

**AVNEL GOLD MINING LIMITED  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

The following management's 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, 2007 to December 31, 2007. 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.

This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007 and related notes thereto. The selected financial information and the discussion of results of operations were prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). Reference should be made to Note 15 of the consolidated financial statements of the Company for a reconciliation of Canadian and U.S. GAAP. All amounts in this discussion are expressed in U.S. dollars, unless identified otherwise.

**Forward-Looking Statements**

This MD&A contains forward-looking statements 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. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections, and other forward-looking statements will not occur. These assumptions may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. 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. The Company disclaims any intention or obligation to update or revise any forward-looking statements, where as a result of new information, future events or otherwise, unless required by applicable law.

**Cautionary Note Regarding Technical Information**

Technical information in this publication regarding the Kalana Gold Mine and the Kalana Permit (as such terms are defined below) is summarized or extracted from technical reports prepared by Snowden Mining Industry Consultants (Pty) Ltd ("Snowden") entitled "Kalana Gold Mine Technical Report" dated February 20, 2005 and "Kalana Phase I Exploration, Mali, West Africa" dated November 4, 2004 (the "Technical Reports"). The Technical Reports were prepared by G.M. Greenway, Principal Resource Geologist, and D.H. Kullmann, Principal Consultant Mining Engineer, of Snowden, each of whom is a "Qualified Person" as such term is defined in National Instrument 43-101 — *Standards of Disclosure for Mineral Projects* ("National Instrument 43-101").

Technical information in this publication arising subsequent to the date of the Technical Reports, if any, regarding the Kalana Gold Mine and the Kalana Permit is provided by Avnel management under the supervision of Roy Meade and Michel Mercier, each of whom is a "Qualified Person" as such term is defined in National Instrument 43-101.

**Overview of the Company**

Avnel's principal assets are an 80% indirect interest in Societe des Mines d'Or De Kalana ("SOMIKA") and a 90% indirect interest in the Fougadian Exploration Permit, through its subsidiary, Avnel Mali SARL. The State of Mali holds the remaining 20% interest in SOMIKA and 10% interest in the Fougadian Exploration Permit. SOMIKA is the owner of a gold mine located in the southwest of Mali (the "Kalana Gold Mine") and is the holder of an exploration permit in respect of 387.4 kilometers squared in south western Mali (the "Kalana Permit"). 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.

The Kalana Gold Mine was acquired by Avnel in late 2002 following which the existing plant and infrastructure were upgraded. Mining operations were resumed by SOMIKA in January 2004 with commercial production commencing in March 2004. From 2004 to 2007, Avnel increased gold production at the Kalana Gold Mine from 7,396 ounces in 2004 to 25,359 ounces in 2007. At the same time, Avnel has invested significantly in the capital expenditures and underground development required to expand production to a planned annual rate of 60,000 tonnes. The Kalana Gold Mine development was behind schedule in 2005 and 2006 and it is now anticipated that underground production will increase from 35,000 tonnes in 2007 to 52,000 tonnes in 2008 with the objective of developing the mine to attain its design throughput rate of 60,000 tonnes per annum on a sustainable basis.

The Company forecasts that it will need funding to meet a shortfall in working capital in the first half of 2008.

### Selected Annual Information

(in thousands of U.S. dollars except per share amounts)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total Revenue.....	15,938	11,872	5,699
Total Expenses.....	15,827	13,735	11,637
Net Loss.....	(904)	(2,675)	(7,106)
Loss per share	\$(0.01)	\$(0.05)	\$(0.29)
Weighted average shares outstanding	62,382,062	55,920,189	24,671,988
 Balance Sheet			
Working Capital (Deficiency) .....	(261)	623	5,065
Total Assets .....	30,102	25,821	26,308
Long Term Debt .....	10,941	11,821	11,821
Shareholders' Equity (Deficit).....	12,982	10,024	11,517

### Results of Operations

Revenue has increased to \$15,938,000 in 2007 from \$11,872,000 in 2006. This is as a result of an increase in gold ounces sold from 23,062 ounces in 2006 to 25,270 ounces in 2007 and an increase in average sales price of gold from \$513 per ounce in 2006 to \$629 per ounce in 2007.

Avnel recorded a net loss of \$904,000 (\$0.01 per share) for the year ended December 31, 2007 compared to a net loss of \$2,675,000 (\$0.05 per share) in 2006. Higher gold production and higher average gold price were the main contributing factors to the reduction in the net loss compared to 2006.

As compared to the balance sheet as at December 31, 2006, Avnel's cash and cash equivalents as at December 31, 2007 decreased by \$213,000. Operating activities generated a positive cash flow of \$1,743,000 but this was offset by capital expenditure of \$4,803,000. Cash of \$2,847,000 was received by way of a rights offering completed in March 2007.

There was a working capital deficiency of \$261,000 at December 31, 2007 compared to working capital of \$623,000 as at December 31, 2006. The main factor was that the term loan of \$880,000 became a current liability as at December 31, 2007.

Total assets increased from \$25,821,000 as at December 31, 2006 to \$30,102,000 at the end of 2007. The net value of property, plant and equipment increased by \$3,028,000 as a result of capital expenditure, largely on sinking No. 2 shaft and related engineering projects. The value of current assets increased by \$1,253,000 mostly as a result of an increase in inventories and an increase in value added tax receivable.

At December 31, 2007, long term debt was \$10,941,000. This was a decrease of \$880,000 from the position at December 31, 2006 and was due to the term loan of \$880,000 being reclassified to current liabilities as it is due for repayment on December 31, 2008. Shareholders' equity increased to \$12,982,000 at December 31, 2007 from \$10,024,000 at the end of 2006. The biggest contributing factor was the increase in common stock of \$3,684,000 due to stock issued as a result of the rights issue and stock issued as payment in lieu of interest on the convertible

loan notes. Additional Paid in Capital increased by \$225,000 due to stock option charges. The retained deficit increased by \$904,000 as a result of the net loss made in 2007.

### Mining Operations

The following table shows the production from the Kalana Gold Mine:

	<u>2007</u>	<u>2006</u>
Tonnes milled:		
Underground ore	35,222	24,116
Coarse sand reclaimed	-	3,627
Total	<u>35,222</u>	<u>27,743</u>
Gold grade - grams per tonne (g/t):		
Underground ore	24.2	31.6
Coarse sand reclaimed	-	5.5
Total	<u>24.2</u>	<u>28.2</u>
Recovery rate - %	92.0	90.1
Gold production - ounces	25,359	22,638
Cost per tonne milled	\$296	\$317
Operating cost per ounce of gold sold	\$412	\$394
Operating cost per ounce of gold produced	\$411	\$389

Tonnes milled in 2007 were 27% higher than the production achieved in 2006. Gold production at 25,359 ounces in 2007 was 12% higher than 2006 reflecting higher tonnes milled and gold recovery, with lower head grade.

Underground mining production increased 46% in 2007 and exceeded the Company's business plan by 14%. Stopping productivity improved as the mining crews gained experience with improved training from expatriate supervisors. Stope production continued to improve as it was possible to mine stopes up dip from the 160m level. This was due to the establishment of the infrastructure on 160m level at the No. 1 sub-incline shaft. Production in previous years has been hampered by having to mine stopes down dip.

The gold grade of underground ore mined of 24.2 g/t in 2007 was 23% lower than that obtained in the previous year (31.6g/t). Gold grade was expected to decrease as mining moved into lower grade reserve blocks.

Gold recovery in 2007 increased to 92%. It exceeded the prior year's recovery rate because of improved performance in the recovery section despite increased mill throughput and lower head grade. The plant was designed for 79% gold recovery from the gravity plant.

Mine development totalled 2,043 metres in 2007 compared to 1,098 metres in 2006. Development exceeded the planned rate for the year. This improvement is due to improved productivity of the development crews and the establishment of the No. 2 shaft infrastructure. The No. 2 shaft was commissioned for men, material and rock hoisting in May 2007. All development rock on 150m and 180m level was hoisted to surface in a 2 ton skip.

A new pump station and water storage dams were mined on 180m level. Six 160Kw pumps were installed and the pump station commissioned in July 2007. Water is pumped to surface in two pipe columns located in No. 2 shaft.

Development on the 150 level from No. 2 shaft advanced 250m north to access the Vein 18 North ore reserve. Two raises were mined from 150m level to 100m level in the fourth quarter of 2007. The raises were mined on the bottom vein and the grades were lower than forecast by the reserve model. The top vein has been mined on 100m level and it is planned to expose the top vein during early 2008. The Company believes that the top and bottom vein may be vertically separated by approximately 10 metres.

Vein 1 North reserve block was exposed by development on 150m level. This development has been advanced ahead of schedule to provide additional mining blocks in 2008.

Development advanced 272m south from No. 2 shaft on 180m level. A ventilation raise was mined up to 160m level to provide an airway for ventilation to flow from No. 1 shaft down to 180m level No. 2 shaft. An ore pass was mined up to 160m level and all ore mined on 160m level is now gravitated to 180m level. The No. 1 shaft and No. 1 sub incline shaft are now decommissioned for rock hoisting. This 180m haulage south will intersect Vein 1 on 180m level and ore raises will be mined up to open up Vein 1 between 180m and 160m level.

Development on 180m level advanced 120m north from No. 2 shaft. This haulage will access vein 18 North reserve block approximately 150m north of its current face position.

Mine operating costs for the year ended December 31, 2007 amounted to \$10,895,000 compared with \$9,448,000 in 2006. The reasons for the increase were due to higher underground production (46%) and mill tonnes (27%), escalation of materials costs, adverse movement in the U.S. dollar to CFA exchange rate and payment of customs duty on imported goods. Cash operating cost of \$296 per tonne milled in 2007 was significantly lower than the cost per tonne in 2006 mainly because of 27% more tonnes milled. Cash operating cost per ounce sold of \$412 per ounce in 2007 increased from \$394 per ounce in 2006. Although ounces produced increased by 12%, this was not enough to offset the increase in Kalana Gold Mine operating costs of 15%.

### Gold Sales

Gold sales data is as follows:

	<u>2007</u>	<u>2006</u>
<b>Gold ounces sold</b>		
- at spot price	18,410	10,432
- under forward contracts	6,860	12,630
- total	<u>25,270</u>	<u>23,062</u>
<b>Average realized gold price per ounce</b>		
- at spot price	\$698.90	\$627.86
- under forward contracts	\$441.60	\$418.50
- total	\$629.05	\$513.20
<b>Metal revenue - \$000</b>		
Gold sales if all sales were at spot prices	\$17,403	\$14,302
Net effect of forward sales	(1,507)	(2,466)
Total gold sales	<u>15,896</u>	<u>11,836</u>
Silver sales	42	36
Metal revenue	<u>\$15,938</u>	<u>\$11,872</u>

Gold spot prices commenced 2007 at \$632 per ounce and ended at \$837 per ounce, with the London PM Fix averaging \$695 per ounce during the year. The weakening of the US dollar during 2007, combined with increased metal and oil prices had a positive impact on the gold price.

### Other Expenses

General and administrative costs amounted to \$2,699,000 for the year ended December 31, 2007 compared to \$2,161,000 in 2006. The main factor in the increase is that \$384,000 was spent on corporate finance activities in 2007. Salary and travel costs have also increased in 2007 compared to 2006. Stock based compensation charged amounted to \$225,000 in 2007 compared to \$450,000 in 2006. A further \$134,000 of stock compensation expense is expected to be amortized over the period to December 31, 2009.

Depreciation, depletion and reclamation expenses amounted to \$1,777,000 in 2007 compared to \$1,416,000 in 2006. Depletion costs are calculated on the unit-of-production basis and the increase results primarily from the increased production in 2007 compared to 2006. The total fixed asset base has also increased, contributing to the increase in depreciation, depletion and reclamation expenses.

Interest expense was \$818,000 for the year ended December 31, 2007 compared to \$795,000 in 2006. This was as a result of the increase in the 6-month U.S. dollar LIBOR rate which impacted the rate of interest payable on the Company's convertible loans.

## **Exploration**

On October 17, 2006, Avnel was awarded the Fougadian Exploration Permit which lies south of the Kalana Permit. The Fougadian Exploration Permit covers an area of 150 square kilometres including a portion of the Niessoumala exploration area. The permit has been awarded in accordance with the 1999 Mining Code and a foundation agreement (the "Foundation Agreement") has been signed between Avnel Mali, a 100% wholly-owned subsidiary of Avnel, and the Government of the Republic of Mali. Avnel has a 90% indirect interest and the Malian State holds a 10% in the Fougadian Exploration Permit, provided a decision is made to construct a mine. The Foundation Agreement provides for the exploration and exploitation of Group 2 minerals as defined in the 1999 Mineral Code. Group 2 minerals includes gold and silver, and base metals, but excludes precious stones, semi-precious stones and fossils.

Avnel has completed the first phase of exploration on the Fougadian Exploration Permit. A total of 8,241 soil samples (including 468 controls) were collected along East to West (E-W) oriented lines spaced 200 meters apart North to South (N-S), with a sample spacing of 50 meters in an E-W direction. All samples were analysed for gold (fire assay) and for a 35 multi-element suite (ICP-AES) that includes arsenic, copper and potassium. Parallel to the sampling programme, three other studies were completed: an inventory of the orpaillage sites present within the Fougadian Exploration Permit (26 orpaillage sites have been inventoried in the Fougadian Exploration Permit totalling approximately 12,400 pits, and six sites among them contain more than 1,000 pits); a regolith study; and an interpretation of the SYSMIN airborne geophysical survey.

The results of the soil sampling survey have outlined several km-scale, gold-in-soil anomalies and coincident arsenic anomalies. The numerous significant gold and arsenic anomalous clusters that have been delineated were grouped into 14 anomalies (Avnel-1 to Avnel-14). It was observed that these 14 gold anomalies fall along three major mineralised corridors. Two of these corridors are sub-parallel, strike approximately N-S and can be traced nearly continuously through the length of the property. The third corridor strikes NNE-SSW and passes through the south-eastern and north-eastern quadrants of the licence.

Avnel has received two reports from The Mineral Corporation, copies of which can be found on the Company's website at [www.avnelgold.com](http://www.avnelgold.com). The Mineral Corporation conducted a mapping and regolith study on the Fougadian Exploration Permit. The reports indicated that a complete lateritic regolith is preserved in the western part of the Fougadian Exploration Permit. The regolith has been incised and eroded by streams flowing West to East, leaving some lateritic residuum on the intervening ridges.

The Mineral Corporation interpreted existing airborne magnetic and radiometric data generated through the SYSMIN program in 2001. The reports suggested that coincident potassium and magnetic anomalies are potential targets for further gold exploration. The reports also identified two North striking corridors defined by co-incident potassium and magnetic anomalies.

Using the geophysical interpretation, regolith study and geochemical soil sampling, the bedrock geology was interpreted, given there is no bedrock outcrop. Present indications are that the stratigraphy probably strikes in a North-South direction.

Avnel is now preparing a phase two exploration program that will include a drill program by reverse circulation. Avnel announced on March 26, 2008 that it has commenced a drilling program on the major gold anomaly (Avnel 1). The program includes 400m of diamond drilling and 5,000m of reverse circulation drilling.

On October 15, 2007, Avnel announced the appointment of Dr. Andy Killick as Vice President Exploration.

Avnel instituted a system of Quality Assurance and Quality Control (QA/QC) during the Fougadian Exploration Permit Phase 1 geochemical soil sampling program under the direct supervision of Michel Mercier, Senior Exploration Consultant for the Company and the "Qualified Person" responsible for the exploration program.

Exploration expenditure totalled \$456,000 in 2007 compared to \$710,000 in 2006. The amount that the Company plans to spend on exploration of the Fougadian Exploration Permit is dependent on the Company's cash and liquidity position in future years.

## Consolidated Statement of Operations for the Quarters Ended

Quarter ended	Dec 31 <u>2007</u>	Sep 30 <u>2007</u>	June 30 <u>2007</u>	Mar 31 <u>2007</u>	Dec 31 <u>2006</u>	Sep 30 <u>2006</u>	June 30 <u>2006</u>	Mar 31 <u>2006</u>
Revenue	\$3,516	\$ 3,487	\$ 4,657	\$ 4,278	\$ 2,957	\$ 3,600	\$ 3,819	\$ 1,496
Net income (loss)	\$(633)	\$(1,320)	\$ 280	\$ 769	\$(1,443)	\$ 78	\$ (16)	\$ (1,294)
Income (loss) per share	\$(0.01)	\$(0.02)	\$ 0.004	\$ 0.01	\$(0.03)	\$ 0.001	\$(0.0003)	\$(0.02)

In general, the Company's revenue is showing an upward trend since the start of 2006 as production is developed towards full capacity and the spot gold price has increased. There was a dip in revenue in the last two quarters of 2007 as a result of lower production. Production in the second half of the year was 10,595 ounces compared to 14,764 ounces in the first half of the year mainly as a result of lower head grade in the second half of the year.

Net loss decreased significantly in 2007 compared to 2006, with the first two quarters of 2007 showing net income as a result of higher production and revenue. Revenue increased by 34% in 2007 whereas total expenses increased by 15%.

### Fourth Quarter Results

Fourth quarter revenue of \$3,516,000 has increased by 19% compared to revenue of \$2,957,000 in the fourth quarter of 2006. The reason for the increase is that 4,465 ounces of gold was sold at an average price of \$785 in the fourth quarter of 2007 compared to 5,811 ounces sold at an average price of \$509 in the fourth quarter of 2006. Net loss decreased from \$1,443,000 in the fourth quarter of 2006 to \$633,000 in the fourth quarter of 2007. Operating costs increased from \$2,776,000 in the fourth quarter of 2006 to \$3,036,000 in the fourth quarter of 2007. The factors for the increase in costs are higher ore production in the fourth quarter of 2007 (10,682 tonnes) compared to 2006 (5,687 tonnes), an adverse movement in the CFA to U.S. dollar exchange rate, escalation of materials costs and higher costs in relation to gold sales such as royalties, export fees, smelting and transportation costs and taxes and customs duty.

Cash and cash equivalents decreased from \$2,020,000 at the start of the fourth quarter to \$1,007,000 at December 31, 2007, a decrease of \$1,013,000. Cash utilised by operating activities in the fourth quarter was \$13,000 and expenditure on property, plant and equipment was \$1,000,000.

### Liquidity

As of December 31, 2007, Avnel had cash of \$1,007,000 (2006 - \$1,220,000) and a working capital deficiency of \$261,000 (2006 - working capital of \$623,000). In the year ended December 31, 2007, operating activities generated cash funds of \$1,743,000, whereas in 2006, operating activities generated cash funds of \$201,000. This was mainly because the net loss from continuing operations in 2007 of \$904,000 was substantially less than the 2006 net loss of \$2,675,000. Avnel expended \$4,803,000 on mine development and capital additions in 2007 compared to \$4,402,000 in 2006. The expenditure was related to the equipping of No. 2 shaft, major underground infrastructure, haulage development and associated mining equipment. Avnel also expended \$39,000 on ongoing exploration on the Kalana Permit and \$417,000 on the Fougadian Exploration Permit during 2007.

On March 15, 2007, the Company raised gross proceeds of Cdn\$3,542,000 (\$3,014,000 at the March 15, 2007 U.S./Canadian dollar exchange rate) in connection with a rights offering to shareholders of the Company (the "Rights Offering"). 7,083,270 common shares of Avnel ("Common Shares") were issued in connection with the Rights Offering at a price of Cdn\$0.50. The Company did not undertake any financing activities in 2006.

As a result of the Company having incurred recurring operating losses additional funding will be required to cover an expected working capital shortfall during the first half of 2008. Elliott has agreed to provide the Company with \$3,000,000 in the form of a term loan, secured on the Company's assets, with an interest rate of 10%, for the

purpose of providing working capital to bridge the projected cash shortfall in the first half of 2008 (the “Bridge Loan”). The Company projects that the Bridge Loan could be repaid out of operating cash flow in 2009. The Company’s existing term loans with Elliott and Fern are proposed to be extended by one year from their current maturity of December 31, 2008. The Company’s Board of Directors has approved the terms of the Bridge Loan and the extension of the term loans. The agreements for the Bridge Loan and term loans have not been finalised and executed.

In addition, Elliott has agreed to purchase up to 6,542,857 common shares of the Company at a subscription price of Cdn\$0.35 per common share in the form of a private placement (the “Private Placement”). This is expected to raise gross proceeds of Cdn\$2,290,000. The Company’s Board of Directors has approved the terms of the Private Placement but an agreement has not been finalised and executed.

### Contractual Obligations

The Company has the following contractual obligations at December 31, 2007:

Contractual Obligations - \$000	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Current portion of long-term debt (1)	880	880	-	-	-
Long-term Debt (1)	10,941	-	10,941	-	-
Operating Leases (2)	126	120	6	-	-
<b>Total Contractual Obligations</b>	<b>\$ 11,947</b>	<b>\$ 1,000</b>	<b>\$ 10,947</b>	<b>\$ -</b>	<b>\$ -</b>

Notes:

- (1) The long term debt of Avnel consists entirely of shareholder loans provided by Elliott (as defined below) and the Fern Trust, the two major shareholders of Avnel. At December 31, 2007 long term debt comprised of convertible loan notes of \$10,940,992 and a term loan of \$879,673.
- (2) Avnel’s operating lease obligations consist of payments due under rental agreements in respect of its offices in London and Bamako.

### Capital Resources

Long term debt of the Company consists mainly of convertible loans provided by Elliott International L.P. and Elliott Associates L.P. (collectively “Elliott”) and the Fern Trust, the two major shareholders of Avnel (the “Shareholder Loans”) with an aggregate principle amount outstanding of \$10,941,000. Each convertible loan note is convertible by the holder into Common Shares at Cdn\$0.898299 per Common Share and bears interest at the six month U.S. LIBOR rate plus 2% payable bi-annually. The Company may elect to pay the interest in Common Shares in lieu of cash and may, upon maturity, elect to repay the outstanding principal amount in Common Shares at Cdn\$0.898299 per Common Share if the 40-day weighted average trading price of the Common Shares prior to the conversion date is equal to or greater than \$1.20. The convertible loan notes mature on June 30, 2010.

The Company also has term loans provided by Elliott and the Fern Trust with an aggregate principle amount outstanding of \$880,000, bearing interest at a rate of 8% payable bi-annually. The term loans are due for repayment on December 31, 2008.

The Company expended \$4,402,000 on capital in 2006 and \$4,803,000 on capital in 2007. The Company forecasts that capital expenditure in 2008 will be \$5,000,000. At December 31, 2007, there were commitments for capital expenditure of \$53,000.

### Related Party Transactions

SOMIKA purchases explosives from African Explosives Limited (“AEL”). Mr. Ibrahim Kantao, a director of the Company and SOMIKA, is also the Director-General of AEL Mali SARL. Such purchases amounted to \$451,000 in the year ended December 31, 2007. The Company has an ongoing supply agreement with AEL Mali SARL.

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. The facility was margin-free up to \$2.5 million. During 2005, a number of the forward sales agreements were rolled forward with the result that the agreements were extended to July 2007. As at December 31, 2007, the Company had met all its obligations under these agreements. During the year ended December 31, 2007, forward sales of \$3,029,000 were recorded.

The premises occupied by Avnel and Kalana Mine Services in London are leased from a company associated with the Fern Trust, a significant shareholder. The Company incurred \$138,000 in rental costs during the year ended December 31, 2007. The Company's lease expires in June 2008.

### **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 section entitled "Risk Factors" in the Company's annual information form dated March 30, 2008 ("the AIF"), which section is incorporated by reference into and forms an integral part of this MD&A. A copy of the AIF can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

#### *Exploration, Development and Operating Risk*

The Company faces risks associated with underground mining such as rock conditions, water, geological faults, variable vein widths, dilution, power supply and equipment failures. The international mining industry is facing a shortage of skilled personnel and the Company faces risks in attracting and retaining skilled employees. The Company operates in a remote location in Mali and is reliant on the transport systems to deliver equipment and materials which are purchased in South Africa or Europe. There is a risk that such equipment and materials may not always be available on site when required.

#### *Gold Prices*

The Company also faces risk in respect of its exposure to gold prices.

#### *Hedging Activities*

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.

#### *Capital Requirements*

The Company will also require ongoing financing to fund its planned operation and exploration programs. No assurance can be given that such financing can be raised on commercially acceptable terms.

#### *Insurance and Uninsured Risks*

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 and Avnel does not maintain political risk insurance.

#### *Environmental Risks and Hazards*

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 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.

#### *Governmental Regulation*

All phases of Avnel's operations are subject to environmental regulation in the jurisdiction in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Avnel's operations. Environmental hazards may exist on the property which are unknown to Avnel at present and which have been caused by previous or existing owners or operators of the properties.

Certain hazardous materials are presently stored on the Kalana Gold Mine site, including diesel fuel, arsenic trioxide and sulfide concentrates tailings that remain from the SOGEMORK operations in the 1980s. SOMIKA is currently conducting test programs to assess the optimum process to ameliorate the risks associated with production, storage and disposal of arsenic trioxide.

### **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.

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.

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.

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 upon estimated proven and probable reserves which can be recovered.

During 2006, the Company commissioned an environmental report by an independent party. This estimated an increase in estimated cash flow for the retirement and rehabilitation of the Kalana Gold Mine from \$1,000,000 to \$2,236,000. The increase in fair value of this liability was calculated at \$325,000. The environmental liability is based on the work required to be carried out on the tailings facilities to ensure stabilisation of the facility and re-vegetation of the tailings surface area, the capping of the underground shafts and the reclamation of plant, workshops and buildings where appropriate. The area disturbed by mining operations will then be re-vegetated. There will then be an ongoing monitoring of the water quality and re-vegetation programmes.

The Company has used a credit-adjusted risk-free rate of 8.5% to discount future cash flows in arriving at the fair value of its asset retirement and rehabilitation obligations. This is also the rate at which shareholders advanced funds to the Company in 2004. The Company still considers that 8.5% is an appropriate credit-adjusted risk-free rate.

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. Revenue and expense transactions are remeasured at the average rate for the period. Remeasurement gains and losses are included in income.

### **Financial Instruments**

In 2007, the Company sold forward 6,860 ounces of gold at an average price of \$441 per ounce. The Company believes that these forward sales qualify as normal sales contracts under SFAS 133 and recorded the revenues when the gold sold forward was delivered. These forward sales agreements were entered into with Elliott. At December 31, 2007, the Company did not have any forward sales agreements.

The estimated fair values of the Company's other financial instruments approximate carrying values at December 31, 2007. The Company has no other financial instruments or long-term commitments outstanding.

### **Disclosure of Outstanding Share Data**

As at March 31, 2008, the Company had issued 65,445,497 common shares.

The following table shows the number of options or rights to purchase common shares of the Company as at December 31, 2007.

Warrants issued through the IPO on June 30, 2005	6,518,713
Convertible Loan Notes	12,034,739
Minority shareholder warrants	1,411,042
CEO Compensation Options	2,500,000
Long Term Incentive Plan	1,724,000
<b>Total as at December 31, 2007</b>	<b>24,188,494</b>

### **Outlook**

For 2008, Avnel is planning gold production of 28,000 ounces at an average operating cost of approximately \$446 per ounce of gold produced, net of royalties. Tonnes milled is planned to be approximately 52,000 tonnes, 53% higher than 2007, at an average head grade of 19.0 g/t. The average grade in the first half of 2008 is forecast to be approximately 15g/t with the grade increasing to 22g/t in the second half of the year. The decrease in head grade from 2007 is anticipated based on the commencement of production from Vein 18 on 150m level which has a reserve grade of 15g/t. The increase in grade in the second half of the year is due to mining of vein 18 on 180m level which has a reserve grade of 30g/t.

It is planned to advance development 1,459 metres during 2008. Development will be focused on accessing the ore reserve blocks on 180m level and providing diamond drill sites for an underground diamond drill program. The drill holes will be drilled from 150m and 180m levels down to the 300m level. These holes will provide additional information on the existing mineral resources and reserves between 180m and 300m levels. This information will be used to update the mineral resource and reserve estimates in early 2009.

The condition of the gear box for the No. 2 shaft winder has shown abnormal wear. The gear box will be temporarily repaired to allow operations to continue until a new gear box is purchased. An investigation has shown that this gear box, installed in 1985, is under designed for the winder duty. The Company is in the process of procuring a stronger gear box to replace the existing gear box. Consulting engineers have examined the gear box and provided recommendations on the appropriate gear box to be purchased. They have also completed an analysis of the existing winder drum and drum shaft to check that they are suitable for operation with the new gear box. There is some risk that the existing gear box might fail leading to a suspension of operations at No. 2 shaft. New bearings have been ordered to enable a temporary repair until the new gear box is installed during the second quarter of 2008.

The mine operation is planned to produce a positive cash margin of \$7,400,000 before capital expenditure. Using an average gold price of \$750 per ounce, management of the Company believes that approximately \$5,000,000 of the cash resources of the Company will be utilised to fund capital expenditures, mainly required to expand production to

the planned 52,000 tonnes in 2008 and 60,000 tonnes in 2009 per annum, \$700,000 for exploration expenses, working capital of \$600,000 and corporate expenses of \$2,300,000. The Company is intending to raise funds through a shareholder loan of \$3,000,000 and an equity issue of Cdn\$2,290,000. If successful, the Company is forecast to have \$5,100,000 cash at December 31, 2008.

#### **Disclosure Controls and Procedures and Internal Control over Financial Reporting**

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports filed or submitted by the Company under Canadian securities legislation is recorded, processed, summarized and reported within the time period specified in those rules.

Management has designed the internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP. During the most recent year end, there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

Due to the small size of the Company, there are certain aspects of the Company's internal control system that do not have an adequate segregation of duties. This is not uncommon in a company the size of Avnel. The Company will review the internal controls over financial reporting and take whatever action, if any, is considered appropriate to minimize any potential risks from this deficiency.

#### **Additional Information**

This MD&A has been prepared as of March 31, 2008. For further information about the Company, please visit the Company's website at [www.avnelgold.com](http://www.avnelgold.com) or the website of the System for Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com).