareholder loans which formed part of the \$2.8 million bridge financing loans (the "Bridge Financing Loan").

The Company is currently dependent upon its shareholders to provide bridge funding to finance its capital expenditure plans and the net cash used in operations. As of March 31, 2005, the Company will need additional funds approximating \$6.6 million to achieve a position where it is expected the revenues generated by the Kalana Gold Mine will be able to fund its operations. Subsequent to March 31, 2005, the shareholders provided additional funding of \$1.375 million, \$775,000 as part of the Bridge Financing Loan and \$600,000 to fund the payment to the Republic of Mali, and have committed to provide a further \$500,000 in July 2005 until the funds from the Offering are received by the Company. The Company is endeavouring to raise additional funds through the Offering, the minimum net proceeds of which are expected to be approximately \$6,700,000. The Bridge Financing Loan will be repaid out of the proceeds of the Offering to the extent, if any, that the Offering exceeds \$9,500,000. Any principal and accrued interest due under the Bridge Financing Loans that remains unpaid from the proceeds of the Offering will be converted into a term loan note due December 31, 2008, bearing interest at a rate of 8% per annum. The \$600,000 payment to the Mali Government and the possible \$500,000 advance will be repaid from the proceeds of the Offering. No assurance can be given that such financing will be successfully raised.

Payments Due by Period as at March 31, 2005

Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long Term Debt (1)	23,489,398	2,209,398	17,727,564	—	3,552,436
Capital Lease Obligations (2)	99,748	37,406	62,342	—	—
Operating Leases (3)	387,699	122,645	265,054	—	—
Purchase Obligations (4)	1,792,233	1,792,233	—	—	—
Other Long Term Obligations (5)	<u>1,275,820</u>	<u>600,000</u>	<u>675,820</u>	—	—
Total Contractual Obligations	<u>\$27,044,898</u>	<u>\$4,761,682</u>	<u>\$18,730,780</u>	<u>—</u>	<u>\$3,552,436</u>

Notes:

- (1) The long term debt of Avnel consists entirely of shareholder loans provided by Elliott International L.P. and Elliott Associates L.P. (collectively "Elliott") and the Fern Trust, the shareholders of Avnel (the "Shareholder Loans"). An aggregate principal amount of \$19,255,000 of the Shareholder Loans was outstanding as at March 31, 2005. Accrued interest on the Shareholder Loans in the amount of \$2,209,398 is recorded on the balance sheet of Avnel as a current liability. Immediately prior to completion of the Offering, the entire amount of \$20,996,950, plus interest accrued since January 1, 2005, will be converted into equal amounts of common shares and convertible loan notes. A further \$2,025,000 has been provided by the shareholders pursuant to a Bridge Financing Loan.
- (2) Avnel's capital lease obligations consist entirely of payments due under a lease agreement with SGS Analabs for equipment used in relation to exploration and development activities in Mali.
- (3) Avnel's operating lease obligations consist of payments due under rental agreements in respect of its offices in London and Bamako.
- (4) Avnel's purchase obligations consist of amounts owing to trade creditors in respect of services provided for exploration, evaluation and development activities at Kalana.
- (5) Avnel's outstanding long term obligations under the Foundation Agreement as at March 31, 2005 include the following:

- (i) A payment of \$600,000 owing in respect of its obligation to make a lump sum payment of \$1.2 million to the Malian Government. Avnel made this payment on May 26, 2005.
- (ii) A balance of \$675,820 which Avnel is obligated to spend on exploration, evaluation and development at Kalana before February 14, 2006. This represents the remaining amount of its obligation to spend \$1.34 million over a three year period on exploration, evaluation and development following the execution of the Foundation Agreement. See "General Development of the Business - Foundation Agreement".

Avnel has used and intends to use the \$2.8 million facility provided by Elliott and Fern under the Bridge Financing Loan to fund its commitments under its operating and capital leases, and purchase obligations. In respect of Avnel's commitment under the Foundation Agreement to pay a lump sum of \$600,000 by February 14, 2005, the Company was granted an extension from the Malian Government to make this payment and did so on May 26, 2005.

As of March 31, 2005, Avnel plans to spend \$2.4 million in 2005 and a further \$1.0 million in the first half of 2006 on mine and plant programs. These expenditures will satisfy Avnel's remaining commitment under the Foundation Agreement in respect of its obligation to spend \$1.34 million on exploration, evaluation and development at Kalana by February 14, 2006. From 2007, it is anticipated that these capital expenditures will bring underground production to a rated capacity of 60,000 tonnes per annum, with a concomitant reduction of cash operating costs to \$205 per ounce. Those capital expenditures not covered by the Bridge Financing Loan will be financed from the proceeds of the Offering.

Related Party Transactions

Kalana Mine Services Limited ("Kalana Mine Services"), a London based, wholly-owned subsidiary of Avnel Cayman, provides purchasing, facilitation, and expediting services and technical assistance to SOMIKA at cost plus a fee of 7.5%. A total of \$127,000 of such expenses and fees were charged to SOMIKA by Kalana Mine Services during the three month period ended March 31, 2005.

SOMIKA purchases approximately \$160,000 per annum of explosives from African Explosives Limited ("AEL") on normal commercial terms. Mr. Ibrahim Kantao, a director of Avnel and SOMIKA, is also the Director-General of AEL Chemico & AEL Mali SARL. In the absence of other competitive sources, it is anticipated that purchases of explosives from AEL will continue on a similar basis. Such purchases amounted to \$35,000 in the three month period ended March 31, 2005.

Avnel Cayman entered into forward sales agreements on March 18, 2004 in respect of 31,700 ounces for the period through to December 2006 at an average price of \$414.27 per ounce with Elliott, who, at the time of entering into the forward sales agreements owned 47.5% of the Avnel Cayman shares, and are promoters of this Offering. The facility is margin-free up to \$1.0 million. At March 31, 2005, based on a spot price of \$427 per ounce, the mark-to-market value of the Company's gold forward sales agreements was negative \$341,000.

The premises occupied by Avnel and Kalana Mine Services in London are leased at an annual rental of approximately \$130,000 per annum from a company associated with the Fern Trust, a significant shareholder. Avnel incurred \$28,000 in rental costs during the three month period ended March 31, 2005.

Business Risks

The risks associated with Avnel and the effect on future operating results and financial position of the Company are set out in detail under the heading "Risk Factors" in the prospectus.

The Company faces risk in respect of its exposure to gold prices. Avnel has sold forward approximately 60% of its forecast gold production through to March 2007 at an average gold price of \$419 per ounce. Avnel adopted its forward sales program with a major shareholder to achieve a higher level of confidence in achieving its near-term cash flow objectives. Without this program, it is estimated that a 10% movement in the gold price away from the assumed spot price of \$419 per ounce would move the remaining 2005 cash flow by approximately \$500,000. With the hedge program, the same movement in the gold price results in a \$133,000 movement. The Company has been granted flexibility in electing whether to deliver against its contracts or roll its position.

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. The following table illustrates the sensitivity of operating costs and capital expenditures in 2005 to a movement of 10% in the South African Rand (the “Rand”) and CFA Franc (the exchange of which is fixed to the Euro), the two key currencies for the Kalana project, against the U.S. dollar. An appreciation of 10% by the CFA Franc or Rand against the U.S. dollar would lead to an increase in Avnel’s current financial year’s costs by the percentages shown in the table below. An appreciation of the U.S. dollar by 10% against the CFA Franc or Rand would reduce the planned operating costs and capital expenditures by the corresponding percentages.

Impact of Currency Movement on 2005 Operating Costs and Capital Expenditures

<u>Currency</u>	<u>Operating Cost</u>	<u>Capital Expenditure</u>
CFA Franc or Euro.....	5.7%	1.3%
Rand.....	0.8%	6.8%

The Company will require ongoing financing, including funds from the Offering, to finance its planned operation and exploration programs. No assurance can be given that the Offering will be completed, or that such financing can be raised on commercially acceptable terms.

Avnel maintains insurance against risks that are typical in the gold mining industry. Although the Company maintains insurance in amounts that it believes to be adequate, the insurance coverage maintained may not be adequate in the event of unforeseen circumstances. Avnel does not maintain political risk insurance.

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 international 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.

Outlook

For the balance of 2005, Avnel is forecasting gold production of 11,540 ounces at an average operating cost of approximately \$425 per ounce of gold produced. Using an average gold price of \$415 per ounce, management believes that it will require \$4.5 million to fund operations, which includes (i) capital expenditures of \$2.4 million mainly required to expand production to 60,000 tonnes per annum, (ii) \$400,000 for exploration, (iii) \$600,000 for the final payment to the Malian Government for the reserves, and (iv) \$1.1 million for outstanding creditors and corporate expenses. The expenses of the Offering are excluded from the \$4.5 million and are estimated to be \$850,000.

For 2006, management is forecasting gold production of 22,500 ounces at an average operating cost of \$277 per ounce of gold. The increase in gold production is attributed to the mine having sufficient mining faces available by July 2006 to reach the planned monthly production rate of 5,000 tonnes for the second half of 2006.

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 considers the following critical accounting policies reflect its more significant estimates and judgements used in the preparation of the consolidated financial statements.

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. With respect to properties with proven and probable reserves, an impairment loss is recognized when the estimated future cash flows expected to result from the use of the asset are less than the carrying amount of the asset. Measurement of the impairment loss is based on discounted cash flows.

The fair value of a retirement or rehabilitation obligation is recognized as an asset and a liability in the period when it is incurred. The liability is discounted and an accretion expense is recognized using the credit adjusted risk free rate in effect when the liability is incurred.

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, except depreciation and amortization, which are remeasured at historical rates. Revenue and expense transactions are remeasured at the average rate for the period. Remeasurement gains and losses are included in income.

Financial Instruments

As at March 31, 2005, the Company had sold forward 24,350 ounces of gold at an average price of \$419 per ounce. The Company believes that these forward sales qualify as normal sales contracts under FAS 133 and will record the revenues when the gold sold forward is delivered and proceeds are received. The facility is margin-free, up to a maximum exposure of \$1.0 million.

The estimated fair values of the Company's other financial instruments approximate carrying values at March 31, 2005. The Company has no other financial instruments or long-term commitments outstanding.

SCHEDULE "B"

AVNEL GOLD MINING LIMITED

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

Avnel Gold Mining Limited
Unaudited Consolidated Balance Sheet
As at March 31, 2005
Expressed in thousands of US Dollars

	March 31	December 31
	<u>2005</u>	<u>2004</u>
		(See Note 1)
ASSETS		
Cash and cash equivalents	\$ 656	\$ 369
Inventories	1,290	1,010
Prepaid and other assets	659	77
Total current assets	2,605	1,456
Property and equipment, at cost		
Mining properties	11,986	11,517
Other property and equipment	6,534	6,406
	18,520	17,923
Accumulated depreciation and depletion	1,146	865
Net property and equipment	17,374	17,058
Total Assets	\$ 19,979	\$ 18,514
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 1,792	\$ 1,569
Other accrued liabilities	3,497	2,846
Total current liabilities	5,289	4,415
Notes payable - long term	21,280	19,255
Provision for reclamation liabilities	390	382
Total liabilities	26,959	24,052
STOCKHOLDERS' DEFICIT		
Share Capital	100	100
Contributed Surplus	137	-
Retained Earnings	(7,224)	(5,647)
Accumulated and other comprehensive income	7	9
Total stockholders' deficit	(6,980)	(5,538)
Total Liabilities and Stockholders' Deficit	\$ 19,979	\$ 18,514

The accompanying notes are an integral part of these unaudited consolidated financial statements

Avnel Gold Mining Limited
Unaudited Consolidated Statement of Operations
Expressed in thousands of US Dollars

	Three months ended March 31 <u>2005</u> (See Note 1)	Three months ended March 31 <u>2004</u>
REVENUE		
Metal revenue	\$ 1,349	\$ 365
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EXPENSES		
Operating	1,624	458
Depreciation	281	92
Exploration	81	76
Administration expense	395	15
	<hr/> 2,381	<hr/> 641
<hr/>		
Other income (expense)		
Interest expense	(466)	(107)
Exchange gain	(62)	(1)
Withholding taxes	(6)	(19)
Total other expense	<hr/> (534)	<hr/> (127)
<hr/>		
Loss before tax	(1,566)	(403)
Income taxes	(11)	(3)
<hr/>		
Net loss	(1,577)	(406)
Deficit brought forward	(5,647)	(573)
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Deficit carried forward	\$ (7,224)	\$ (979)
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The accompanying notes are an integral part of these unaudited consolidated financial statements

Avnel Gold Mining Limited

Unaudited Consolidated Statement of Changes in Stockholders' Equity

Expressed in thousands of US Dollars

	<u>Common Stock</u>		<u>Contributed</u>	<u>Minority</u>	<u>Accumulated</u>	<u>Accumulated</u>	<u>Other</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Surplus</u>	<u>Interest</u>	<u>Deficit</u>	<u>Income</u>	<u>Comprehensive</u>	<u>Stockholders'</u>
							<u>Income</u>	<u>Deficit</u>
At December 31, 2003	50,000	\$ 50	\$ -	\$ 337	\$ (573)	\$ 4	\$	\$ (182)
Issuance of common stock (February 18, 2004)	50,000	50	-	-	-	-	-	50
Net loss from January 1, 2004 to March 31, 2004	-	-	-	-	(406)	-	-	(406)
Other comprehensive gain	-	-	-	-	-	1	-	1
Exchange gain	-	-	-	-	-	-	-	-
Comprehensive loss	-	-	-	-	-	-	-	(405)
At March 31, 2004	100,000	\$ 100	\$ -	\$ 337	\$ (979)	\$ 5	\$	\$ (537)
At December 31, 2004	100,000	\$ 100	\$ -	\$ -	\$ (5,647)	\$ 9	\$	\$ (5,538)
Issuance of common stock upon purchase of Avnel Gold, Limited	200,000	100	-	-	-	-	-	100
Elimination upon Consolidation of Avnel Gold, Limited	(100,000)	(100)	-	-	-	-	-	(100)
Issuance of options	-	-	137	-	-	-	-	137
Net (loss) from January 1, 2005 to March 31, 2005	-	-	-	-	(1,577)	-	-	(1,577)
Other comprehensive gain	-	-	-	-	-	(2)	-	(2)
Exchange gain (loss)	-	-	-	-	-	-	-	-
Comprehensive (loss)	-	-	-	-	-	-	-	(1,579)
At March 31, 2005	200,000	\$ 100	\$ 137	\$ -	\$ (7,224)	\$ 7	\$	\$ (6,980)

The accompanying notes are an integral part of these consolidated financial statements

Avnel Gold Mining Limited
Unaudited Consolidated Statement of Cash Flows
Expressed in thousands of US Dollars

	Three months ended March 31 <u>2005</u> (See Note 1)	Three months ended March 31 <u>2004</u>
Cash flows from operating activities:		
(Loss) from continuing operations	\$ (1,577)	\$ (406)
Non cash items		
Depreciation	281	92
Change in reclamation liability	8	
Issuance of options	137	-
Unrealized adjustment of other comprehensive income	(2)	1
Changes in operating assets and liabilities		
Inventories	(280)	(406)
Prepaid and other assets	(582)	(416)
Accounts payable	223	451
Other accrued liabilities	651	(12)
Net cash provided by (used in) operating activities	(1,141)	(696)
Cash flows from investing activities:		
Purchases and development of property and equipment	(597)	(1,904)
Net cash used in investing activities	(597)	(1,904)
Cash flows from financing activities:		
Advances from stockholders	-	50
Proceeds from notes payable	2,025	2,502
Net cash provided by financing activities	2,025	2,552
Net increase in cash and cash equivalents	287	(48)
Cash and cash equivalents at beginning of period	369	208
Cash and cash equivalents at end of period	\$ 656	\$ 160

The accompanying notes are an integral part of these unaudited consolidated financial statements

Avnel Gold Mining Limited
Notes to the Unaudited Consolidated Financial Statements
For the period ended March 31, 2005

1. Nature of Operations and Liquidity

Avnel Gold Mining Limited (the "Company") was incorporated under the laws of Guernsey on February 18, 2005. On February 22, 2005, Elliott Associates L.P., Elliott International L.P. (collectively "Elliott") and Fern Trust ("Fern") acquired 100% of the issued and outstanding common shares of the Company in exchange for 95% of the issued and outstanding shares of Avnel Gold, Limited, a company incorporated in the Cayman Islands, pursuant to a reorganization agreement. Under the reorganization agreement, obligations of Avnel Gold Limited to Elliott and Fern in respect of existing shareholder loans of Avnel Gold, Limited were assumed by the Company. The reorganization has been accounted for as an exchange between entities under common control whereby the assets and liabilities of the Avnel Gold, Limited group are initially recognized at their carrying amounts in the accounts of the Avnel Gold Mining Limited group at the date of the transfer. The principal asset of Avnel Gold, Limited is an 80% interest in Société d'Exploitation des Mines d'Or de Kalana ("SOMIKA"), the current owner and operator of the Kalana Gold Mine and Concession. The results and cash flows for the period comprise the results and cash flows of the Company and the Avnel Gold, Limited group as if they had been combined throughout the period from January 1, 2005 to March 31, 2005. The results and cash flows for the three months ended March 31, 2004 and the balance sheet as at December 31, 2004 are the amounts reported by Avnel Gold, Limited in its consolidated financial statements for the three months ended March 31, 2004 and the year ended December 31, 2004, respectively.

The Company, Elliott and Fern also entered into a transfer agreement and call option agreement with the minority shareholder. Pursuant to the transfer agreement and call option agreement, the Company purchased from the minority shareholder the remaining 5% of ordinary shares of Avnel Gold Limited outstanding for \$5,000, and Elliott and Fern and the Company granted to the minority shareholder a call option on the shares of the Company held by Elliott and Fern and warrants to purchase common shares and shareholder loans of the Company. Under the transfer agreement, shareholder loans owed by Avnel Gold Limited (subsequently assumed by the Company) to the minority shareholder in the amount of \$725,000 were acquired by Elliott and Fern.

The Company's cash flow and profitability is dependent primarily on the volume of production, gold prices, operating costs, environmental costs, interest rates on borrowings and investments and discretionary expenditure levels including exploration, technology, resource development and general and administrative. Since the Company operates overseas, 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.

The US Dollar is the functional currency of the company's principal operations.

The Company does not currently have financing commitments in place to meet expected cash requirements. Management plans to raise such funds from existing stockholders, private equity investors or through an initial public offering. There can be no assurance that the Company will be able to raise such funds. 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 consolidated financial statements have been prepared in accordance with generally accepted accounting principles in United States (U.S. GAAP) which differs in certain respects from accounting

principles generally accepted in Canada (Canadian GAAP). In the opinion of management there are no material differences between U.S. GAAP and Canadian GAAP as they relate to the financial statements, including recognition and measurement principles and disclosure requirements.

2. Interim Accounting Policy

The accompanying unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly in accordance with accounting principles generally accepted in the United States, the financial position of the company and the results of its operations and cash flows for the period ended March 31, 2005. Although the company believes that disclosure in these financial statements is adequate to make the information presented not misleading, certain information and foot note information normally included in annual financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted. These financial statements are prepared using the same accounting policies and method of application as those disclosed in Note 3 to the consolidated financial statements of Avnel Gold, Limited for the year ended December 31, 2004, except in respect of its policy for stock-based compensation.

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123. Stock options awarded to employees are accounted for at estimated fair value, based on the binomial model, and any related expense is charged to income over the period between the grant date and the vesting date. This is a new accounting policy.

Results of operations for the period ended March 31, 2005 are not necessarily indicative of what operating results may be for the full year. In addition, these unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements presented herein.

3. Notes Payable

Notes payable to the stockholders are unsecured. Interest is payable at 8.5 per cent per annum. The stockholders have agreed not to seek repayment within twelve months of the balance sheet date.

4. Commitments and Contingencies

Under the terms of the Foundation Agreement dated February 13, 2003, Avnel Gold Limited is committed to make additional investments in the Kalana project of \$600,000 in 2005. Additionally, the company agreed to spend \$1,334,000 on exploration and development over the first three years of the project.

As at March 31, 2005 the Company had sold forward 24,350 ounces of gold at an average price of \$419 per ounce. The Company believes that these forward sales qualify as normal sales contracts under FAS133 and will record the revenues when the gold sold forward is delivered and proceeds are received. At March 31, 2005, based on the spot price of \$427 per ounce, the mark-to-market value of the Company's gold forward sales agreements was negative \$341,000.

5. Related Party Transactions

Kalana Mine Services Limited ("Kalana Mine Services"), a London based, wholly-owned subsidiary of Avnel Gold, Limited, provides purchasing, facilitation, and expediting services and technical assistance to SOMIKA at cost plus a fee of 7.5%. During the three month period ended March 31, 2005, \$127,000 of such expenses and fees were charged to SOMIKA by Kalana Mine Services.

SOMIKA purchases approximately \$160,000 per annum of explosives from African Explosives Limited ("AEL") on normal commercial terms. Mr. Ibrahim Kantao, a director of the Company and SOMIKA, is also the Director-General of AEL Chemico & AEL Mali SARL. In the absence of other competitive sources, it is anticipated that purchases of explosives from AEL will continue on a

similar basis. Such purchases amounted to \$35,000 in the three month period ended March 31, 2005.

Avnel Gold, Limited entered into forward sales agreements on March 18, 2004 in respect of 31,700 ounces for the period through to December 2006 at an average price of \$414.27 per ounce with Elliott, who, at the time of entering into the forward sales agreements owned 47.5% of the Avnel Gold, Limited shares, and are promoters of this Offering. The facility is margin-free up to \$1 million.

The premises occupied by Avnel Gold, Limited and Kalana Mine Services in London are leased at an annual rental of approximately \$130,000 per annum from a company associated with the Fern Trust, a significant shareholder. The Company incurred \$28,000 in rental costs during the three month period ended March 31, 2005.

6. Employee Stock Based Compensation

On February 23, 2005, the Company granted to Roy Meade, Chief Executive Officer of the Company, an option (the "CEO Compensation Option") to acquire up to 2.5 million common shares, at an exercise price per share equal to the quotient of (i) the aggregate amount of the capital investment of the principal investors (excluding any unpaid interest thereon) on the closing date of the proposed initial public offering and (ii) the number of common shares of the Company held by them on such date. One third of the option shall be exercisable immediately upon completion of the offering, one-third on the first anniversary of the date of grant, and the remaining one-third on the second anniversary of the date of grant. Mr. Meade's entitlement to any unexercised portion of the CEO Compensation Option will terminate in the event he leaves employment of Avnel Gold Mining Limited at his own volition prior to the exercise date. The CEO Compensation Option shall expire on the first anniversary of the date of grant in the event that an initial public offering is not completed as of that date. The grant of the CEO Compensation Option was made in satisfaction of an outstanding obligation on the part of Avnel Gold, Limited to grant free of charge an amount of shares representing 5% of the issued and outstanding shares of Avnel Gold Limited made in consideration of Mr. Meade's agreement to accept employment with Avnel Gold Limited in September, 2003.

The fair value of the CEO Compensation Option has been estimated using the Binomial option model with the following assumptions:

Risk-free interest rate	3.9%
Expected option term	10 years
Expected volatility	40%
Expected dividend yield	Nil%

At an exercise price of \$0.275 per share, the option value is estimated to be \$0.381 per share. During the three months ended March 31, 2005 administration expense includes \$137,000 (2004- \$Nil) relating to the granting of the CEO Compensation Option and the same amount has been credited to Contributed Surplus.

7. Subsequent Event

On May 27, 2005, the Company filed a long form final prospectus relating to the offering for sale to the public of a minimum of 11,666,667 and a maximum of 20,000,000 units (the "Units") of the Company at a price of C\$0.76 per Unit, each Unit consisting of one common share (the "Common Shares") of Avnel and one-half of one Common Share purchase warrant, each whole Common Share purchase warrant entitling the holder to purchase one Common Share (the "Warrant Shares") at a price of C\$1.06 per Warrant Share at any time before 5:00 p.m. (Toronto time) on the fifth anniversary of the closing date, which is currently anticipated for June 30, 2005.

CERTIFICATE OF AVNEL AND THE PROMOTERS

Dated June 22, 2005

The prospectus dated May 27, 2005, as amended by the Amendment No. 1 dated June 22, 2005, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required Part XV of the Securities Act (Ontario) and the respective regulations thereunder.

(signed) ROY MEADE
Chief Executive Officer

(signed) WILLIAM J. SMITH
Chief Financial Officer

On Behalf of the Board of Directors

(signed) HOWARD B. MILLER
Director

(signed) JONATHAN D. POLLOCK
Director

On Behalf of the Promoters

ELLIOTT ASSOCIATES L.P.

HAMBLEDON INC.
in its capacity as general partner of
ELLIOT INTERNATIONAL L.P.

MERLIN GROUP SECURITIES LIMITED
as trustee on behalf of
THE FERN TRUST

(signed) PAUL SINGER
General Partner

(signed) PAUL SINGER
General Partner

(signed) PHILIP O. GALLIENNE
Company Secretary and Trust
Officer

CERTIFICATE OF THE AGENTS

Dated June 22, 2005

To the best of our knowledge, information and belief, the prospectus dated May 27, 2005, as amended by this Amendment No. 1 dated June 22, 2005, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part XV of the Securities Act (Ontario) and the respective regulations thereunder.

CREDIFINANCE SECURITIES LIMITED

DOMINICK & DOMINICK SECURITIES
INC.

By: (signed) ANN GLOVER

By: (signed) PAUL MORGANTE