AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD FROM JANUARY 1, 2006 TO JUNE 30, 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 June 30, 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 June 30, 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 June 30, 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.

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 June 30		Six months ended June 30	
	2006	**2005**	**2006**	**2005**
Total Revenue	3,819	1,295	5,315	2,644
Total Expenses	3,608	2,981	6,199	5,362
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

Balance Sheet	**June 30, 2006**	**Dec. 31, 2005**
Cash	2,086	5,420
Working Capital	4,361	5,065
Total Assets	25,331	26,308
Long Term Debt	11,821	11,821
Shareholders' Equity	11,198	11,517

Avnel recorded a net loss of $1,310,000 ($0.02 per share) for the six months ended June 30, 2006 compared to a net loss of $3,901,000 ($21.64 per share) in the first half of 2005. In the second quarter of 2006, the Company's net loss declined to $16,000 ($0.0003 per share) from a net loss of $2,324,000 ($11.62 per share) in the corresponding period of 2005. The improvement in results has been achieved from increased gold production from the Kalana mine and the Company has also benefited from higher gold prices.

The Company's cash and cash equivalents decreased to $2,086,000 at June 30, 2006 compared to $5,420,000 at December 31, 2005 as a result of cash utilized in operations of $2,181,000 and capital additions of $1,154,000. The cash utilized in operations results from an increase in both gold and materials and supplies which have been built up during the period. Working capital decreased to $4,361,000 at June 30, 2006 from $5,065,000 as at December 31, 2005. Total assets decreased to $25,331,000 as at June 30, 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 period. Shareholders' equity decreased to $11,198,000 at June 30, 2006 from $11,517,000 at the end of 2005.

Consolidated Statement of Operations for the Quarters Ended

Quarter ended	June 30 2006	Mar 31 2006	Dec 31 2005	Sep 30 2005	June 30 2005	Mar 31 2005	Dec 31 2004	Sep 30 2004
Revenue	$3,819	$1,496	$ 1,615	$ 1,440	$ 1,295	$ 1,349	$ 593	$ 1,224
Net loss	$ (16)	$ (1,294)	$ (1,705)	$ (1,500)	$ (2,324)	$ (1,577)	$ (1,927)	$ (1,243)
Loss per share	$ (0.0003)	$ (0.02)	$ (0.03)	$ (0.03)	$ (11.62)	$ (10.75)	$ (19.27)	$ (12.43)

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 periods ended June 30, 2006 compared to the periods ended June 30, 2005
Mining Operations
The following table shows the production from the Kalana Gold Mine:

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Tonnes milled:				
Underground ore	5,799	7,406	11,934	14,341
Coarse sand reclaimed	1,385	-	1,444	3,172
Total	7,184	7,406	13,378	17,513
Gold grade - grams per tonne (g/t):				
Underground ore	39.9	14.1	32.4	14.3
Coarse sand reclaimed	6.1	-	6.0	4.9
Total	33.4	14.1	29.5	12.7
Recovery rate - %	90.0	86.0	89.4	85.0
Gold production – ounces	6,951	2,885	11,363	6,063
Cost per tonne milled	$327	$228	$308	$187
Operating cost per ounce of gold sold	$336	$573	$366	$484

Gold production in the second quarter and first half of 2006 were 60% and 27% higher than forecast production during these periods, respectively. These increases resulted primarily from higher than budgeted grades of ore processed which more than offset by the lower tonnes milled.

Production of ore from underground during the first half of 2006 is significantly below budget because of:

- Ore from development raises/drives for new ore reserve blocks is behind schedule due to delays in completing waste access development, mainly due to water intersections in down dip development. Ore development will commence in quarter 3. In 2007 water will be drained to the haulages being developed from Number 2 shaft. .
- The No 1 shaft was out of production for a period of 21 days of which the first 11 days were in the second quarter. It is estimated 880 tonnes would have been hoisted to the mill during this 11 day period.
- Production from stopes below the 100 haulage level was 8% below budget due to long distances to scrape ore up dip to the haulage.
- On June 14 the Number 1 Shaft winder failed mechanically and the repair to the gearbox was completed on July 6. The cost of the repair was $165,000. During this period 1,385 tonnes of low grade coarse sand stockpiles were processed in the mill. Underground development continued at a reduced rate during this period using the Number 2 Shaft to access the mine. No ore was hoisted to surface.

The gold grade of ore mined in the six months to June 30, 2006 was 132% higher than that obtained in the first half of 2005. The grade was also higher than the grade indicated by the reserve model. The overall mill grade of 29.5 grams per tonne (2005 – 12.7 g/t) was lower than the underground grade as it was reduced by the processing of 1,444 tonnes of coarse sand at 6.0 grams per tonne (2005 - 4.9 g/t).

Underground development increased to 172 metres during the quarter compared to 160metres in quarter 1, 2006. The development of the 150 level haulage and ventilation raise from No 2 shaft advanced 50.0m. Sinking of No 2 shaft advanced 17m in quarter 2 to reach the 180m station. The No 1 Sub Incline Shaft advanced 12 metres to the shaft bottom. Installation of the rock loading facilities and the 160 level station commenced. Rock hoisting from 160 level will commence in quarter 3. Development of the 160 level to access the vein 18 South and 18A South ore reserve blocks can commence.

On 100 level the haulage north has intersected the Vein 18 ore reserve block. This ore reserve block will be developed between the 100 and 150 levels. Winzing from 100 level to the 130 level advanced 30m and vein 18 was intersected.. Raising from the 130 level will commence in quarter 3 and will hole the 100 haulage. Stoping will commence from vein 18 in quarter 4.

Gold recovery in the first half of 2006 also exceeded both the prior year and the budgeted rate.

Mine operating costs for the three months ended June 30, 2006 amounted to $2,449,000 (2005 - $1,774,000) and totalled $3,972,000 for the year to date (2005 - $3,398,000). Cash operating costs of $308 per tonne milled in the first half of 2006 were 65% higher than the cost per tonne in the corresponding period of 2005 mainly because of the lower tonnage milled and the reduction in the processing of coarse sand, noted above, for which there were low costs attributable. Cash operating costs per ounce sold of $366 per ounce of gold sold in the first half of 2006 decreased significantly from $484 per ounce in 2005 due to the increase in gold production resulting from the improved gold grade.

Gold Sales

Gold sales data is as follows:

	Three months ended June 30		Six months ended June 30	
	2006	**2005**	**2006**	**2005**
Gold ounces sold				
- at spot price	3,800	3,036	4,100	4,035
- under forward contracts	3,150	-	6,330	2,200
- total	6,950	3,036	10,430	6,235
Average realized gold price per ounce				
- at spot price	$656.02	$425.66	$648.15	$428.28
- under forward contracts	$417.85	-	$417.17	$410.90
- total	$548.07	$425.66	$507.97	$422.15
Metal revenue - $000				
Gold sales if all sales were at spot prices	$4,506	$1,292	$6,480	$2,673
Net effect of forward sales	(697)	-	(1,182)	(41)
Total gold sales	3,809	1,292	5,298	2,632
Silver sales	10	3	17	12
Metal revenue	$3,819	$1,295	$5,315	$2,644

Gold revenue increased by 195% in the second quarter and 101% in the year to date over the revenue obtained in the corresponding periods of 2005. These have resulted from the increase in gold production and the higher gold prices available for spot gold sales. Gold spot prices commenced 2006 at $520 per ounce and increased to $613 per ounce on June 30, 2006, with the London PM Fix averaging $590 per ounce during the period.

Other Expenses
General and administrative costs amounted to $436,000 and $965,000 in the quarter ended June 30, 2006 and year to date respectively, a reduction of $240,000 and $106,000 from such costs incurred in the corresponding periods of 2005. The decrease in expense results mainly from a reduction in employee compensation expenses arising from the amortization of the estimated fair value of the stock options granted to directors and officers of the Company. Such costs amounted to $129,000 in the second quarter (2005 - $346,000) and $303,000 in the six months tended June 30, 2006 respectively (2005 - $483,000). A further $518,000 of stock option expense is expected to be amortized over the period to August 2008.

Depreciation, depletion and reclamation expenses amounted to $751,000 in the first half of 2006 (2005 - $567,000) and $461,000 in the second quarter (2005 - $286,000). The increase in the expense in the three months to June 30, 2006 is primarily a function of the increase in gold sales.

Interest expense was $184,000 for the quarter ended June 30, 2006 (2005 - $502,000) and $351,000 for the year to date (2005 - $968,000). 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.

Exploration expenditure in the second quarter and first six months of 2006 was $262,000 and $511,000, respectively compared to $245,000 and $326,000 in the corresponding periods of 2005. In the second quarter a 5,067 metre Reverse Circulation drill program was completed on the Djirila Main mineralised zone and new targets located on Grid 7A. The gold anomaly targets on Grid 7A had been identified in a geochemical soil sampling program in late 2004. The RC results confirmed and extended updip the mineralised zone identified in the diamond drill program completed in quarter 1 at Djirila. A geochemical soil sampling program was completed during the period and the results indicate new gold anomaly drill targets identified within 3 kilometres of the Kalana Mine and on Grid 7B

The Company has complied with the terms of the Tender for the Kalana Permit regarding expenditure to be incurred on exploration and feasibility studies by February 2006. Accordingly there are no further minimum exploration expenditure requirements through the remainder of the tenure of the Permit.

Liquidity and Capital Resources
As of June 30, 2006, Avnel had cash of $2,086,000 and working capital of $4,361,000 compared with $5,420,000 and $5,065,000 respectively at December 31, 2005. In the six months ended June 30, 2006, operating activities required cash funding of $2,181,000 which included a build up of gold inventory and materials and supplies of $1,825,000. Avnel expended $1,154,000 on mine development and capital additions. These amounts were funded from the Company’s cash balances and no additional funding was obtained during the period. Metal inventory at June 30, 2006 consisted of 3,386 ounces of gold with a carrying cost of $1,384,000 and a market value of $2,076,000.

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 792,923 common shares in settlement of $687,000 interest incurred on its convertible loan notes from 1 July 2005 to June 30, 2006.

Contractual Obligations
The Company has the following contractual obligations at June 30, 2006:

Contractual Obligations - $000	Total	Less than 1 year	1-3 years	4-5 years	After 5 years

Long Term Debt (1)	11,821	-	880	10,941		-
Operating Leases (2)	214	111	103	-		-
Capital Lease	29	29				
Total Contractual Obligations	$12,064	$140	$983	$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 June 30, 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 six months ended June 30, 2006, $195,000 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 $114,000 in the six months ended June 30, 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 June 30, 2006 the Company had sold forward 13,160 ounces of gold at an average price of $431 per ounce. 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.

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.

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 $431 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 June 30, 2006 spot price of $613 per ounce would impact cash flow in the remainder of 2006 by approximately $704,000. With the hedge program, the same movement in the gold price would result in a $318,000 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 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 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 June 30, 2006. The Company has no other financial instruments or long-term commitments outstanding.

Outlook

For the second half of 2006, Avnel is forecasting gold production of 9,700 ounces at an average operating cost of approximately $414 per ounce of gold sold, net of royalties. Using an average gold price of $512 per ounce, management believes that the Company's cash balance will reduce by approximately $1.6 million by December 31, 2006 based on the projected revenue. The Company forecasts it will utilise $2,080,000 to fund capital expenditure, mainly required to expand production to 60,000 tonnes per annum, $330,000 for exploration and $740,000 for corporate expenses. The Company is forecast to have approximately $500,000 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 August 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.