

**AVNEL GOLD MINING LIMITED**  
**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED JUNE 30, 2005**

The management of Avnel Gold Mining Limited is responsible for the preparation of the accompanying interim consolidated financial statements. The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and are considered by management to present fairly the financial position, operating results and cash flows of the Company. These interim financial statements have not been audited or reviewed by an auditor.

\_\_\_\_\_  
Roy Meade  
Chief Executive Officer

\_\_\_\_\_  
William J. Smith  
Chief Financial Officer

**Avnel Gold Mining Limited**  
**Unaudited Consolidated Balance Sheet**  
**As at June 30, 2005**  
**Expressed in thousands of US Dollars**

	<b>June 30</b>	<b>December 31</b>
	<b><u>2005</u></b>	<b><u>2004</u></b>
		<b>(See Note 1)</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,204	\$ 369
Inventories	1,268	1,010
Prepaid and other assets	135	77
<b>Total current assets</b>	<b>8,607</b>	<b>1,456</b>
Property and equipment, at cost		
Mining properties	12,379	11,517
Other property and equipment	6,649	6,406
<b>Total property and equipment</b>	<b>19,028</b>	<b>17,923</b>
Accumulated depreciation and depletion	1,431	865
<b>Net property and equipment</b>	<b>17,597</b>	<b>17,058</b>
<b>Total Assets</b>	<b>\$ 26,204</b>	<b>\$ 18,514</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 2,787	\$ 1,569
Other accrued liabilities	1,316	2,846
<b>Total current liabilities</b>	<b>4,103</b>	<b>4,415</b>
Notes payable - long term	13,821	19,255
Provision for reclamation liabilities	398	382
<b>Total liabilities</b>	<b>18,322</b>	<b>24,052</b>
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Share Capital	16,942	100
Contributed Surplus	483	-
Retained Earnings (Deficit)	(9,548)	(5,647)
Accumulated and other comprehensive income	5	9
<b>Total stockholders' equity (deficit)</b>	<b>7,882</b>	<b>(5,538)</b>
<b>Total Liabilities and Stockholders' Equity (Deficit)</b>	<b>\$ 26,204</b>	<b>\$ 18,514</b>

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

Avnel Gold Mining Limited  
Unaudited Consolidated Statement of Operations  
Expressed in thousands of US Dollars

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(See Note 1)		(See Note 1)	
<b>REVENUE</b>				
Metal revenue	\$ 1,295	\$ 439	\$ 2,644	\$ 804
<b>EXPENSES</b>				
Operating	1,774	1,570	3,398	2,028
Depreciation	286	237	567	329
Exploration	245	126	326	202
Administration expense	676	27	1,071	42
	2,981	1,960	5,362	2,601
<b>Other income (expense)</b>				
Interest expense	(502)	(345)	(968)	(452)
Exchange gain	(120)	26	(182)	25
Withholding taxes	(6)	9	(12)	(10)
<b>Total other expense</b>	<b>(628)</b>	<b>(310)</b>	<b>(1,162)</b>	<b>(437)</b>
<b>Loss before tax</b>	<b>(2,314)</b>	<b>(1,831)</b>	<b>(3,880)</b>	<b>(2,234)</b>
<b>Income taxes</b>	<b>(10)</b>	<b>(4)</b>	<b>(21)</b>	<b>(7)</b>
<b>Net loss</b>	<b>(2,324)</b>	<b>(1,835)</b>	<b>(3,901)</b>	<b>(2,241)</b>
<b>Deficit, beginning of period</b>	<b>(7,224)</b>	<b>(979)</b>	<b>(5,647)</b>	<b>(573)</b>
<b>Deficit, end of period</b>	<b>\$ (9,548)</b>	<b>\$ (2,814)</b>	<b>\$ (9,548)</b>	<b>\$ (2,814)</b>

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**Avnel Gold Mining Limited**

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

**Expressed in thousands of US Dollars**

	<u>Common Stock</u>		<u>Contributed</u>	<u>Minority</u>	<u>Accumulated</u>	<u>Accumulated</u>	<u>Other</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Surplus</u>	<u>Interest</u>	<u>Deficit</u>	<u>Deficit</u>	<u>Comprehensive</u>	<u>Stockholders'</u>
							<u>Income</u>	<u>Deficit</u>
At December 31, 2003	50,000	\$ 50	\$ -	\$ 337	\$ (573)	\$ 4	\$	\$ (182)
Issuance of common stock	50,000	50	-	-	-	-	-	50
Net loss from January 1, 2004 to June 30, 2004	-	-	-	-	(2,241)	-	-	(2,241)
Other comprehensive gain	-	-	-	-	-	-	-	-
Exchange gain	-	-	-	-	-	-	-	-
Comprehensive loss	-	-	-	-	-	-	-	(2,241)
At June 30, 2004	100,000	100	-	337	(2,814)	4		(2,373)
Minority interest in the loss of consolidated subsidiary	-	-	-	(337)	-	-	-	(337)
Net loss from July 1, 2004 to December 31, 2004	-	-	-	-	(2,833)	-	-	(2,833)
Other comprehensive gain	-	-	-	-	-	5	-	5
Exchange gain	-	-	-	-	-	-	-	-
Comprehensive loss	-	-	-	-	-	-	-	(2,828)
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	12,393,605	5,901	-	-	-	-	-	5,901
Issuance of common stock upon cancellation of shareholder loans	34,800,000	10,941	-	-	-	-	-	10,941
Stock based compensation	-	-	483	-	-	-	-	483
Net (loss) from January 1, 2005 to June 30, 2005	-	-	-	-	(3,901)	-	-	(3,901)
Other comprehensive gain	-	-	-	-	-	-	-	-
Exchange gain (loss)	-	-	-	-	-	(4)	-	(4)
Comprehensive (loss)	-	-	-	-	-	-	-	(3,905)
At June 30, 2005	47,393,605	\$ 16,942	\$ 483	\$ -	\$ (9,548)	\$ 5	\$	\$ 7,882

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

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

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(See Note 1)		(See Note 1)	
<b>Cash flows from operating activities:</b>				
(Loss) from continuing operations	\$ (2,324)	\$ (1,835)	\$ (3,901)	\$ (2,241)
Non cash items				
Depreciation	286	237	567	329
Change in reclamation liability	8	-	16	-
Stock based compensation	346	-	483	-
Unrealized adjustment of other comprehensive income	(2)	(1)	(4)	-
Changes in operating assets and liabilities				
Inventories	22	169	(258)	(237)
Prepaid and other assets	524	419	(58)	3
Accounts payable	995	30	1,218	481
Other accrued liabilities	446	259	1,097	247
Net cash provided by (used in) operating activities	301	(722)	(840)	(1,418)
<b>Cash flows from investing activities:</b>				
Purchases and development of property and equipment	(509)	(207)	(1,106)	(2,111)
Net cash used in investing activities	(509)	(207)	(1,106)	(2,111)
<b>Cash flows from financing activities:</b>				
Issue of share capital	5,901	-	5,901	50
Proceeds from notes payable	855	1,267	2,880	3,769
Net cash provided by financing activities	6,756	1,267	8,781	3,819
<b>Net increase in cash and cash equivalents</b>	<b>6,548</b>	<b>338</b>	<b>6,835</b>	<b>290</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>656</b>	<b>160</b>	<b>369</b>	<b>208</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 7,204</b>	<b>\$ 498</b>	<b>\$ 7,204</b>	<b>\$ 498</b>

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

**Avnel Gold Mining Limited**  
**Notes to the Unaudited Consolidated Financial Statements**  
**For the period ended June 30, 2005**

**1. Nature of Operations and Liquidity**

Avnel Gold Mining Limited (the "Company") was incorporated under the laws of Guernsey on February 18, 2005. 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 the Company in exchange for 95% of the issued and outstanding shares of Avnel Gold, Limited, a company incorporated in the Cayman Islands, pursuant to a reorganization agreement. Under the reorganization agreement, obligations of Avnel Gold, Limited to Elliott and Fern in respect of existing shareholder loans of Avnel Gold, Limited were assumed by the Company. The reorganization has been accounted for as an exchange between entities under common control whereby the assets and liabilities of the Avnel Gold, Limited group are initially recognized at their carrying amounts in the accounts of the Avnel Gold Mining Limited group at the date of the transfer. The principal asset of Avnel Gold, Limited is an 80% interest in Société d'Exploitation des Mines d'Or de Kalana ("SOMIKA"), the current owner and operator of the Kalana Gold Mine and Concession. The results and cash flows for the period comprise the results and cash flows of the Company and the Avnel Gold, Limited group as if they had been combined throughout the period from January 1, 2005 to June 30, 2005. The results and cash flows for the periods ended June 30, 2004 and the balance sheet as at December 31, 2004 are the amounts reported by Avnel Gold, Limited in its consolidated financial statements for the periods ended June 30, 2004 and the year ended December 31, 2004, respectively.

The Company, 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, the Company purchased from the minority shareholder the remaining 5% of ordinary shares of Avnel Gold, Limited outstanding for \$5,000, and Elliott and Fern and the Company granted to the minority shareholder a call option on the shares of the Company held by Elliott and Fern and warrants to purchase common shares and shareholder loans of the Company. Under the transfer agreement, shareholder loans owed by Avnel Gold Limited (subsequently assumed by the Company) to the minority shareholder in the amount of \$725,000 were acquired by Elliott and Fern.

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 overseas, 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. Management plans to raise such funds from existing stockholders or through public offerings of its shares. 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. Interim Accounting Policy

The accompanying unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly in accordance with accounting principles generally accepted in the United States, the financial position of the Company and the results of its operations and cash flows for the period ended June 30, 2005. Although the Company believes that disclosure in these financial statements is adequate to make the information presented not misleading, certain information and foot note information normally included in annual financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted. These financial statements are prepared using the same accounting policies and method of application as those disclosed in Note 3 to the consolidated financial statements of Avnel Gold, Limited for the year ended December 31, 2004, except in respect of its policy for stock-based compensation.

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123. Stock options awarded to employees are accounted for at estimated fair value, based on the binomial model, and any related expense is charged to income over the period between the grant date and the vesting date. This is a new accounting policy.

Results of operations for the periods ended June 30, 2005 are not necessarily indicative of what operating results may be for the full year. In addition, these unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements presented herein.

## 3. Notes Payable

	<b>June 30</b>	<b>December 31</b>
	<b><u>2005</u></b>	<b><u>2004</u></b>
Convertible loan notes	\$ 10,941	\$ -
Term loan	2,880	-
Stockholder loans	-	19,255
	<u>\$ 13,821</u>	<u>\$ 19,255</u>

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 (see Note 4) 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.

Bridge financing loans made by the shareholders to June 30, 2005 of \$2,800,000, together with interest accrued thereon in the amount of \$80,000, have been converted into a term loan due December 31, 2008, bearing interest at a rate of 8%.

#### **4. Share Capital**

On June 30, 2005, 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.

As discussed in Note 3 above, Shareholder Loans together with accrued interest thereon in the total amount of \$10,941,000 was converted into 34,800,000 common shares on June 30, 2005.

#### **5. Employee Stock Based Compensation**

On February 23, 2005, the Company granted to Roy Meade, Chief Executive Officer of the Company, an option (the "CEO Compensation Option") to acquire up to 2.5 million common shares, at an exercise price of \$0.275 per share, exercisable for a term of ten years. One third of the option became exercisable immediately upon completion of the initial public offering, one-third on the first anniversary of the date of grant, and the remaining one-third on the second anniversary of the date of grant. Mr. Meade's entitlement to any unexercised portion of the CEO Compensation Option will terminate in the event he leaves employment of Avnel Gold Mining Limited at his own volition prior to the exercise date. The grant of the CEO Compensation Option was made in satisfaction of an outstanding obligation on the part of Avnel Gold, Limited to grant free of charge an amount of shares representing 5% of the issued and outstanding shares of Avnel Gold Limited made in consideration of Mr. Meade's agreement to accept employment with Avnel Gold Limited in September, 2003.

The fair value of the CEO Compensation Option has been estimated using the Binomial option model with the following assumptions:

Risk-free interest rate	3.9%
Expected option term	10 years
Expected volatility	40%
Expected dividend yield	Nil%

At an exercise price of \$0.275 per share, the option value is estimated to be \$0.381 per share with a total value of \$953,000. During the six months ended June 30, 2005 administration expense includes \$483,000 (2004- \$Nil) relating to the granting of the CEO Compensation Option and the same amount has been credited to Contributed Surplus. In addition a further \$470,000 of stock option expense will be amortized over the period to February 23, 2007.

## **6. Commitments and Contingencies**

Under the terms of the Foundation Agreement dated February 13, 2003, Avnel Gold, Limited agreed to spend \$1,334,000 on exploration and development over the first three years of the project.

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 FAS133 and will record the revenues when the gold sold forward is delivered and proceeds are received. At June 30, 2005, based on the spot price of \$437 per ounce, the mark-to-market value of the Company's gold forward sales agreements was negative \$514,000.

## **7. 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.