

**AVNEL GOLD MINING LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**

## Management's Responsibility

### **Management's Responsibility for Financial Statements**

The accompanying consolidated financial statements have been prepared by and are the responsibility of the Board of Directors and Management of the Company.

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles and reflect Management's best estimates and judgements based on currently available information. The Company has developed and maintains a system of internal accounting controls in order to ensure, on a reasonable and cost effective basis, the reliability of its financial information.

The consolidated financial statements have been audited by Ernst & Young LLP. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

*"Roy Meade"*

Roy Meade  
Chief Executive Officer  
March 31, 2006

*"Andrew Herbert"*

Andrew Herbert  
Chief Financial Officer  
March 31, 2006

## REPORT OF INDEPENDENT AUDITORS

We have audited the consolidated balance sheet of Avnel Gold Mining Limited as of December 31, 2005, and the related consolidated statements of operations, cash flows and changes in stockholders' equity for the year then ended. These 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. The financial statements of Avnel Gold Mining Limited for the year ended December 31, 2004, were audited by other auditors whose report dated March 18, 2005 (except for Note 9, dated March 29, 2005) expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, the 2005 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Avnel Gold Mining Limited at December 31, 2005 and the consolidated results of its operations and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States.

*“ ERNST & YOUNG LLP”*

Ernst & Young LLP  
London  
30 March, 2006

Avnel Gold Mining Limited  
Consolidated Balance Sheets  
December 31, 2005 and 2004  
Expressed in thousands of US Dollars

	<u>Note</u>	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>			
Cash and cash equivalents		\$ 5,420	\$ 369
Inventories	4	2,118	1,010
Prepaid and other assets		83	77
Total current assets		<u>7,621</u>	<u>1,456</u>
Property, plant and equipment, at cost	5		
Mining properties and capitalized mine development costs		14,381	11,517
Other property and equipment		6,277	6,406
		<u>20,658</u>	<u>17,923</u>
Accumulated depreciation		1,971	865
Net property, plant and equipment		<u>18,687</u>	<u>17,058</u>
<b>Total Assets</b>		<u>\$ 26,308</u>	<u>\$ 18,514</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Accounts payable	6	\$ 1,042	\$ 1,569
Tax creditor	14	277	-
Other accrued liabilities	6	1,237	2,846
Total current liabilities		2,556	4,415
Notes payable - long term	7	11,821	19,255
Retirement and rehabilitation obligations	8	414	382
<b>Total liabilities</b>		<u>14,791</u>	<u>24,052</u>
Common stock:			
Authorised - unlimited number of ordinary shares of no par value			
Issued and outstanding 55,329,605 (2004: 100,000)	9	20,728	100
Additional paid in capital		4,041	-
Retained deficit		(13,253)	(5,647)
Accumulated other comprehensive income		1	9
<b>Total stockholders' equity (deficit)</b>		<u>11,517</u>	<u>(5,538)</u>
<b>Total Liabilities and Stockholders' Equity (Deficit)</b>		<u>\$ 26,308</u>	<u>\$ 18,514</u>

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

*"Howard B Miller"*

**Howard B Miller Chairman**

*"Roy Meade"*

**Roy Meade Chief Executive Officer**

Avnel Gold Mining Limited  
Consolidated Statement of Operations and Comprehensive Income  
For the Years Ended December 31, 2005, 2004 and 2003  
Expressed in thousands of US Dollars  
(except share and per share information)

	<u>Notes</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>REVENUE</b>				
Metal revenue		\$ 5,699	\$ 2,621	\$ -
<b>EXPENSES</b>				
Operating		6,633	5,144	-
Depreciation		1,108	834	30
Exploration		1,018	456	-
Administration expense	13	2,553	285	405
<b>Total expenses</b>		<u>11,312</u>	<u>6,719</u>	<u>435</u>
<b>Loss from operations</b>		(5,613)	(4,098)	(435)
<b>Other income (expense)</b>				
Interest expense		(1,357)	(1,172)	(137)
Exchange gain (loss)		193	(97)	50
Withholding taxes		(24)	(19)	(41)
<b>Total other expense</b>		<u>(1,188)</u>	<u>(1,288)</u>	<u>(128)</u>
<b>Loss before income tax</b>		(6,801)	(5,386)	(563)
<b>Income tax expense</b>	14	(305)	(25)	(10)
<b>Loss after income tax</b>		<u>(7,106)</u>	<u>(5,411)</u>	<u>(573)</u>
<b>Minority interest</b>		-	337	-
<b>Net loss</b>		<u>\$ (7,106)</u>	<u>\$ (5,074)</u>	<u>\$ (573)</u>
<b>Loss per share</b>		<u>\$(0.29)</u>	<u>\$(58.00)</u>	<u>\$(11.46)</u>
<b>Weighted average shares outstanding</b>		<u>24,671,988</u>	<u>93,288</u>	<u>50,000</u>

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

**Avnel Gold Mining Limited**  
**Consolidated Statement of Cash Flows**  
**For the Years Ended December 31, 2005, 2004 and 2003**  
**Expressed in thousands of US Dollars**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Cash flows from operating activities:</b>			
Net loss from continuing operations	\$ (7,106)	\$ (5,411)	\$ (573)
Reconciled to net cash (used in) provided by operating activities			
Depreciation	1,108	834	30
Change in reclamation liability	32	-	-
Stock based compensation	1,126	-	-
Deferred income taxes	277	-	-
Changes in operating assets and liabilities			
Inventories	(1,108)	(996)	(14)
Prepaid and other assets	(6)	103	(180)
Accounts payable	(527)	306	1,263
Other accrued liabilities	1,008	1,185	1,670
Net cash (used in) provided by operating activities	<u>(5,196)</u>	<u>(3,979)</u>	<u>2,196</u>
<b>Cash flows from investing activities:</b>			
Purchases and development of			
Property, plant and equipment	<u>(2,735)</u>	<u>(2,911)</u>	<u>(14,629)</u>
Net cash used in investing activities	<u>(2,735)</u>	<u>(2,911)</u>	<u>(14,629)</u>
<b>Cash flows from financing activities:</b>			
Issue of share capital	12,102	50	-
Advances from stockholders	-	-	50
Proceeds from notes payable issued	2,880	7,001	12,254
Repayment of notes payable	(2,000)	-	-
Minority interest	-	-	337
Net cash provided by financing activities	<u>12,982</u>	<u>7,051</u>	<u>12,641</u>
<b>Net increase in cash and cash equivalents</b>	<b>5,051</b>	<b>161</b>	<b>208</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>369</b>	<b>208</b>	<b>-</b>
<b>Cash and cash equivalents at end of period</b>	<u><u>\$ 5,420</u></u>	<u><u>\$ 369</u></u>	<u><u>\$ 208</u></u>

**Supplemental disclosures of cash flow information**

The Company paid interest of \$117,000, \$7,000 and \$nil for the periods respectively. The Company paid no income taxes during any of the periods.

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

**Avnel Gold Mining Limited**

**Consolidated Statement of Changes in Stockholders' Equity**

**Expressed in thousands of US Dollars (except share information)**

	<u>Common Stock</u>		<u>Additional</u>	<u>Minority</u>	<u>Accumulated</u>	<u>Accumulated</u>	<u>Other</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid in</u>	<u>Interest</u>	<u>Deficit</u>	<u>Comprehensive</u>	<u>Income</u>	<u>Stockholders'</u>
			<u>Capital</u>			<u>Income</u>		<u>Deficit</u>
At December 31, 2002	50,000	\$ 50	\$	\$ -	\$ -	\$ -	\$ -	\$ 50
Minority interest	-	-	-	337	-	-	-	337
Net loss	-	-	-	-	(573)	-	-	(573)
Other comprehensive gain	-	-	-	-	-	-	4	4
Exchange gain	-	-	-	-	-	-	4	4
Comprehensive loss	-	-	-	-	-	-	-	(569)
At December 31, 2003	50,000	50	-	337	(573)	4	-	(182)
Issuance of common stock	50,000	50	-	-	-	-	-	50
Minority interest in the loss of consolidated subsidiary	-	-	-	(337)	-	-	-	(337)
Net loss	-	-	-	-	(5,074)	-	-	(5,074)
Other comprehensive gain	-	-	-	-	-	-	5	5
Exchange gain	-	-	-	-	-	-	5	5
Comprehensive loss	-	-	-	-	-	-	-	(5,069)
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 common stock for cash, net of issue costs	20,329,605	9,942	2,160	-	-	-	-	12,102
Issuance of common stock upon conversion of shareholder loans	34,800,000	10,941	-	-	-	-	-	10,941
Issuance of warrants to Agents, Brokers and Minority Shareholder	-	(255)	755	-	(500)	-	-	-
Stock based compensation	-	-	1,126	-	-	-	-	1,126
Net loss	-	-	-	-	(7,106)	-	-	(7,106)
Other comprehensive loss	-	-	-	-	-	-	-	-
Exchange loss	-	-	-	-	-	-	(8)	(8)
Comprehensive loss	-	-	-	-	-	-	-	(7,114)
At December 31, 2005	55,329,605	\$ 20,728	\$ 4,041	\$ -	\$ (13,253)	\$ 1	\$ -	\$ 11,517

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