

**AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JANUARY 1, 2005 TO JUNE 30, 2005**

The following discussion and analysis (the "MD&A") for Avnel Gold Mining Limited ("Avnel" or the "Company") describes the operating and financial results of the Company for the period from January 1, 2005 to June 30, 2005. Avnel was incorporated under The Companies (Guernsey) Laws 1994 on February 18, 2005 with the purpose of becoming the holding company for, and to carry on the business of, Avnel Gold, Limited, a Cayman Islands company ("Avnel Cayman"), pursuant to a reorganization which was completed on February 22, 2005 (the "Reorganization"). Accordingly, the information contained in this MD&A is presented on a pro forma basis as if the Reorganization was completed as of January 1, 2005. This MD&A should be read in conjunction with the unaudited interim financial statements for the period ended June 30, 2005 and related notes thereto. The financial information contained in the selected interim financial information and the discussion of results of operations was prepared in accordance with U.S. GAAP. Management of Avnel is of the opinion that there are no material differences between U.S. GAAP and Canadian GAAP as they relate to the financial statements of Avnel, as described in note 1 to the unaudited interim financial statements of the Company. All amounts in this discussion are expressed in U.S. dollars, unless identified otherwise.

This MD&A contains forward-looking statements that involve numerous risks and uncertainties and which are based on the Company's expectations, estimates and projections regarding its business and the gold market and economic environment in which it operates. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Therefore, actual results of the Company could differ materially from those discussed in such forward-looking statements as a result of these risks and uncertainties and readers should not place undue reliance on such statements.

Selected Interim Information

The following selected interim information is derived from the pro forma unaudited interim financial statements of Avnel and Avnel Cayman and the historical audited annual financial statements of Avnel Cayman. The Reorganization has been accounted for as an exchange between entities under common control whereby the assets and liabilities of Avnel Cayman are initially recognized at their carrying amounts in the financial statements of Avnel at the date of the transfer. The results and cash flows for the period for the six month period ended June 30, 2005 comprise the results and cash flows of Avnel and Avnel Cayman for the six months ended June 30, 2005 as if they had been combined throughout the period from January 1, 2005 to June 30, 2005.

	Three Months ended June 30		Six Months ended June 30	
	2005	2004	2005	2004
	(\$ thousands)	(\$ thousands)	(\$ thousands)	(\$ thousands)
Total Revenue	1,295	439	2,644	804
Total Expenses	2,981	1,960	5,362	2,601
Net Income (Loss)	(2,324)	(1,835)	(3,901)	(2,241)
			June 30, 2005	December 31, 2004
Balance Sheet				
Working Capital (Deficiency)			4,504	(2,959)
Total Assets			26,204	18,514
Long Term Debt			13,821	19,255
Shareholders' Equity (Deficit)			7,882	(5,538)

Avnel recorded a net loss of \$3.9 million (\$19.51 per share) for the first half of 2005 and a net loss of \$2.3 million (\$11.62 per share) for the three months ended June 30, 2005 compared to net losses of \$2.2 million (\$22.41 per share) and \$1.8 million (\$18.35 per share) respectively for the same periods of 2004 for Avnel Cayman. The losses have occurred because Avnel's only income earning asset, the Kalana Gold Mine, is in Start Up Phase and is not expected to reach the design production rate of 60,000 tonnes per annum before 2007.

As compared to the balance sheet of Avnel Cayman as at December 31, 2004, Avnel's cash and cash equivalents as at June 30, 2005 increased by \$6,835,000 due to financing received from an issue of share capital of \$5,901,000 and shareholder loans of \$2,800,000 exceeding cash utilized in operations of \$840,000 and capital additions of \$1,106,000. Working capital increased to \$4,504,000 at June 30, 2005 from negative \$2,959,000 as at December 31, 2004 for the same reason. Total assets increased from \$18,514,000 as at December 31, 2004 to \$26,204,000 as at June 30, 2005 as a result of the proceeds of the initial public offering and expenditure on development, property and equipment. Long term debt of \$19,255,000 as at December 31, 2004 decreased to \$13,821,000 as at June 30, 2005 when debt and interest were converted into common shares of the Company. Shareholders' equity increased to \$7,882,000 at June 30, 2005 from a deficit of \$5,538,000 as at December 31, 2004 because of the debt conversion and the proceeds of the public share issue.

Results of Operations

Review of the period ended June 30, 2005 compared to the period ended June 30, 2004

Gold produced in the six month period ended June 30, 2005 amounted to 6,063 ounces (2004 – 3,178 ounces) from 17,513 tonnes of ore milled (2004 – 16,464 tonnes) at a grade of 12.7 g/t (2004 – 9.1 g/t) and a recovery rate of 85% (2004 – 65%). For the second quarter of 2005, gold production amounted to 2,885 ounces (2004 – 1,772 ounces) from the processing of 7,406 tonnes of ore milled (2004 – 9,145 tonnes) at a grade of 14.1 g/t (2004 – 9.4 g/t) and a recovery rate of 86% (2004 – 64%). The milled throughput included 3,172 tonnes of coarse sand reclaimed from stockpiles at a grade of 4.93g/t. Underground production commenced in January 2004 and commercial production was achieved in March 2004 with the first gold sales.

For the six months to June 30, 2005, gold sales amounted to 6,235 ounces (2004 – 1,981 ounces) at an average price of \$422 per ounce (\$405 per ounce) for total proceeds of \$2,632,000 (2004 - \$803,000). In the second quarter of 2005, 3,036 ounces of gold were sold (2004 – 1,100 ounces) at an average price of \$426 per ounce (2004 - \$398 per ounce) for total proceeds of \$1,292,000 (2004 - \$438,000). In the first half of 2005 gold sales included 2,200 (2004 – 1,150) ounces sold pursuant to forward sales contracts at an average price of \$410.89 per ounce (2004 - \$406.89 per ounce) which resulted in a net loss of \$41,000 (2004 – gain of \$9,000) from the proceeds which would have resulted from selling at the spot price. There were no forward gold sales in the second quarter of 2005.

Mine operating costs for the first half of 2005 and the three months to June 30, 2005 were \$3,398,000 and \$1,774,000 respectively, compared with \$2,028,000 and \$1,570,000 for the same periods of 2004. The costs for the first half of 2004 include only those for the period subsequent to commercial production being achieved in March 2004. Cash operating costs were \$522 per ounce of gold produced and \$181 per tonne milled in the six months ended June 30, 2005 and \$535 per ounce of gold produced and \$208 per tonne milled in the second quarter of 2005. The mine cash operating cost reflects the planned rate of gold production during this development stage. The second quarter cash cost was higher than the first quarter due to lower gold production because of lower productivity than anticipated, and delays in mine development.

General and administrative costs were \$1,071,000 for the six months ended June 30, 2005 (2004 - \$42,000) and \$676,000 in the second quarter of 2005 (2004 - \$27,000). The increase in expense includes costs associated with the completion of the Reorganization and compensation expenses of \$483,000 resulting from the grant of stock options during the period. Management expects that in future periods general and administrative expenses will increase in order that Avnel may meet its reporting and regulatory commitments. In addition a further \$470,000 of stock option expense will be amortized over the period to February 23, 2007.

Depreciation, depletion and reclamation expenses amounted to \$567,000 and \$286,000, respectively, in the first half and second quarter of 2005 compared to \$329,000 and \$237,000 in the corresponding periods of 2004. Depletion costs are calculated on the unit-of-production basis and the increase results primarily from the low gold sales in 2004 as production and sales had only just commenced.

During the period, Avnel continued with its exploration program on the 387.4 km² area property held in accordance with the Permit. The Company commenced its drilling program in April 2005. Exploration expenditures were \$326,000 in the half year to June 30, 2005 compared to \$202,000 in the six months to June 30, 2004 and \$245,000 in the second quarter of 2005 (2004 - \$126,000).

Interest expense was \$968,000 for the six months to June 30, 2005 (2004 - \$452,000) and \$502,000 in the second quarter (2004 - \$345,000). The increase results from the increased debt level incurred to fund mine development. In addition in the first quarter of 2004 interest costs of \$200,000 were capitalized prior to the commencement of commercial production. Management expects interest expense to decline as a result of the conversion of debt to equity which was completed on June 30, 2005.

Liquidity and Capital Resources

As of June 30, 2005, Avnel had cash of \$7,204,000 and working capital of \$4,504,000. In the six month period ended June 30, 2005, operating activities required cash funding of \$840,000, compared to \$1,418,000 in the first half of 2004, as the mine continues to operate at below design capacity until additional mining areas are opened up.

Avnel expended \$1,106,000 on mine development, capital additions and exploration in the first half of 2005 compared to \$2,111,000 in the corresponding period of 2004. The expenditure was related to the sinking of No 2 Shaft and the No 1 Sub Incline Shaft at the Kalana Gold Mine and associated mining equipment, work on the feasibility study.

Net funds received from financing activities amounted to \$8,781,000 in the six months ended June 30, 2005. Of this total, financing of \$2.8 million was provided by shareholders under bridge financing loans. On June 30, 2005, these loans, together with interest accrued thereon in the amount of \$80,000, were converted into a term loan due December 31, 2008, bearing interest at a rate of 8%. A total of \$5,901,000, net of share issue costs and IPO expenses, was raised on June 30, 2005 when the Company completed its initial public offering with the issue of 12,393,605 units (the "Units") of the Company at a price of C\$0.76 per Unit. Each Unit consists of one common share (the "Common Shares") of Avnel and one-half of one Common Share purchase warrant, each whole Common Share purchase warrant entitling the holder to purchase one Common Share (the "Warrant Shares") at a price of C\$1.06 per Warrant Share at any time before 5p.m. on June 30, 2010. The Company has also granted the agents of this offering a non-transferable option to purchase 279,666 units at the offer price up to June 30, 2007.

The long term debt of the Company consists entirely of shareholder loans provided by Elliott International L.P. and Elliott Associates L.P. (collectively "Elliott") and the Fern Trust, the shareholders of Avnel (the "Shareholder Loans"). At June 30, 2005 an aggregate principal amount of \$19,255,000 of the Shareholder Loans, together with accrued interest thereon in the amount of \$2,627,000, was converted into equal amounts of common shares and convertible loan notes with an aggregate principal amount of \$10,941,000. Each convertible loan note is convertible by the holder into common shares of the Company at Cdn\$0.95 per share and bears interest at the six month U.S. LIBOR 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\$0.95 per share if the 40-day weighted average trading price of the common shares prior to the conversion date is equal to Cdn\$1.52. The term of the convertible loan notes is five years.

Payments Due by Period as at June 30, 2005

Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long Term Debt (1)	13,820,666	-	-	13,820,666	-
Capital Lease Obligations (2)	87,279	24,937	62,342	-	-
Operating Leases (3)	346,818	81,764	265,054	-	-

Purchase Obligations (4)	2,786,894	2,786,894	-	-	-
Other Long Term Obligations (5)	430,857	-	430,857		
Total Contractual Obligations	\$17,472,514	\$2,893,595	\$758,253	\$13,820,666	\$ -

Notes:

- (1) The long term debt of Avnel consists entirely of shareholder loans provided by Elliott International L.P. and Elliott Associates L.P. (collectively "Elliott") and the Fern Trust, the shareholders of Avnel (the "Shareholder Loans"). At June 30, 2005 long term debt comprised convertible loan notes of \$10,941,000 and a term loan of \$2,879,666.
- (2) Avnel's capital lease obligations consist entirely of payments due under a lease agreement with SGS Analabs for equipment used in relation to exploration and development activities in Mali.
- (3) Avnel's operating lease obligations consist of payments due under rental agreements in respect of its offices in London and Bamako.
- (4) Avnel's purchase obligations consist of amounts owing to trade creditors in respect of services provided for exploration, evaluation and development activities at Kalana.
- (5) Avnel's outstanding long term obligations under the Foundation Agreement as at June 30, 2005 consist of a balance of \$430,857 which Avnel is obligated to spend on exploration, evaluation and development at Kalana before February 14, 2006..

Related Party Transactions

Kalana Mine Services Limited ("Kalana Mine Services"), a London based, wholly-owned subsidiary of Avnel Gold, Limited, provides purchasing, facilitation, and expediting services and technical assistance to SOMIKA at cost plus a fee of 7.5%. During the six month period ended June 30, 2005, \$201,000 of such expenses and fees were charged to SOMIKA by Kalana Mine Services.

SOMIKA purchases explosives from African Explosives Limited ("AEL") on normal commercial terms. Mr. Ibrahim Kantao, a director of the Company and SOMIKA, is also the Director-General of AEL Chemico & AEL Mali SARL. In the absence of other competitive sources, it is anticipated that purchases of explosives from AEL will continue on a similar basis. Such purchases amounted to \$60,000 in the six month period ended June 30, 2005.

Avnel Gold, Limited entered into forward sales agreements on March 18, 2004 in respect of 31,700 ounces for the period through to December 2006 at an average price of \$414.27 per ounce with Elliott, who own 49.91% of the common shares of Avnel Gold Mining Limited. The facility is margin-free up to \$1 million.

The premises occupied by Avnel Gold, Limited and Kalana Mine Services in London are leased from a company associated with the Fern Trust, a significant shareholder. The Company incurred \$56,000 in rental costs during the period ended June 30, 2005.

Business Risks

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

The Company faces risk in respect of its exposure to gold prices. Avnel has sold forward approximately 60% of its forecast gold production through to March 2007 at an average gold price of \$423 per ounce. Avnel adopted its forward sales program with a major shareholder to achieve a higher level of confidence in achieving its near-term cash flow objectives. Without this program, it is estimated that a 10% movement in the gold price away from the assumed spot price of \$419 per ounce would move the remaining 2005 cash flow by approximately \$500,000. With the hedge program, the same movement in the gold price results in a \$133,000 movement. The Company has been granted flexibility in electing whether to deliver against its contracts or roll its position.

All gold revenues and a portion of operating costs are in U.S. dollars. The Company has not hedged its foreign exchange risk relating to its non-U.S. dollar expenses. The following table illustrates the sensitivity of operating costs and capital expenditures in 2005 to a movement of 10% in the South African Rand (the

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

Impact of Currency Movement on 2005 Operating Costs and Capital Expenditures

Currency	Operating Cost	Capital Expenditure
CFA Franc or Euro	5.7%	1.3%
Rand	0.8%	6.8%

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

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

The Company is committed to environmental protection, to safe operations and to the control of environmental risks. The Company adheres to the requirements of the Malian Government and has adopted policies and procedures as expected in the international mining industry. The Company is committed to maintaining the aforementioned risks at levels as low as can be reasonably achieved, taking into account social and economic factors, and that continued improvement in environmental and health and safety performance be achieved.

Critical Accounting Estimates

The consolidated financial statements of the Company have been prepared in accordance with U.S. GAAP. Management is required to make various estimates and judgements in determining the reported amounts of assets and liabilities, revenues and expenses for each period presented and in the disclosure of commitments and contingencies. Management considers the following critical accounting policies reflect its more significant estimates and judgements used in the preparation of the consolidated financial statements.

All costs, other than acquisition costs, are expensed prior to the establishment of proven and probable reserves. Gains or losses resulting from the sale or abandonment of properties are included in operations. Acquisition and development costs associated with properties brought into production are charged to operations using the units of production method based on estimated proven and probable reserves which can be recovered. Costs of start-up activities and on-going costs to maintain production are expensed as incurred. Production facilities and equipment are stated at cost and are amortized over the estimated proven and probable reserves which can be recovered from the related property.

The Company evaluates the carrying value of its properties and equipment when events or changes in circumstances warrant. With respect to properties with proven and probable reserves, an impairment loss is recognized when the estimated future cash flows expected to result from the use of the asset are less than the carrying amount of the asset. Measurement of the impairment loss is based on discounted cash flows.

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

Transactions expressed in foreign currencies are translated into U.S. dollars at the rate of exchange prevailing on the date of transaction. Monetary assets and liabilities expressed in foreign currencies are re-converted into U.S. dollars at the rates of exchange prevailing on the balance sheet date.

The financial statements of overseas subsidiaries are remeasured into their functional currency. Mining properties and other non-current assets are remeasured at historical rates. Monetary assets and liabilities are remeasured at current rates, except depreciation and amortization, which are remeasured at historical rates. Revenue and expense transactions are remeasured at the average rate for the period. Remeasurement gains and losses are included in income.

Financial Instruments

As at June 30, 2005, the Company had sold forward 24,350 ounces of gold at an average price of \$423 per ounce. The Company believes that these forward sales qualify as normal sales contracts under FAS 133 and will record the revenues when the gold sold forward is delivered and proceeds are received. The facility is margin-free, up to a maximum exposure of \$1.0 million.

The estimated fair values of the Company's other financial instruments approximate carrying values at June 30, 2005. The Company has no other financial instruments or long-term commitments outstanding.

Outlook

For the balance of 2005, Avnel is forecasting gold production of 6,855 ounces at an average operating cost of approximately \$478 per ounce of gold produced. Using an average gold price of \$415 per ounce, management believes that it will require \$2.4 million to fund operations, which includes capital expenditures (\$1.3 million) mainly required to expand production to 60,000 tonnes per annum, \$200,000 for exploration, outstanding creditors and corporate expenses (\$570,000).

Additional Information and Continuous Disclosure

This MD&A has been prepared as of August 11, 2005. Additional information is available in the historical consolidated financial statements of Avnel and Avnel Gold, Limited and the related notes thereto which are included in the Prospectus dated May 27, 2005 and the Amendment No.1 to the Prospectus dated June 22, 2005, and through regular filings of press releases, which are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.