

# **AVNEL GOLD MINING LIMITED**

## **INTERIM REPORT TO SHAREHOLDERS**

### **Period ended September 30, 2005**

#### **Results**

Gold production at the Company's Kalana Mine increased by 26% to 3,653 ounces in the third quarter of 2005 and cash costs reduced to \$403 per ounce of gold produced, down from \$573 per ounce in the second quarter. This is the highest quarterly gold production and the lowest cost per ounce since the mine started up operation in January 2004.

Avnel Gold Mining Limited ("Avnel" or the "Company") recorded a net loss of \$5.4 million (\$0.34 per share) for the nine months ended September 30, 2005 and a net loss of \$1.5 million (\$0.03 per share) for the third quarter compared to net losses of \$3.5 million (\$38.26 per share) and \$1.2 million (\$12.43 per share) respectively for the same periods of 2004. The high loss per share for the year to date results from there being only 200,000 shares outstanding prior to the Initial Public Offering on June 30, 2005 when a further 47,193,605 shares were issued.

#### **Exploration: Avnel plans to drill define two recently discovered high-grade mineralization zones**

Following on the success of the recent percussion drill program at the 387 km<sup>2</sup> Kalana Exploitation Permit in southern Mali, the Company has completed a technical report which concluded that a follow-up diamond core and RC drill program would be justified in order to drill define and expand the newly-discovered, high-grade gold zones at Grid 8. This program could begin in November 2005 and involve the use of both diamond core and RC drills. The proposed drill program will entail 12 diamond core holes (1,750m total) and 40 RC holes (3,920m total), all within the Grid 8 area. The projected cost of the drill program is \$865,500.00 USD

Two main mineralised zones have been identified by Avnel in the Grid 8 area; the Djirila Main zone, which encompasses gold mineralised intersections in RC-09a, RC09b, RC-10, and RC-15, and the Djirila South zone, which encompasses gold mineralised intersections in RAB-090 and RAB-118.

The Djirila Main zone is interpreted as a NE-trending, fault-controlled, quartz-vein-stockwork zone located on the NW side of Djirila hill. This zone is characterised by high-grade gold mineralisation and produced significant gold assay intervals (e.g. 73.6g/t over 2m from 70 to 72m in RC-09a, and 45.9g/t Au over 4m from 114 to 118m in RC-15). In addition, the Djirila Main zone also contains significant widths of lower grade intersections (e.g., 5.4g/t Au over 36m from 64 to 100m in RC-09a).

The Djirila South zone is interpreted as a NE-trending, fault-controlled, quartz-vein-stockwork zone located on the SE side of Djirila hill. This zone is characterised by significant but lower grade mineralisation and produced several significant gold assay intervals (e.g., 4.1g/t Au over 6m from 17 to 23m in RAB-090, and 8.3g/t Au over 22m from 35 to 57m in RAB-118).

#### **Operations**

The Kalana Mine was initially developed and mined by SOGEMORK from 1985 to 1991. The mine was then put on care and maintenance until SOMIKA (80% subsidiary of Avnel Gold, Limited) commenced production in 2004. The mine has limited developed ore reserves and it is planned to complete the necessary shaft sinking and haulage development to enable the mine to achieve an annual production rate of 60,000 tonnes and an average 26,000 ounces of gold over the 8 years commencing in 2007. During 2005 and 2006 underground production will increase as new mining areas are exposed by ongoing development.

Production data for the Kalana Mine for the periods ended September 30, 2005 and 2004 are as follows:

	<u>Three months ended</u> <u>September 30</u>		<u>Nine months ended</u> <u>September 30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Tonnes milled ex underground	7,623	7,963	22,080	24,027
Tonnes milled ex sand stockpile	1,190	Nil	4,362	Nil
Total tonnes milled	8,813	7,963	26,442	24,427
Head grade ex underground ore - g/t	16.66	13.3	15.1	10.45
Head grade ex sand stockpile - g/t	4.92	Nil	4.67	Nil
Total mill head grade - g/t	15.08	13.3	13.4	10.45
Gold recovery -%	86	74	85	69
Ounces Produced	3,653	2,496	9,716	5,674

During 2005 underground production has mainly come from mining of a new ore reserve block below the lowest haulage level (100m below surface). The ore reserve block is being developed down dip and rock is scraped up dip to the haulage level. This mining method will limit the production capacity of the mine until ore can be gravitated to new haulages developed lower in the mine. Productivity of the underground crews is improving, but at a slower rate than anticipated. It is expected that the planned increase in underground production rate will be achieved as the mining crews gain experience and development is completed.

Underground grade at 15.1g/t has been better than both the budget grade of 13.7g/t and forecast ore reserve grades. The underground grade increased to 16.66g/t in the third quarter resulting in gold production reaching record level of 3,653 ounces for the quarter. Gold recovery at 85% in the gravity plant has exceeded the budget of 77%. During the quarter gold recovery reached 86% but, when the ore throughput increases to 5,000tpm, it is anticipated that recovery will reduce to 79%. Underground production commenced in January 2004 and commercial production was achieved in March 2004 with the first gold sales. During the first nine months of 2004 ore was taken mainly from the mining of sweepings (broken ore left underground from previous mining operations carried out in 1991) and the removal of pillars.

The planned production capacity of 60,000 tonnes per annum will be achieved in 2007. This will only be achieved when new ore reserve blocks are accessed from No 2 shaft on new haulage levels located 150 metres below surface. No 2 Shaft is being sunk by mine crews from 125 metres below surface to a depth of 190 metres (210 level). Shaft sinking has advanced to the 233 elevation, and a new shaft station established on 250 level, 150 metres below surface. The sinking program is behind schedule and additional resources are being applied to bring the development program back on schedule. No 1 Sub Incline Shaft is scheduled to be deepened in 2005 from the 290 level (100 metres below surface) to the 240 level to access new ore reserve blocks in the south area of the mine. A new winder has been installed and commissioned to enable the SI shaft to be sunk and hoist ore from the new stopes in 2006. Sinking of the SI shaft has commenced and the shaft is at the 260 elevation.

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

The following discussion and analysis (the "MD&A") for Avnel Gold Mining Limited describes the operating and financial results of the Company for the period from January 1, 2005 to September 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 September 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 updates the Company's interim MD&A for the period from January 1, 2005 to June 30, 2005. Reference should be made to this MD&A for further information regarding the Company's business, operations and financial condition. 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.

**Consolidated Statement of Operations for the Quarters Ended**

<b>Quarter ended</b>	<b>Sep 30</b>	<b>June 30</b>	<b>Mar 31</b>	<b>Dec 31</b>	<b>Sep 30</b>	<b>June 30</b>	<b>Mar 31</b>	<b>Dec 31</b>
	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>	<u>2004</u>	<u>2004</u>	<u>2003</u>
<b>Revenue</b>	\$ 1,440	\$ 1,295	\$ 1,349	\$ 593	\$ 1,224	\$ 439	\$ 365	\$ -
<b>Net income (loss)</b>	\$ (1,500)	\$ (2,324)	\$ (1,577)	\$ (1,927)	\$ (1,243)	\$ (1,835)	\$ (406)	\$ (104)
<b>Earnings (loss)</b>								
<b>per share</b>	\$ (0.03)	\$ (11.62)	\$ (10.75)	\$ (19.27)	\$ (12.43)	\$ (18.35)	\$ (5.54)	\$ (2.08)

The high loss per share for the quarters up to June 30, 2005 result from there being only up to 200,000 shares outstanding prior to the initial public offering of the Company on June 30, 2005 when a further 47,193,605 shares were issued.

**Results of Operations**

Avnel recorded a net loss of \$5.4 million (\$0.34 per share) for the nine months ended September 30, 2005 and a net loss of \$1.5 million (\$0.03 per share) for the third quarter of 2005 compared to net losses of \$3.5 million (\$38.26 per share) and \$1.2 million (\$12.43 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 September 30, 2005 increased by \$2,823,000 due to financing received from an issue of share capital of

\$5,799,000 and shareholder loans of \$2,800,000 exceeding cash utilized in operations of \$4,414,000 and capital additions of \$1,442,000. Working capital increased to \$3,311,000 at September 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 \$22,792,000 as at September 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 September 30, 2005 as a result of a conversion of debt and interest into common shares of the Company which was completed on June 30, 2005. Shareholders' equity increased to \$6,718,000 at September 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.

#### **Review of the period ended September 30, 2005 compared to the period ended September 30, 2004**

Gold produced in the nine month period ended September 30, 2005 amounted to 9,716 ounces (2004 – 5,674 ounces) from 26,442 tonnes of ore milled (2004 – 24,427 tonnes) at a grade of 13.4 g/t (2004 – 10.4 g/t), and a recovery rate of 85% (2004 – 69%). For the third quarter of 2005, gold production amounted to 3,653 ounces (2004 – 2,496 ounces) from the processing of 8,813 tonnes of ore milled (2004 – 7,963 tonnes) at a grade of 15.1 g/t (2004 – 13.3 g/t), and a recovery rate of 86% (2004 – 74%). In 2005, the milled throughput included 4,362 tonnes of coarse sand reclaimed from stockpiles at a grade of 4.67g/t. Underground production commenced in January 2004 and commercial production was achieved in March 2004 with the first gold sales.

For the nine months to September 30, 2005, gold sales totalled 9,595 ounces (2004 – 4,981 ounces) at an average price of \$424 per ounce (2004 - \$407 per ounce) for total proceeds of \$4,069,000 (2004 - \$2,028,000). In the third quarter of 2005, 3,360 ounces of gold were sold (2004 – 3,000 ounces) at an average price of \$428 per ounce (2004 - \$408 per ounce) for total proceeds of \$1,437,000 (2004 - \$1,225,000). In the first nine months of 2005 gold sales included 4,180 (2004 – 4,150) ounces sold pursuant to forward sales contracts at an average price of \$412 per ounce (2004 - \$408 per ounce) which resulted in a net loss of \$121,000 (2004 – gain of \$15,000) from the proceeds which would have resulted from selling at the spot price. In the third quarter of 2005, gold sales included 1,980 ounces sold forward (2004 - 3,000 ounces) at an average price of \$414 per ounce (2004 - \$408 per ounce).

Mine operating costs for the first nine months and the three months to September 30, 2005 were \$4,957,000 and \$1,559,000 respectively, compared with \$3,423,000 and \$1,389,000 for the same periods of 2004. The costs for the nine months ended September 30, 2004 include only those for the period subsequent to commercial production being achieved in March 2004. Cash operating costs were \$477 per ounce of gold produced and \$175 per tonne milled in the nine months ended September 30, 2005 and \$403 per ounce of gold produced and \$165 per tonne milled in the third quarter of 2005. Cash operating costs decreased significantly in the third quarter of 2005 as a result of the increase in the grade of ore milled and the improvement in the recovery rate.

General and administrative costs were \$2,087,000 for the nine months ended September 30, 2005 (2004 - \$229,000) and \$1,016,000 in the third quarter of 2005 (2004 - \$187,000). The increase in expense includes costs associated with the completion of a corporate reorganization and increased expenses resulting from the reporting and regulatory commitments of a public company. Compensation expenses of \$923,000 and \$440,000 have also been included in general and administrative expenses during the first nine months and third quarter of 2005. These amounts represent the amortization of the estimated fair value of the stock options granted to directors and officers of the Company. There was no equivalent expense in 2004. A further \$966,000 of stock option expense will be amortized over the period to August 2008.

Depreciation, depletion and reclamation expenses amounted to \$866,000 and \$299,000, respectively, in the first nine months and third quarter of 2005 respectively, compared to \$615,000 and \$286,000 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 production in 2004 as the mine commenced commercial operations in early 2004.

During the period, Avnel continued with its exploration program on the 387.4 km<sup>2</sup> area property held in accordance with the Exploration Permit. The Company commenced its drilling program in April 2005. Exploration expenditures were \$521,000 in the nine months ended September 30, 2005 compared to \$359,000 in the corresponding period of 2004 and \$195,000 in the third quarter of 2005 (2004 - \$157,000).

Interest expense was \$1,181,000 for the nine months to September 30, 2005 (2004 - \$871,000) and \$213,000 in the third quarter (2004 - \$419,000). 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. As a result of the conversion of debt to equity, which was completed on June 30, 2005, interest expense declined substantially in the third quarter of 2005.

### Liquidity and Capital Resources

As of September 30, 2005, Avnel had cash of \$3,192,000 and working capital of \$3,311,000. In the nine month period ended September 30, 2005, operating activities required cash funding of \$4,414,000, compared to \$2,654,000 in the corresponding period of 2004, as the mine continues to operate at below design capacity until additional mining areas are opened up.

Avnel expended \$1,442,000 on mine development and capital additions in the first nine months of 2005 compared to \$2,561,000 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.

Net funds received from financing activities amounted to \$8,679,000 in the nine months ended September 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 \$5,799,000, 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 5:00 p.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 September 30, 2005

Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long Term Debt (1)	13,820,665	-	-	13,820,665	-
Capital Lease Obligations (2)	74,811	12,469	62,342	-	-
Operating Leases (3)	346,818	81,764	265,054	-	-
Purchase Obligations (4)	1,079,161	1,079,161	-	-	-
Other Long Term Obligations (5)	<u>235,498</u>	<u>235,498</u>	-	-	-
Total Contractual Obligations	<u>\$15,556,953</u>	<u>\$1,408,892</u>	<u>\$327,396</u>	<u>\$13,820,665</u>	<u>\$ -</u>

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 September 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 September 30, 2005 consist of a balance of \$235,498 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 nine month period ended September 30, 2005, \$303,000 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 \$79,000 in the nine month period ended September 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 \$2 million. As at September 30, 2005 the Company had sold forward 22,370 ounces of gold at an average price of \$425 per ounce. Based on the spot price of \$473 per ounce, the mark-to-market value of the Company's gold forward sales agreements was negative \$1,078,000.

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 \$82,000 in rental costs during the period ended September 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 50% of its forecast gold production through to July 2007 at an average gold price of \$425 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 \$462 per ounce would move the remaining 2005 cash flow by approximately \$175,000. With the hedge program, the same movement in the gold price results in a \$40,000 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**

<u>Currency</u>	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. The critical accounting estimates are disclosed in the Prospectus dated May 27, 2005 and in the Company's interim MD&A for the period from January 1, 2005 to June 30, 2005, which are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com) and at the Company's website [www.avnelgold.com](http://www.avnelgold.com).

### **Financial Instruments**

As at September 30, 2005, the Company had sold forward 22,370 ounces of gold at an average price of \$425 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 \$2 million.

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

### **Outstanding Share Data**

The Company had 47,393,605 Common Shares outstanding as at September 30, 2005. No other shares of any class have been issued. The following table sets out the Common Shares issuable under warrant exercises, option plan exercises and debt conversions. The conversion and exercise terms are disclosed in the notes to the financial statements.

	<b>Number of Common Shares (in thousands)</b>
Outstanding shares	47,394
Issuable upon exercise of Common Share purchase warrants	8,102
Issuable upon exercise of outstanding stock options	4,250
Issuable upon conversion of loan notes	<u>13,483</u>
	<u><u>73,229</u></u>

### **Outlook**

For the balance of 2005, Avnel is forecasting gold production of 3,635 ounces at an average operating cost of approximately \$413 per ounce of gold produced. Using an average gold price of \$425 per ounce, management believes that approximately \$1.2 million of the cash resources of the Company will be utilised to fund capital expenditures of \$410,000, mainly required to expand production to 60,000 tonnes per annum, \$498,000 for exploration and corporate expenses of \$240,000.

### **Additional Information and Continuous Disclosure**

This MD&A has been prepared as of November 7, 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 at [www.sedar.com](http://www.sedar.com).