

AVNEL GOLD MINING LIMITED
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 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”

Roy Meade

Chief Executive Officer

“William J. Smith”

William J. Smith

Chief Financial Officer

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

	September 30	December 31
	<u>2005</u>	<u>2004</u>
		(See Note 1)
ASSETS		
Cash and cash equivalents	\$ 3,192	\$ 369
Inventories	1,866	1,010
Prepaid and other assets	100	77
Total current assets	5,158	1,456
Property and equipment, at cost		
Mining properties	12,674	11,517
Other property and equipment	6,690	6,406
Total property and equipment	19,364	17,923
Accumulated depreciation and depletion	1,730	865
Net property and equipment	17,634	17,058
Total Assets	\$ 22,792	\$ 18,514
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 1,079	\$ 1,569
Other accrued liabilities	768	2,846
Total current liabilities	1,847	4,415
Notes payable - long term	13,821	19,255
Provision for reclamation liabilities	406	382
Total liabilities	16,074	24,052
STOCKHOLDERS' EQUITY (DEFICIT)		
Share Capital	16,840	100
Contributed Surplus	923	-
Retained Earnings (Deficit)	(11,048)	(5,647)
Accumulated and other comprehensive income	3	9
Total stockholders' equity (deficit)	6,718	(5,538)
Total Liabilities and Stockholders' Equity (Deficit)	\$ 22,792	\$ 18,514

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 September</u>		<u>Nine months ended September</u>	
	<u>30</u>		<u>30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(See Note 1)		(See Note 1)	
REVENUE				
Metal revenue	\$ 1,440	\$ 1,224	\$ 4,084	\$ 2,028
EXPENSES				
Operating	1,559	1,395	4,957	3,423
Depreciation	299	286	866	615
Exploration	195	157	521	359
Administration expense	1,016	187	2,087	229
	3,069	2,025	8,431	4,626
Other income (expense)				
Interest expense	(213)	(419)	(1,181)	(871)
Exchange gain	357	(15)	175	10
Withholding taxes	(4)	(6)	(16)	(16)
Total other expense	140	(440)	(1,022)	(877)
Loss before tax	(1,489)	(1,241)	(5,369)	(3,475)
Income taxes	(11)	(2)	(32)	(9)
Net loss	(1,500)	(1,243)	(5,401)	(3,484)
Deficit, beginning of period	(9,548)	(2,814)	(5,647)	(573)
Deficit, end of period	\$ (11,048)	\$ (4,057)	\$ (11,048)	\$ (4,057)
Basic net loss per share	\$ (0.03)	\$ (12.43)	\$ (0.34)	\$ (38.26)

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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 September 30, 2004	-	-	-	-	(3,484)	-	-	(3,484)
Other comprehensive gain	-	-	-	-	-	-	-	-
Exchange gain	-	-	-	-	-	-	-	-
Comprehensive loss	-	-	-	-	-	-	-	(3,484)
At September 30, 2004	100,000	100	-	337	(4,057)		4	(3,616)
Minority interest in the loss of consolidated subsidiary	-	-	-	(337)	-	-	-	(337)
Net loss from September 1, 2004 to December 31, 2004	-	-	-	-	(1,590)	-	-	(1,590)
Other comprehensive gain	-	-	-	-	-	-	5	5
Exchange gain	-	-	-	-	-	-	-	-
Comprehensive loss	-	-	-	-	-	-	-	(1,585)
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	5,799	-	-	-		-	5,799
Issuance of common stock upon cancellation of shareholder loans	34,800,000	10,941		-				10,941
Stock based compensation	-	-	923	-	-		-	923
Net (loss) from January 1, 2005 to September 30, 2005	-	-	-	-	(5,401)		-	(5,401)
Other comprehensive gain	-	-	-	-	-		-	-
Exchange gain (loss)	-	-	-	-	-		(6)	(6)
Comprehensive (loss)	-	-	-	-	-		-	(5,407)
At September 30, 2005	47,393,605	\$ 16,840	\$ 923	\$ -	\$ (11,048)	\$	3	\$ 6,718

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 September 30</u>		<u>Nine months ended September 30</u>	
	<u>2005</u> (See Note 1)	<u>2004</u>	<u>2005</u> (See Note 1)	<u>2004</u>
Cash flows from operating activities:				
(Loss) from continuing operations	\$ (1,500)	\$ (1,243)	\$ (5,401)	\$ (3,484)
Non cash items				
Depreciation	299	286	866	615
Change in reclamation liability	8	-	24	-
Stock based compensation	440	-	923	-
Unrealized adjustment of other comprehensive income	(2)	4	(6)	4
Changes in operating assets and liabilities				
Inventories	(598)	(336)	(856)	(573)
Prepaid and other assets	35	75	(23)	78
Accounts payable	(1,708)	(391)	(490)	90
Other accrued liabilities	(548)	369	549	616
Net cash provided by (used in) operating activities	(3,574)	(1,236)	(4,414)	(2,654)
Cash flows from investing activities:				
Purchases and development of property and equipment	(336)	(450)	(1,442)	(2,561)
Net cash used in investing activities	(336)	(450)	(1,442)	(2,561)
Cash flows from financing activities:				
Issue of share capital	(102)	-	5,799	50
Proceeds from notes payable	-	2,217	2,880	5,986
Net cash provided by financing activities	(102)	2,217	8,679	6,036
Net increase in cash and cash equivalents	(4,012)	531	2,823	821
Cash and cash equivalents, beginning of period	7,204	498	369	208
Cash and cash equivalents, end of period	\$ 3,192	\$ 1,029	\$ 3,192	\$ 1,029

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 September 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 September 30, 2005. The results and cash flows for the periods ended September 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 September 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 September 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 September 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

	September 30	December 31
	<u>2005</u>	<u>2004</u>
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

During the nine months ended September 30, 2005, the Company has granted, to Directors and Officers of the Company, options to purchase common shares of the Company as follows:

<u>Number of Options Granted</u>	<u>Exercise Price</u>	<u>Expiry Date</u>	<u>Vesting Dates</u>
2,500,000	US\$0.275	February 2015	June 2005 to February 2007
1,750,000	Cdn \$0.76 (US\$0.64)	August 2015	August 2005 to August 2008

All of these options are outstanding at September 30, 2005.

The fair value of these options 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%

Using these assumptions the total value of the options granted amounts to \$1,889,000. During the nine months ended September 30, 2005 administration expense includes \$923,000 (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 \$966,000 of stock option expense will be amortized over the period to August 2008.

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. At September 30, 2005 the Company must spend a further on \$236,000 on exploration in order to comply with this commitment.

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 FAS133 and will record the revenues when the gold sold forward is delivered and proceeds are received. At September 30, 2005, 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.

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 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.

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.