

**AVNEL GOLD LIMITED
(A DEVELOPMENT STAGE COMPANY)**

CONSOLIDATED FINANCIAL STATEMENTS

**YEAR ENDED DECEMBER 31, 2003 AND THE
PERIOD FROM SEPTEMBER 28, 2001 TO
DECEMBER 31, 2002**

**Independent Auditors' Report to the Directors of
Avnel Gold Limited
(A Development Stage Company)**

We have audited the accompanying consolidated balance sheets of Avnel Gold Limited and its subsidiaries (a Development Stage Company) as of December 31, 2003 and December 31, 2002, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity and cash flows for the cumulative period from inception (September 28, 2001) to December 31, 2003, the year ended December 31, 2003 and the period from inception (September 28, 2001) to December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America which are substantially equivalent to Canadian generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Avnel Gold Limited and its subsidiaries as of December 31, 2003 and December 31, 2002, and the consolidated results of their operations and their cash flows for the year then ended and the period from September 28, 2001 to December 31, 2002 and the cumulative period from September 28, 2001 to December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

The consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred operating losses prior to the commencement of production and does not currently have financing commitments in place to meet its projected cash requirements through 2005. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management Plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments to the carrying value of assets and the amounts and classification of liabilities that may result from the outcome of this uncertainty.

St. Paul's House
London, EC4M 7BP
England

MOORE STEPHENS
Chartered Accountants

September 30, 2004, except as to note 8
which is as of February 18, 2005

Avnel Gold Limited and Subsidiaries
(A Development Stage Company)

Consolidated Balance Sheet
(Expressed in thousands of U. S. Dollars)

	<u>Note</u>	December 31, <u>2003</u>	December 31, <u>2002</u>
ASSETS			
Cash and cash equivalents		\$ 208	\$ -
Inventories - materials and supplies		14	-
Prepaid and other assets		180	-
		<hr/>	<hr/>
Total current assets		402	-
		<hr/>	<hr/>
Property and equipment, at cost			
Mining properties		9,283	-
Other property and equipment		5,346	-
		<hr/>	<hr/>
		14,629	-
Accumulated depreciation and depletion		(30)	-
		<hr/>	<hr/>
Net property and equipment		14,599	-
		<hr/>	<hr/>
Total Assets		\$ 15,001	\$ -
		<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Accounts payable		1,263	-
Other current liabilities		1,666	-
		<hr/>	<hr/>
Total current liabilities		2,929	-
Notes payable - long term	4	12,254	-
		<hr/>	<hr/>
Total liabilities		15,183	-
		<hr/>	<hr/>
Commitments and contingencies		-	-
Minority interest		337	-
Common stock (\$ 1 par value) 50,000 shares authorised, issued and outstanding		50	50
Deficit		(573)	-
Stock subscription receivable		-	(50)
Accumulated other comprehensive income		4	-
		<hr/>	<hr/>
Total stockholders' deficit		(182)	-
		<hr/>	<hr/>
Total Liabilities and Stockholders' Deficit		\$ 15,001	\$ -
		<hr/> <hr/>	<hr/> <hr/>

On behalf of the Board on 18th February 2004

HOWARD B. MILLER
Director

JONATHAN D. POLLOCK
Director

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

Avnel Gold Limited and Subsidiaries
(A Development Stage Company)

Consolidated Statement of Operations and Comprehensive Income
(Expressed in thousands of U. S. Dollars)

	Cumulative from Inception (September 28, 2001) to December 31, <u>2003</u>	Year ended December 31, <u>2003</u>	Period from Inception (September 28, 2001) to December 31, <u>2002</u>
REVENUE			
Sales	\$ -	\$ -	\$ -
EXPENSES			
Depreciation	30	30	-
Selling, general and administrative	405	405	-
Total expenses	<u>435</u>	<u>435</u>	<u>-</u>
(Loss) from Operations	(435)	(435)	-
OTHER INCOME/(EXPENSE)			
Interest expense	(137)	(137)	-
Exchange gain	50	50	-
Withholding taxes	(41)	(41)	-
Total other expense	<u>(128)</u>	<u>(128)</u>	<u>-</u>
(Loss) before tax	(563)	(563)	-
Income taxes	(10)	(10)	-
(Loss) after income taxes	<u>(573)</u>	<u>(573)</u>	<u>-</u>
Minority interest	-	-	-
Net (loss)	<u>\$ (573)</u>	<u>\$ (573)</u>	<u>\$ -</u>
Comprehensive Income			
Net (loss)	(573)	(573)	-
Foreign currency translation	4	4	-
Comprehensive Income/(Loss)	<u>\$ (569)</u>	<u>\$ (569)</u>	<u>\$ -</u>

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

Avnel Gold Limited and Subsidiaries
(A Development Stage Company)

Consolidated Statement of Changes in Stockholders' Equity
(Expressed in thousands of U. S. Dollars)

	<u>Common Stock</u>		<u>Minority</u>	<u>(Deficit)</u>	<u>Accumulated</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Interest</u>	<u>Development</u>	<u>during</u>	<u>Other</u>	<u>Stockholders'</u>
		\$	\$	\$	\$	\$	(Deficit)
							\$
At September 28, 2001	-	-	-	-	-	-	-
Issuance of common stock (October 30, 2001)	50,000	50	-	-	-	-	50
At December 31, 2002	50,000	50	-	-	-	-	50
Minority interest	-	-	337	-	-	-	337
Net (loss)	-	-	-	(573)	-	-	(573)
Other comprehensive gain							
Foreign currency translation	-	-	-	-	-	4	4
At December 31, 2003	50,000	50	337	(573)	-	4	(182)

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

Avnel Gold Limited and Subsidiaries
(A Development Stage Company)

Consolidated Statement of Cash Flows
(Expressed in thousands of U. S. Dollars)

	Cumulative from Inception (September 28, 2001) to December 31, <u>2003</u>	Year ended December 31, <u>2003</u>	Period from Inception (September 28, 2001) to December 31, <u>2002</u>
Cash flows from operating activities:			
(Loss) from continuing operations	(573)	(573)	-
Non cash items:			
Depreciation	30	30	-
Unrealised adjustment of other comprehensive income	4	4	-
Changes in operating assets and liabilities:			
(Increase) in inventories	(14)	(14)	-
(Increase) in prepaid and other assets	(180)	(180)	-
Increase in accounts payable	1,263	1,263	-
Increase in other current liabilities	1,666	1,666	-
	<hr/>	<hr/>	<hr/>
Net cash provided by operating activities	2,196	2,196	-
	<hr/>	<hr/>	<hr/>
Cash flows from investing activities:			
Purchases and development of property and equipment	(14,629)	(14,629)	-
	<hr/>	<hr/>	<hr/>
Net cash used in investing activities	(14,629)	(14,629)	-
	<hr/>	<hr/>	<hr/>
Cash flows from financing activities:			
Proceeds from issuance of common stock	50	50	-
Proceeds from notes payable	12,254	12,254	-
Minority interest	337	337	-
	<hr/>	<hr/>	<hr/>
Net cash provided by financing activities	12,641	12,641	-
	<hr/>	<hr/>	<hr/>
Net increase in cash and cash equivalents	208	208	-
Cash and cash equivalents, beginning of period	-	-	-
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents, end of period	\$ 208	\$ 208	\$ -
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Supplemental disclosures of cash flow information

The Company paid interest of \$ 7, \$ 7 and \$ 0 for the periods respectively. The Company paid no income taxes during any of the periods.

On October 30, 2001 the company issued 50,000 shares in exchange for a subscription receivable of \$50.

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

Avnel Gold Limited
(A Development Stage Company)

Consolidated Financial Statements

Notes
(Expressed in thousands of U. S. Dollars)

1. Nature of Operations and Liquidity

Avnel Gold Limited was incorporated in the Cayman Islands on September 28, 2001. On February 14, 2003 it entered into a Foundation Agreement with the Government of Mali for the development of the existing gold mining property at Kalana. Under the terms of the Foundation Agreement, a subsidiary company, SOMIKA, was established in Mali to develop the mining property. Eighty per cent of the voting equity is held by the Company, and 20 per cent is held beneficially by the Government of Mali. The Company agreed to invest \$ 2,500 in the project, of which \$1,600 was invested on inception, \$300 is payable in 2004 and \$600 is due in 2005. Additionally, the company agreed to spend \$1,375 on exploration and development over the first three years of the project.

Gold production commenced in January 2004 and the principal markets are European based bullion trading concerns.

As at December 31, 2003, production had not commenced and the Company had incurred a net loss of \$ 573. The Company does not currently have financing commitments in place to meet expected cash requirements (including the above commitments for further investments in SOMIKA) through 2005. 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.

2. Management Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Avnel Gold Limited
(A Development Stage Company)

Consolidated Financial Statements

Notes (Continued)
(Expressed in thousands of U. S. Dollars)

3. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of the Company include the accounts of Avnel Gold Limited and its subsidiaries Kalana Mine Services Limited (United Kingdom, 100 %), SOMIKA (Mali, 80 %) and Avnel Mali SARL (Mali, 100%). All intercompany balances and transactions have been eliminated in the consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less at the date of purchase and which are not subject to significant risk from changes in interest rates.

Inventories

Processed ores are stated at the lower of average cost or market. No account is taken of work in progress. Materials and supplies are stated at cost on a first in first out basis.

Mining Properties and Equipment

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 weighted average useful life of production facilities and equipment is nine years. Vehicles and office equipment are stated at cost and are depreciated using the straight-line method over estimated useful lives of three to five years. Maintenance and repairs are charged to expense as incurred. Gains or losses on dispositions are included in operations.

Impairments

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 (undiscounted and without interest) 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. Properties with unproven reserves are assessed for impairment when changes in market conditions or events occur and are measured based on fair value. The company has not recorded any impairment losses in any of the periods.

Avnel Gold Limited
(A Development Stage Company)

Consolidated Financial Statements

Notes (Continued)
(Expressed in thousands of U. S. Dollars)

3. Summary of Significant Accounting Policies (Continued)

Site Reclamation

The fair value of a retirement or rehabilitation obligation is recognised as an asset and a liability in the period when it is incurred. The liability is discounted and an accretion expense is recognised using the credit-adjusted risk free rate in effect when the liability is incurred. The company has not recognised any site reclamation costs in any of the periods.

Revenue Recognition

Revenue from the sale of gold is recognized when title passes. Gold sales are made in accordance with standard sales contracts that the Company executes with major financial institutions

Income Taxes

The Company computes deferred income taxes under the asset and liability method prescribed by Statement of Financial Account Standards No. 109 "Accounting for Income Taxes". This method recognizes the tax consequences of temporary differences between the financial statement amounts and the tax bases of certain assets and liabilities by applying statutory rates in effect when the temporary differences are expected to reverse. The company has incurred taxes on intercompany revenues at UK statutory rates. Such taxes totalled \$ 10, \$ 10 and \$ 0 for the periods respectively.

Foreign Currency

Transactions expressed in foreign currencies are translated into United States Dollars at the rate of exchange prevailing on the date of transaction. Monetary assets and liabilities expressed in foreign currencies are re-converted into United States 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 amortisation, 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.

The assets and liabilities of overseas subsidiaries with foreign functional currencies are translated into United States Dollars at the closing rate. Revenue and expense transactions are translated at the weighted average rate for the period. Translation gains and losses are included in other comprehensive income.

Foreign Operations Risk

The company's main operating subsidiary is incorporated under the laws of Mali, and its principal mining facilities are located in Mali. Accordingly, the company is directly affected by political, economic and military conditions in Mali. There can be no assurance that the government of Mali will be successful in its attempt to keep prices and exchange rates stable. Instability within Mali may have a material adverse effect on the company.

Avnel Gold Limited
(A Development Stage Company)

Consolidated Financial Statements

Notes (Continued)
(Expressed in thousands of U. S. Dollars)

3. Summary of Significant Accounting Policies (Continued)

Interest

Interest is capitalised during the development phase of a project. Interest capitalisation commences with the first expenditure for a qualifying asset and ends when the asset is substantially complete and ready for its intended use (the date when production commences).

The amount of interest cost that may be capitalised for any accounting period may not exceed the actual interest cost that is incurred during the period. Interest capitalized amounted to \$ 343, \$ 343 and \$ 0 for the periods respectively.

To determine the amount of interest to be capitalised for a particular accounting period, the average accumulated investment in a qualifying asset during that period is calculated. If a specific borrowing is made to acquire the qualifying asset, the interest rate incurred on that borrowing may be used to determine the amount of interest costs to be capitalised. That interest rate is applied to the average accumulated investment for the period to calculate the amount of capitalised interest cost on the qualifying asset. Capitalised interest cost on average accumulated investments in excess of the amount of the specific borrowing is calculated by use of the weighted average interest rate incurred on other borrowings outstanding during the period.

4. Notes Payable

Notes payable consisted of the following:

	December 31, <u>2003</u>	December 31, <u>2002</u>
Stockholder loans (A)	1,335	-
Stockholder loans (B)	2,217	-
Caynton Limited	8,702	-
	12,254	-

Notes payable to the stockholders (A) are unsecured, interest free and there are no fixed terms of repayment. The stockholders have agreed not to seek repayment within twelve months of the balance sheet date.

Notes payable to the stockholders (B) 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. Interest expense and accrual amounted to \$ 129, \$ 129 and \$ 0 for the periods respectively.

Notes payable to Caynton Limited are secured on the assets of Somika and are repayable by July 23, 2006. Interest is payable at 8.5 per cent per annum. Caynton Limited has agreed not to seek repayment within twelve months of the balance sheet date. Caynton Limited is related to a stockholder by a common director.

Avnel Gold Limited
(A Development Stage Company)

Consolidated Financial Statements

Notes (Continued)
(Expressed in thousands of U. S. Dollars)

5. Commitments and Contingencies

Under the terms of the Foundation Agreement dated February 13, 2003, the Company is committed to make additional investments in the Kalana project of \$300 in 2004 and \$600 in 2005. Additionally, the company agreed to spend \$1,375 on exploration and development over the first three years of the projects

The Company has entered into operating leases for office space and equipment. At December 31, 2003, future minimum lease payments under noncancellable leases comprised:

Due within one year \$ 31

Rent expense included in selling, general administrative expense amounted to \$ 40.

6. Financial Instruments

The Company does not acquire, hold or issue financial instruments for trading purposes. The estimated fair values of the Company's financial instruments approximate carrying values at December 31, 2003. The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents - carrying amounts approximate fair value based on the short term maturity of those instruments.

Long term debt - carrying values approximate fair values based on discounted cash flows using the current rate of borrowing for a similar liability.

7. Generally Accepted Accounting Principles in Canada

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 that affect consolidated net income for the year ended December 31, 2003, the period from September 28, 2001 to December 31, 2002 and the cumulative period from September 28, 2001 to December 31, 2003 and the stockholders' deficit at December 31, 2003 and December 31, 2002.

8. Subsequent Events

It is proposed that the company will be acquired by Avnel Gold Mining Limited, a company incorporated under the laws of Guernsey, pursuant to a reorganisation to be completed prior to an offering of shares by Avnel Gold Mining Limited.

Avnel Gold Limited
(A Development Stage Company)

Consolidated Financial Statements

Notes (Continued)
(Expressed in thousands of U. S. Dollars)

8. Subsequent Events (Continued)

It is proposed that the Company grant 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 Elliott and Fern (excluding any unpaid interest thereon) on the closing date of the proposed initial public offering and (ii) the number of common shares of Avnel held by Elliott and Fern 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 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 shall be 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.