

AVNEL GOLD LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

**Independent Auditors' Report to the Stockholders of
Avnel Gold Limited**

We have audited the accompanying consolidated balance sheets of Avnel Gold Limited (the "Company") and its subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity and cash flows for years then ended and the period from September 28, 2001 (date of incorporation) 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 consolidated financial statements based on our audits.

We conducted our audits 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 audits provide 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended and the period from September 28, 2001 to December 31, 2002, 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 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 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

March 18, 2005 except as to note 9
which is as of March 29, 2005

Avnel Gold Limited
Consolidated Balance Sheets
December 31, 2004 and 2003
Expressed in thousands of US Dollars

	<u>Note</u>	<u>2004</u>	<u>2003</u>
ASSETS			
Cash and cash equivalents		\$ 369	\$ 208
Inventories		1,010	14
Prepaid and other assets		77	180
Total current assets		<u>1,456</u>	<u>402</u>
Property, plant and equipment at cost			
Mining properties and capitalised mine development costs		11,517	9,283
Other property and equipment		6,406	5,346
		<u>17,923</u>	<u>14,629</u>
Accumulated depreciation		865	30
Net property, plant and equipment		<u>17,058</u>	<u>14,599</u>
Total Assets		<u>\$ 18,514</u>	<u>\$ 15,001</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Accounts payable		\$ 1,569	\$ 1,263
Other current liabilities		2,846	1,666
Total current liabilities		<u>4,415</u>	<u>2,929</u>
Notes payable - long term	4	19,255	12,254
Retirement and rehabilitation obligations		382	-
Total liabilities		<u>24,052</u>	<u>15,183</u>
Commitments and contingencies		-	-
Minority interest		-	337
Common stock, \$1 par value 100,000 shares authorised, issued and outstanding (2003: 50,000)		100	50
Retained earnings (deficit)		(5,647)	(573)
Accumulated other comprehensive income		9	4
Total stockholders' deficit		<u>(5,538)</u>	<u>(182)</u>
Total Liabilities and Stockholders' Deficit		<u>\$ 18,514</u>	<u>\$ 15,001</u>

On behalf of the Board

HOWARD B. MILLER
Director

JONATHAN D. POLLOCK
Director

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

Avnel Gold Limited
Consolidated Statements of Operations and Comprehensive Income
Expressed in thousands of US Dollars

	Year ended December 31 <u>2004</u>	Year ended December 31 <u>2003</u>	Period from inception September 28, 2001 to December 31 <u>2002</u>
REVENUE			
Metal revenue	\$ 2,621	\$ -	\$ -
EXPENSES			
Operating	5,144	-	-
Depreciation	834	30	-
Exploration	456	-	-
Administration expense	285	405	-
Total Expenses	(6,719)	(435)	-
(Loss) from operations	(4,098)	(435)	-
Other income (expense)			
Interest expense	(1,172)	(137)	-
Exchange gain/(loss)	(97)	50	-
Withholding taxes	(19)	(41)	-
Total other expense	(1,288)	(128)	-
Loss before tax	(5,386)	(563)	-
Income taxes	(25)	(10)	-
Loss after income taxes	(5,411)	(573)	-
Minority interest	337	-	-
Net loss	\$ (5,074)	\$ (573)	\$ -
Comprehensive Income			
Net Loss	(5,074)	(573)	-
Foreign currency translation	5	4	-
Comprehensive Income/(Loss)	\$ (5,069)	\$ (569)	\$ -

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

Avnel Gold Limited and Subsidiaries
Consolidated Statement of Changes in Stockholders' Equity
(Expressed in thousands of US Dollars)

	<u>Common Stock</u>		<u>Minority</u>	<u>Retained</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Interest</u>	<u>Earnings</u>	<u>Other</u>	<u>Stockholders'</u>
		\$	\$	\$	\$	\$
				<u>(Deficit)</u>	<u>Income</u>	<u>Deficit</u>
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	-	-	-	-	-	-
Exchange gain	-	-	-	-	4	4
At December 31, 2003	50,000	50	337	(573)	4	(182)
Issuance of common stock (February 18, 2004)	50,000	50	-	-	-	50
Minority interest in the loss of consolidated subsidiary	-	-	(337)	-	-	(337)
Net (loss)	-	-	-	(5,074)	-	(5,074)
Other comprehensive gain	-	-	-	-	-	-
Exchange gain	-	-	-	-	5	5
Comprehensive (loss)	-	-	-	-	-	(5,069)
At December 31, 2004	100,000	\$ 100	\$ -	\$ (5,647)	\$ 9	\$ (5,538)

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

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

	Year ended	Year ended	Period from
	December 31	December 31	September
	<u>2004</u>	<u>2003</u>	28, 2001 to
			December 31
			<u>2002</u>
Cash flows from operating activities:			
(Loss) from continuing operations	\$ (5,411)	\$ (573)	\$ -
Non cash items			
Depreciation and depletion	834	30	-
Unrealized adjustment of other comprehensive income	5	4	-
Changes in operating assets and liabilities			
(Increase) in inventories	(996)	(14)	-
Decrease/(Increase) in prepaid and other assets	103	(180)	-
Increase in accounts payable	306	1,263	-
Increase in other accrued liabilities	1,180	1,666	-
Net cash provided by operating activities	<u>(3,979)</u>	<u>2,196</u>	<u>-</u>
Cash flows from investing activities:			
Purchases and development of property and equipment	(2,911)	(14,629)	-
Net cash used in investing activities	<u>(2,911)</u>	<u>(14,629)</u>	<u>-</u>
Cash flows from financing activities:			
Issue of share capital	50	-	50
Advances from stockholders	-	50	(50)
Proceeds from notes payable	7,001	12,254	-
Minority interest	-	337	-
Net cash provided by financing activities	<u>7,051</u>	<u>12,641</u>	<u>-</u>
Net increase in cash and cash equivalents	161	208	-
Cash and cash equivalents at beginning of period	208	-	-
Cash and cash equivalents at end of period	<u>\$ 369</u>	<u>\$ 208</u>	<u>\$ -</u>

Supplemental disclosures of cash flow information

The Company paid interest of \$nil, \$ 7 and \$nil 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. On February 18, 2004 the company issued 50,000 further shares in exchange for a subscription of \$50.

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

Avnel Gold Limited
Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of United States Dollars)

1. Nature of Operations and Liquidity

Avnel Gold Limited (the "Company") 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 who has a priority dividend right in respect of profits available for distribution. The Company entered into an obligation to pay \$ 2,500,000, of which \$1,600,000 was paid on inception, \$300,000 was paid in 2004 and \$600,000 is payable in 2005. Additionally, the company agreed to spend \$1,375,000 on exploration and development over the first three years of the project.

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

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 internationally, 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 (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.

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. 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
Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of United States 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. The share of net loss has not been allocated to the minority on grounds of uncertainty as to the financing of losses.

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. The company's estimates of future cash flows are subject to risks and uncertainties. It is reasonably possible that changes in estimates could occur which may affect the expected recoverability of investments in mining properties. Mining property impairment analyses were performed using a long term gold price of \$375 per oz.

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 retirement asset is included in mining properties and charged to operations using the units of production method based on estimated proven and probable reserves which can be recovered.

Revenue Recognition

Revenue from the sale of gold is recognized when title passes. Gains and losses on gold forward sales agreements are recognised in metal revenue on the delivery date identified at the contract inception. Gold forward sales agreements are exempt from the provisions of Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) as normal course sales requiring settlement through physical delivery.

Avnel Gold Limited
Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of United States Dollars)

Income Taxes

The Company computes deferred income taxes under the asset and liability method prescribed by Statement of Financial Accounting 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 records a valuation allowance against any portion of these deferred income tax assets that management believes will, more likely than not, fail to be realised.

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.

Interest

Interest is capitalized during the development phase of a project. Interest capitalization 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 capitalized for any accounting period may not exceed the actual interest cost that is incurred during the period. Interest capitalized amounted to \$ 200,000, \$ 343,000 and \$nil for the periods reported respectively.

To determine the amount of interest to be capitalized 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 capitalized. That interest rate is applied to the average accumulated investment for the period to calculate the amount of capitalized interest cost on the qualifying asset. Capitalized 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.

Avnel Gold Limited
Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of United States Dollars)

4. Notes Payable

Notes payable consisted of the following:

	December 31, <u>2004</u>	December 31, <u>2003</u>
Stockholder loans (A)	\$1,335	\$1,335
Stockholder loans (B)	17,920	2,217
Caynton Limited ("Caynton")	-	8,702
	<hr/>	<hr/>
	\$19,255	\$12,254
	<hr/>	<hr/>

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 amounted to \$ 188,000, \$ 129,000 and nil for the periods respectively.

Notes payable to Caynton were secured on the assets of SOMIKA and were repayable by July 23, 2006. Interest was payable at 8.5 per cent per annum. Caynton is related to a stockholder by a common director. At December 31, 2004, notes payable to Caynton, in the aggregate principal amount of \$15,203,000, were assigned back to the Company in consideration of discharging Caynton from its obligations to the stockholders. Interest payable in the amount of \$1,425,000 was assigned by Caynton back to the Company in consideration of discharging Caynton from this obligation to the stockholders.

5. Retirement and rehabilitation obligations

Based on the existing operations the company's responsibility for asset retirement and rehabilitation would be based on the pre-existing tailings facilities to ensure stabilisation of the soil, re-vegetation and the monitoring of the area, and in particular water quality. Based on experience of similar sites management has estimated the cost of this work at \$700,000 in 2015, and a further \$60,000 per annum for the period from 2016 to 2020. Elements of uncertainty in estimating this amount include changes in mine life, reclamation alternatives and potential changes in regulatory requirements. 2004 represents the first year that a rehabilitation liability has been recognized, and the company has included a liability of \$382,000 based on the fair value of this work. A corresponding increase has been recorded in the value of mining properties.

The company has used a credit-adjusted risk-free rate of 8.5% to discount future cashflows in arriving at the fair value of its asset retirement and rehabilitation obligations. This is also the rate at which shareholders will advance funds to the company.

6. Commitments and Contingencies

Under the terms of the Foundation Agreement dated February 13, 2003, the Company has entered into an obligation to pay \$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.

The Company has entered into operating leases for office space and equipment. At December 31, 2004, future minimum lease payments under noncancellable leases amounted to \$50,000 due within one year.

Avnel Gold Limited
Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of United States Dollars)

7. 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, 2004. 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.

As at December 31, 2004 the Company had sold forward 26,550 ounces of gold at an average price of \$417 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. These forward sales agreements were entered into with one of the stockholders of the Company.

At December 31, 2004, based on the spot price of \$438 per oz, the mark-to-market value of the company's gold forward sales agreements was negative \$549,000 (2003: Nil).

8. Related Party Transactions

As described in note 4, notes payable to Caynton on December 31, 2004 amounted to \$nil (2003: \$8,702,000). Caynton is related to a stockholder by a common director.

As described in note 4, notes payables to Stockholders on December 31, 2004 amounted to \$19,255,000 (2003: \$3,552,000).

As described in note 6, the company has entered into operating leases for office space and equipment with a company related to a stockholder by a common director. Rent expense amounted to \$40,000 (2003: \$40,000; 2002: \$nil) and the amount outstanding at December 31, 2004 was \$nil (2003: \$Nil).

As described in note 7, the company has entered into forward sales agreements with a stockholder on commercial terms. Metal revenue includes \$2,102,428 from forward sales agreements. As at December 31, 2004, the planned forward sales for 2005 were 11,920 ounces which would generate revenue of \$5,140,329.

9. Subsequent Events

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 Avnel Gold Mining Limited, a company incorporated in Guernsey, in exchange for 95% of the issued and outstanding shares of Avnel Gold Limited pursuant to a reorganization agreement. Under the reorganization agreement, obligations of the Company to Elliott and Fern in respect of existing shareholder loans of the Company were assumed by Avnel Gold Mining Limited. Avnel Gold Mining Limited, 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, Avnel Gold Mining Limited purchased from the minority shareholder the remaining 5% of ordinary shares of the Company outstanding for \$5,000, and Elliott and Fern and Avnel Gold Mining Limited granted to the minority shareholder a call option on shares of Avnel Gold Mining Limited held by Elliott and Fern and warrants to purchase common shares and shareholder loans of Avnel Gold Mining Limited. Under the transfer agreement, shareholder loans owed by the Company (subsequently assumed by Avnel Gold Mining Limited) to the minority shareholder in the amount of \$725,000 were acquired by Elliott and Fern.