

Avnel Gold Mining Limited
Unaudited Consolidated Balance Sheets
June 30, 2006 and December 31, 2005
Expressed in thousands of US Dollars

	June 30	December 31
	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents	\$ 2,086	\$ 5,420
Inventories	3,943	2,118
Prepaid and other assets	212	83
Total current assets	<u>6,241</u>	<u>7,621</u>
Property, plant and equipment, at cost		
Mining properties and capitalized mine development costs	15,351	14,381
Other property and equipment	6,461	6,277
	<u>21,812</u>	<u>20,658</u>
Accumulated depreciation	2,722	1,971
Net property, plant and equipment	<u>19,090</u>	<u>18,687</u>
Total Assets	<u>\$ 25,331</u>	<u>\$ 26,308</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 742	\$ 1,042
Tax creditor	390	277
Other accrued liabilities	748	1,237
Total current liabilities	1,880	2,556
Notes payable - long term	11,821	11,821
Retirement and rehabilitation obligations	432	414
Total liabilities	<u>14,133</u>	<u>14,791</u>
Common stock:		
Authorised - unlimited number of ordinary shares of no par value		
Issued and outstanding 56,123,528 (December 31, 2005		
55,329,605)	21,416	20,728
Additional paid in capital	4,344	4,041
Retained deficit	(14,562)	(13,252)
Total stockholders' equity (deficit)	<u>11,198</u>	<u>11,517</u>
Total Liabilities and Stockholders' Equity (Deficit)	<u>\$ 25,331</u>	<u>\$ 26,308</u>

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

Avnel Gold Mining Limited
 Unaudited Consolidated Statement of Operations and Comprehensive Income
 For the Periods Ended June 30, 2006 and 2005
 Expressed in thousands of US Dollars
 (except share and per share information)

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
REVENUE				
Metal revenue	\$ 3,819	\$ 1,295	\$ 5,315	\$ 2,644
EXPENSES				
Operating	2,449	1,774	3,972	3,398
Depreciation	461	286	751	567
Exploration	262	245	511	326
Administration expense	436	676	965	1,071
Total expenses	3,608	2,981	6,199	5,362
Income (loss) from operations	211	(1,686)	(884)	(2,718)
Other income (expense)				
Interest expense	(184)	(502)	(351)	(968)
Exchange gain (loss)	15	(120)	8	(182)
Withholding taxes	(28)	(6)	(40)	(12)
Total other expense	(197)	(628)	(383)	(1,162)
Income (loss) before income tax	14	(2,314)	(1,267)	(3,880)
Income tax expense	(30)	(10)	(43)	(21)
Net loss	\$ (16)	\$ (2,324)	\$ (1,310)	\$ (3,901)
Loss per share	\$(0.0003)	\$(11.62)	\$(0.02)	\$(21.64)
Weighted average shares outstanding	55,923,396	200,000	55,920,189	180,220

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Avnel Gold Mining Limited
Unaudited Consolidated Statement of Cash Flows
For the Periods Ended June 30, 2006 and 2005
Expressed in thousands of US Dollars

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:				
Net loss from continuing operations	\$ (16)	\$ (2,324)	\$ (1,310)	\$ (3,901)
Reconciled to net cash (used in) provided by operating activities				
Depreciation	461	286	751	567
Change in reclamation liability	9	8	18	16
Stock based compensation	129	346	303	483
Changes in operating assets and liabilities				
Inventories	(975)	22	(1,825)	(258)
Prepaid and other assets	31	524	(129)	(58)
Accounts payable	(139)	995	(300)	1,218
Tax creditor	28	-	40	-
Other accrued liabilities	244	444	271	1,093
Net cash (used in) provided by operating activities	(228)	301	(2,181)	(840)
Cash flows from investing activities:				
Purchases and development of Property, plant and equipment	(598)	(509)	(1,154)	(1,106)
Net cash used in investing activities	(598)	(509)	(1,154)	(1,106)
Cash flows from financing activities:				
Proceeds of issue of share capital	1	5,901	1	5,901
Proceeds from notes payable issued	-	855	-	2,880
Net cash provided by financing activities	1	6,756	1	8,781
Net increase in cash and cash equivalents	(825)	6,548	(3,334)	6,835
Cash and cash equivalents at beginning of period	2,911	656	5,420	369
Cash and cash equivalents at end of period	\$ 2,086	\$ 7,204	\$ 2,086	\$ 7,204

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Avnel Gold Mining Limited
Unaudited Consolidated Statement of Changes in Stockholders' Equity
Expressed in thousands of US Dollars
(except share information)

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total Stockholders'</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid in</u>	<u>Deficit</u>	<u>Equity (Deficit)</u>
			<u>Capital</u>		
At December 31, 2004	100,000	\$ 100	\$ -	\$ (5,638)	\$ (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 conversion of shareholder loans	34,800,000	10,941	-	-	10,941
Stock based compensation	-	-	483	-	483
Net loss to June 30, 2005	-	-	-	(3,901)	(3,901)
At June 30, 2005	47,393,605	16,942	483	(9,539)	7,886
Issuance of common stock for cash, net of issue costs	7,936,000	4,041	2,160	-	6,201
Issuance of warrants to agents, brokers and minority shareholder	-	(255)	755	(500)	-
Stock based compensation	-	-	643	-	643
Net loss from June 1, 2005 to December 31, 2005	-	-	-	(3,213)	(3,213)
At December 31, 2005	55,329,605	20,728	4,041	(13,252)	11,517
Issuance of common stock on exercise of stock options	1,000	1	-	-	1
Issuance of common stock in payment of interest	792,923	687	-	-	687
Stock based compensation	-	-	303	-	303
Net loss to June 30, 2006	-	-	-	(1,310)	(1,310)
At June 30, 2006	56,123,528	\$ 21,416	\$ 4,344	\$ (14,562)	\$ 11,198

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

AVNEL GOLD MINING LIMITED
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2006

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

Andrew Herbert
Chief Financial Officer

Avnel Gold Mining Limited
Notes to the Unaudited Consolidated Financial Statements
For the period ended June 30, 2006

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 comparative results and cash flows for the period ended June 30, 2005 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 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.

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, 2006. 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 Mining, Limited for the year ended December 31, 2005.

Results of operations for the period ended June 30, 2006 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. Share Capital

The Company may elect to pay the interest payable on its convertible loan notes in common shares in lieu of cash. The number of shares payable in lieu of interest is calculated by dividing the cash value of the interest payable by the U.S. Dollar equivalent of the 20-day weighted average trading price of the common shares with the last day being five trading days before the interest payment date. During the period the Company issued 792,923 common shares of the Company in settlement of \$687,505 interest payable on its notes payable and issued 1,000 common shares upon the exercise of employee stock options.

4. Commitments and Contingencies

As at June 30, 2006 the Company had sold forward 13,160 ounces of gold at an average price of \$431 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, 2006, based on the spot price of \$613 per ounce, the mark-to-market value of the Company's gold forward sales agreements was negative \$2,544,000. These forward sales agreements were entered into with Elliott, one of the shareholders of the Company.

5. Related Party Transactions

The Company has entered into operating leases for office space and equipment with Fern. The Company incurred \$48,000 in rental costs during the period ended June 30, 2006.

SOMIKA purchased \$114,000 of explosives from African Explosives Limited ("AEL") during the six months ended June 30, 2006. Mr. Ibrahim Kantao, a director of the Company and SOMIKA, is also the Director-General of AEL Mali.

6. Canadian Generally Accepted Accounting Principles

Canadian Generally Accepted Accounting Principles ("Canadian GAAP") vary in certain respects from U.S. GAAP. The effect of the principal measurement differences on the Company's consolidated financial statements are described below.

Convertible Loan Notes

Under Canadian GAAP, the Company's convertible loan notes would be recorded in part as debt and in part as shareholders' equity, rather than entirely as debt as considered under U.S. GAAP. The amount recorded as debt represents the present value of future interest and principal amounts of the notes. The amount will be accreted to the face value of the notes over the term to maturity through periodic charges to interest expense.

Under Canadian GAAP, the convertible loan notes liability would originally decrease by \$916,000, and other paid in capital, included in shareholders' equity, would increase by \$916,000. At June 30, 2006 the remaining balance to be amortized amounts to \$733,000.

The following table presents the net loss and loss per share following Canadian GAAP:

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net loss under US GAAP	\$ (16)	\$ (2,324)	\$ (1,310)	\$ (3,901)
Accretion of convertible notes	(46)	Nil	(92)	Nil
Net loss under Canadian GAAP	<u>\$ (62)</u>	<u>\$ (2,324)</u>	<u>\$ (1,402)</u>	<u>\$ (3,901)</u>
Net loss per share under Canadian GAAP	<u>\$ (0.001)</u>	<u>\$ (11.62)</u>	<u>\$ (0.03)</u>	<u>\$ (21.64)</u>