

**AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD FROM JANUARY 1, 2006 TO MARCH 31, 2006**

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, 2006 to March 31, 2006. 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 comparative information contained in this MD&A for the period ended March 31, 2005 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 consolidated financial statements for the period ended March 31, 2006 and related notes thereto. The selected financial information and the discussion of results of operations were prepared in accordance with U.S. GAAP. Reference should be made to Note 6 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.

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

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

	Three months ended March 31	
	2006	2005
Total Revenue.....	1,496	1,349
Total Expenses.....	2,591	2,381
Net Loss.....	(1,294)	(1,577)
Loss per share	\$(0.02)	\$(10.75)
Weighted average shares outstanding	55,716,538	146,667

Balance Sheet	March 31, 2006	December 31, 2005
Cash	2,911	5,420
Working Capital.....	4,002	5,065
Total Assets	25,075	26,308
Long Term Debt.....	11,821	11,821
Shareholders' Equity	10,711	11,517

Avnel recorded a net loss of \$1,294,000 (\$0.02 per share) for the three months ended March 31, 2006 compared to a net loss of \$1,579,000 (\$10.75 per share) in the first quarter of 2005. 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 mid 2007. Avnel continued to invest in the development of the Kalana Mine and exploration on the Kalana Permit.

The Company's cash and cash equivalents decreased to \$2,911,000 at March 31, 2006 compared to \$5,420,000 at December 31, 2005 as a result of cash utilized in operations of \$1,953,000 and capital additions of \$556,000. During the quarter, the closing balance of gold in stock increased from 2,464 ounces at December 31, 2005 to 3,390 ounces at March 31, 2006. Working capital decreased to \$4,002,000 at March 31, 2006 from \$5,065,000 as at December 31, 2005 for the same reason. Total assets decreased to \$25,075,000 as at March 31, 2006 from \$26,308,000 at the end of 2005 as a result of the cash used in operations and the depreciation expense in the period. Long term debt of \$11,821,000 was unchanged during the quarter. Shareholders' equity decreased to \$10,711,000 at March 31, 2006 from \$11,517,000 at the end of 2005.

Consolidated Statement of Operations for the Quarters Ended

Quarter ended	Mar 31	Dec 31	Sep 30	June 30	Mar 31	Dec 31	Sep 30	June 30
	<u>2006</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>	<u>2004</u>
Revenue	\$1,496	\$ 1,615	\$ 1,440	\$ 1,295	\$ 1,349	\$ 593	\$ 1,224	\$ 439
Net loss	\$ (1,294)	\$ (1,705)	\$ (1,500)	\$ (2,324)	\$ (1,577)	\$ (1,927)	\$ (1,243)	\$ (1,835)
Loss per share	\$ (0.02)	\$ (0.03)	\$ (0.03)	\$ (11.62)	\$ (10.75)	\$ (19.27)	\$ (12.43)	\$ (18.35)

The 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 on June 30, 2005 when a further 47,193,605 common shares were issued. Subsequent to the Initial Public Offering, a further 7,936,000 common shares were issued in the fourth quarter of 2005.

Review of the period ended March 31, 2006 compared to the period ended March 31, 2005

Mining Operations

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

	Three months ended March 31	
	2006	2005
Tonnes milled.....	6,194	10,223
Gold grade - grams per tonne (g/t).....	25.04	11.50
Recovery rate - %.....	88.5%	84.1%
Gold production - ounces	4,411	3,178
Cost per tonne milled.....	\$285	\$158
Operating cost per ounce of gold sold	\$425	\$496

Gold production of 4,411 ounces in the first three months of 2006 was 5% below budget but 39% above the production in the first quarter of 2005. For the comparison against budget, the higher grades of ore processed and higher gold recovery rates were more than offset by the lower tonnes milled.

Tonnes milled in the first quarter of 2006 were 40% below the production achieved in the corresponding period of 2005, that included 3,172 tonnes of coarse sand reclaimed, and 17% below the budgeted production. Underground production was 13% lower in the first quarter 2006. Underground production in the first quarter was totally from the mining of a new ore reserve block which is below the lowest haulage level (100 level). In the first quarter, 2,086 tonnes were mined from ore reserves above the lowest haulage level (100) were being mined. The ore reserve block is being developed down dip and ore 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 being developed lower in the mine. The gold grade of ore mined in 2006 was 117% higher than that obtained in the first quarter of 2005. The grade was also higher than the budgeted grade as ore mined continued to be higher than that indicated by the reserve model. The mill grade of 11.5 grams per tonne obtained in the first quarter of 2005 was lower than the underground grade as it was reduced by the processing of 3,172 tonnes of coarse sand at 4.9 grams per tonne. Only 49 tonnes of this material was milled in 2006. Gold recovery in 2006 also exceeded both the prior year and the budgeted rate.

Underground development increased to 160 metres during the quarter compared to 103 metres in quarter 4, 2005. The development of the 150 level haulage and ventilation raise from No 2 shaft advanced 69m. Sinking of No 2 shaft will re-commence in quarter 2. The No 1 Sub Incline Shaft advanced 16m to the 160 level station and 29m were completed on the 160 level. In quarter 2 the Sub Incline Shaft will be completed and development of the 160 level to access the vein 18 South and 18A South ore reserve blocks can commence.

Mine operating costs for the three months ended March 31, 2006 amounted to \$1,523,000 compared with \$1,624,000 in the first quarter of 2005. Cash operating costs of \$285 per tonne milled in the first quarter of 2006 were 80% higher than the cost per tonne in the corresponding period of 2005 mainly because of the reduction in the processing of coarse sand, noted above, for which there were low costs attributable. Cash operating costs per ounce sold of \$425 per ounce of gold sold (3,480) in the first quarter 2006 decreased significantly from \$496 per ounce in 2005 due to the increase in gold production resulting from the improved gold grade. The cost of gold ounces produced (4,411) during the quarter ended March 31, 2006 amounted to \$400 per ounce.

Gold Sales

Gold sales data is as follows:

		Three months ended March 31	
		2006	2005
Gold ounces sold	- at spot price	300	999
	- under forward contracts	3,180	2,200
	- total	3,480	3,199
Average realized gold price per ounce	- at spot price	\$548.50	\$436.25
	- under forward contracts	\$416.50	\$410.90
	- total	\$427.88	\$418.81
Metal revenue - \$000			
Gold sales if all sales were at spot prices		\$1,974	\$1,381
Net effect of forward sales		(485)	(41)
Total gold sales		1,489	1,340
Silver sales		7	9
Metal revenue		\$1,496	\$1,349

Gold spot prices commenced 2006 at \$520 per ounce and increased to \$582 per ounce on March 31, 2006, with the London PM Fix averaging \$546 per ounce during the quarter.

Other Expenses

General and administrative costs amounted to \$529,000 for the three months ended March 31, 2006 compared to \$395,000 in the corresponding period of 2005. The increase in expense includes additional compensation expenses and expenses resulting from the reporting and regulatory commitments of a public company. Stock compensation expenses of \$174,000 have been included in general and administrative expenses during the first quarter of 2006 (2005 - \$137,000) which represent the amortization of the estimated fair value of the stock options granted to directors and officers of the Company. A further \$647,000 of stock option expense is expected to be amortized over the period to August 2008.

Depreciation, depletion and reclamation expenses amounted to \$290,000 in the first quarter of 2006 compared to \$281,000 in 2005. Interest expense was \$167,000 for the quarter ended March 31, 2006 compared to \$466,000 in 2005. The decrease results from the reduced debt level which resulted from the conversion of debt to equity, which was completed on June 30, 2005 and the repayment of \$2 million of a term loan on December 30, 2005.

During the period a diamond drill programme in part of the Kalana Exploitation Permit was completed and has confirmed and extended the mineralised zone discovered in 2005. This was the primary reason for exploration expenditure increasing to \$249,000 in 2006 from to \$81,000 in the first quarter of 2005 when no drilling was carried out.

Liquidity and Capital Resources

As of March 31, 2006, Avnel had cash of \$2,911,000 and working capital of \$4,002,000 compared with \$5,420,000 and \$5,065,000 respectively at December 31, 2005. In the three months ended March 31, 2006, operating activities required cash funding of \$1,953,000 which included a build up of gold inventory and materials and supplies of

\$850,000. Avnel expended \$556,000 on mine development and capital additions. These amounts were funded from the Company's cash balances and no additional funding was obtained during the quarter. Metal inventory at March 31, 2006 consisted of 3,391 ounces of gold with a carrying cost of \$1,332,000 and a market value of \$1,973,000.

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.

During the period the Company issued 390,140 common shares in settlement of the \$324,512 interest accrued to January 3, 2006 on its convertible loan notes.

Contractual Obligations

The Company has the following contractual obligations at March 31, 2006:

Contractual Obligations - \$000	Total	Less than			After 5 years
		1 year	1-3 years	4-5 years	
Long Term Debt (1)	11,821	-	880	10,941	-
Operating Leases (2)	246	114	132	-	-
Capital Lease	39	39			
Total Contractual Obligations	\$12,106	\$153	\$1,012	\$10,941	\$ -

Notes:

- (1) The long term debt of Avnel consists entirely of shareholder loans provided by Elliott and the Fern Trust, the two major shareholders of Avnel. At March 31, 2006 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.

Related Party Transactions

Kalana Mine Services Limited ("Kalana Mine Services"), a London based, wholly-owned subsidiary of Avnel, provides purchasing, facilitation, and expediting services and technical assistance to SOMIKA at cost plus a fee of 7.5%. During the three months ended March 31, 2006, \$53,000 of such expenses and fees were charged to SOMIKA by Kalana Mine Services.

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 \$23,000 in the quarter ended March 31, 2006.

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, who own 52% of the common shares of Avnel. The facility is margin-free up to \$2.5 million. As at March 31, 2006 the Company had sold forward 16,310 ounces of gold at an average price of \$429 per ounce. Based on the spot price of \$582 per ounce, the mark-to-market value of the Company's gold forward sales agreements was negative \$2,720,000.

The Company has entered into operating leases for office space and equipment with Fern. The Company incurred \$24,000 in rental costs during the period ended March 31, 2006.

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 dated May 27, 2005 and the Annual Information Form dated 31 March 2006.

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 July 2007 at an average gold price of \$429 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 March 31, 2006 spot price of \$582 per ounce would impact cash flow in the remainder of 2006 by approximately \$815,000. With the hedge program, the same movement in the gold price would result in a \$265,000 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 Company will 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.

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 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 Managements Discussion and Analysis for the year ended December 31, 2005 dated March 30, 2006 which is available on the Company's website – www.avnelgold.com.

Financial Instruments

As at March 31, 2006, the Company had sold forward 16,310 ounces of gold at an average price of \$429 per ounce. The Company believes that these forward sales qualify as normal sales contracts under SFAS 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 \$2.5 million.

The estimated fair values of the Company's other financial instruments approximate carrying values at March 31, 2006. The Company has no other financial instruments or long-term commitments outstanding.

Outlook

For the period from April to December 2006, Avnel is forecasting gold production of 14,000 ounces at an average operating cost of approximately \$416 per ounce of gold sold, net of royalties. Using an average gold price of \$625 per ounce, management believes that the Company's cash balance will reduce by approximately \$1.9 million by December 31, 2006 based on the projected revenue. The Company forecasts it will utilise \$2,700,000 to fund capital expenditure, mainly required to expand production to 60,000 tonnes per annum, \$642,000 for exploration, \$200,000 for working capital and \$810,000 for corporate expenses. The Company is forecast to have \$926,000 cash at year end and it will require additional financing to meet its development and exploration strategy going forward in 2007.

Additional Information and Continuous Disclosure

This MD&A has been prepared as of May 11, 2006. 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, the Annual

Information Form dated March 31, 2006, 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.