

**AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD 9 MONTHS ENDING SEPTEMBER 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 nine month period to September 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 September 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 September 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		Nine months ended	
	September 30		September 30	
	2006	2005	2006	2005
Total Revenue	3,600	1,440	8,915	4,084
Total Expenses	3,616	3,069	9,815	8,431
Net income (loss)	78	(1,500)	(1,232)	(5,401)
Income (loss) per share	\$0.001	\$(0.03)	\$(0.02)	\$(0.34)
Weighted average shares outstanding	56,123,528	47,393,605	55,920,189	16,090,957
Balance Sheet			<u>Sep. 30, 2006</u>	<u>Dec. 31, 2005</u>
Cash			2,017	5,420
Working Capital			2,975	5,065
Total Assets			25,932	26,308
Long Term Debt			11,821	11,821
Shareholders' Equity			11,381	11,517

Avnel recorded a net loss of \$1,232,000 (\$0.02 per share) for the nine months ended 30 September, 2006 compared to a net loss of \$5,401,000 (\$0.34 per share) in the same period of 2005. In the third quarter of 2006, the Company recorded net income of \$78,000 (\$0.001 per share) compared to a net loss of \$1,500,000 (\$0.03 per share) in the corresponding period of 2005. The improvement in results has been achieved from increased gold production at the Kalana mine and the Company has also benefited from higher gold prices.

The Company's cash and cash equivalents decreased to \$2,017,000 at September 30, 2006 compared to \$5,420,000 at December 31, 2005 as a result of cash utilized in operations of \$227,000 and capital additions of \$3,177,000. The cash utilized in operations results from an increase in gold inventory and a build up of materials and supplies during the period. Working capital decreased to \$2,975,000 at September 30, 2006 from \$5,065,000 as at December 31, 2005 mainly as a result of cash utilized in the period. Total assets decreased slightly to \$25,932,000 as at September 30, 2006 from \$26,308,000 at the end of 2005. Long term debt of \$11,821,000 was unchanged during the period. Shareholders' equity decreased to \$11,381,000 at September 30, 2006 from \$11,517,000 at the end of 2005.

Consolidated Statement of Operations for the Quarters Ended

Quarter ended	Sep 30	June 30	Mar 31	Dec 31	Sep 30	June 30	Mar 31	Dec 31
	2006	2006	2006	2005	2005	2005	2005	2004
Revenue	\$3,600	\$3,819	\$1,496	\$ 1,615	\$ 1,440	\$ 1,295	\$ 1,349	\$ 593
Net income (loss)	\$ 78	\$ (16)	\$ (1,294)	\$ (1,705)	\$ (1,500)	\$ (2,324)	\$ (1,577)	\$ (1,927)
Income (loss) per share	\$0.001	\$ (0.0003)	\$ (0.02)	\$ (0.03)	\$ (0.03)	\$ (11.62)	\$ (10.75)	\$ (19.27)

The loss per share for the quarters up to June 30, 2005 reflect 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 September 30, 2006 compared to the periods ended September 30, 2005

Mining Operations

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

	Three months ended Sep. 30		Nine months ended Sep. 30	
	2006	2005	2006	2005
Tonnes milled:				
Underground ore	6,594	7,623	18,528	22,080
Coarse sand reclaimed	1,512	1,190	2,956	4,362
Total	8,106	8,813	21,484	26,442
Gold grade - grams per tonne (g/t):				
Underground ore	31.5	16.7	32.1	15.1
Coarse sand reclaimed	5.7	4.9	5.9	4.7
Total	26.7	15.1	28.5	13.4
Recovery rate - %	89.3	86.0	89.4	85.0
Gold production – ounces	6,205	3,653	17,568	9,716
Cost per tonne milled	\$300	\$165	\$305	\$175
Operating cost per ounce of gold sold	\$380	\$451	\$371	\$484

Gold Production

Gold production in the third quarter and first nine months of 2006 is higher than forecast production during both these periods, respectively. These increases resulted primarily from higher than forecast grades of ore processed which more than offset the lower tonnes milled.

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

- The completion of the development of No 2 shaft deepening and related infrastructure has been delayed due to productivity and logistical issues. The logistical issues have been substantially rectified and ongoing training with inexperienced underground crews is beginning to show results

Development of the new ore reserve block, vein 18 North, is behind schedule. Vein 18 is located 290 metres north of No 2 shaft on the 100 level. The vein dips from the 100 level down to the 150 level. The ore reserve block is being initially developed by a winze from the 100 level to the 120 sub level. Sinking of the winze was completed and ore development on the 120 level commenced in quarter 3. Advance rates have been lower than planned due to water ingress on the vein roof. Production from vein 18 between 100

and 120 levels was scheduled to commence in quarter 3. In mid 2007, the 150 haulage north will intersect vein 18 and water will be drained from the stopes on 120 level to the 150 haulage level and then to the main 180 level pump station.

- The No 1 shaft was out of production for a period of 21 days of which 10 days were in the third quarter. On June 14, the Number 1 Shaft winder failed mechanically and the repair to the gearbox was completed on July 6. During this period, 1,724 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. It is estimated 1,680 tonnes would have been hoisted to the mill during this 21 day period.
- Production from the vein 1 stopes below the 100 haulage level was 10% below budget due to long distances to scrape ore up dip to the haulage and water being pumped from the down dip faces.

The gold grade of ore mined in the nine months to September 30, 2006 was 113% higher than that obtained in the first nine months of 2005. The grade was also higher than the grade indicated by the reserve model. The majority of ore was mined from vein 1 at an average grade of 32.9 grams per tonne compared to the reserve grade of 19.14 grams per tonne. The overall mill grade of 28.5 grams per tonne (2005 – 13.4 g/t) was lower than the underground grade (32.1g/t) as it was reduced by the processing of 2,956 tonnes of coarse sand at 5.9 grams per tonne (2005 - 4.7 g/t).

Gold recovery at 89.4% in the first nine months of 2006 also exceeded both the prior year and the budgeted rate. It is forecast that gold recovery will decrease to between 79% and 84% when the mill throughput increases to 60,000 tonnes per annum.

Development

Underground development increased to 290 metres during the quarter compared to 232 metres in the first half of 2006. It is forecast that total meters developed will increase to 550 in the fourth quarter.

Sinking of No 2 shaft advanced 14m in quarter three to its final depth. The 180 level station and shaft loading box were installed and the temporary rock hoisting system from the 180 level commissioned. This had been scheduled to be complete in quarter 2. The final skip arrangement will be installed in quarter 2, 2007.

Development of the 150 level from No 2 shaft north to vein 18 advanced 19m during the quarter after the shaft equipping on 180 level was completed. Due to the delay in completing the shaft 2, this development is 5 months behind schedule.

The new No 1 Sub Incline Shaft was commissioned for rock hoisting from the 160 level to the 100 level. Development of the 160 level to access the vein 18 South and 18A South ore reserve blocks advanced 94m during the quarter. Development will be extended to access vein 1 ore reserves to facilitate up dip mining of this ore block during 2007.

Water ingress into the mine through the veins was not seen above 100 level when the mine was re-opened in 2003. During the development of vein 1 below 100 level and vein 18 below 100 level, water has been exposed as development proceeded down dip. In vein 1 this water influx moves down dip as mining proceeds down dip, indicating that the water is probably “trapped in structures associated with the vein fractures” and is not being replenished as mining goes deeper. Water ingress into the mine through vein 1 was not seen above 100 level when the mine was re-opened in 2003 and it can be assumed that this water drained into the 100 level pumping stations during the mining of the vein between 1985 and 2001. Once the haulages on 150,160 and 180 levels intersect vein 1 and vein 18, it is anticipated that water will drain to these levels, thereby reducing the current problems in the stopes to pump water up to the 100 level. During early 2007 a new major pump station will be developed on the 180 level at No 2 Shaft and equipped with pumps to pump this water to surface.

Mine Operating Expenses

Mine operating costs for the three months ended September 30, 2006 amounted to \$2,700,000 (2005 - \$1,559,000) and totalled \$6,672,000 for the 9 months ending September 30, 2006 (2005 - \$4,957,000). Cash operating costs of \$305 per tonne milled in the first nine months of 2006 were 74% higher than the cost per tonne in the corresponding period of 2005 mainly because of the lower tonnage milled and higher labour and consumable costs. Cash operating costs per ounce sold of \$371 per ounce of gold sold in the first nine months 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 Sep. 30		Nine months ended Sep. 30	
	2006	2005	2006	2005
Gold ounces sold				
- at spot price	3,671	1,380	7,771	5,415
- under forward contracts	3,150	1,980	9,480	4,180
- total	<u>6,821</u>	<u>3,360</u>	<u>17,251</u>	<u>9,595</u>
Average realized gold price per ounce				
- at spot price	\$618.28	\$447.36	\$634.04	\$433.14
- under forward contracts	\$419.17	\$414.05	\$417.83	\$412.39
- total	\$526.34	\$427.73	\$515.23	\$424.10
Metal revenue - \$000				
Gold sales if all sales were at spot prices	\$4,218	\$1,503	\$10,698	\$4,176
Net effect of forward sales	(628)	(66)	(1,810)	(107)
Total gold sales	<u>3,590</u>	<u>1,437</u>	<u>8,888</u>	<u>4,069</u>
Silver sales	10	3	27	15
Metal revenue	<u>\$3,600</u>	<u>\$1,440</u>	<u>\$8,915</u>	<u>\$4,084</u>

Gold revenue increased by 150% in the third quarter and 118% 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 \$599 per ounce on September 30, 2006, with the London PM Fix averaging \$601 per ounce during the period. The highest spot gold price was \$725 per ounce.

Other Expenses

General and administrative costs amounted to \$410,000 and \$1,375,000 in the quarter ended September 30, 2006 and for the 9 month ended September 30, 2006 respectively, a reduction of \$606,000 and \$712,000 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 \$106,000 in the third quarter (2005 - \$440,000) and \$409,000 in the nine months ended September 30, 2006 respectively (2005 - \$923,000). A further \$413,000 of stock option expense is expected to be amortized over the period to August 2008.

Depreciation and depletion expenses amounted to \$1,194,000 in the first nine months of 2006 (2005 - \$866,000) and \$443,000 in the third quarter (2005 - \$299,000).

Interest expense was \$164,000 for the quarter ended September 30, 2006 (2005 - \$213,000) and \$515,000 for the year to date (2005 - \$1,181,000). 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 third quarter and first nine months of 2006 was \$63,000 and \$574,000, respectively compared to \$195,000 and \$521,000 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 drill results at Djirila confirmed and extended updip the mineralised zone identified in the diamond drill program completed in quarter 1 at Djirila. The RC drill results of the Grid-7A area indicate that the mineralised systems in this grid area appear to have more modest grades and widths within 50 metres of surface. 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. No field work took place during the third quarter when the annual rains prevent access to potential drill targets.

On 17 October, 2006 Avnel announced the acquisition of the Fougadian Exploration Permit (“the Fougadian Permit”) which lies south of the existing Kalana Permit. The permit covers an area of 150 square kilometres. The Permit has been awarded in accordance with the 1999 Mining Code and a Foundation Agreement has been signed between Avnel Mali, a 100% owned subsidiary of Avnel, and the Government of the Republic of Mali. Avnel has a 90% interest and the Malian State 10% free-carried interest in the permit. The Foundation Agreement provides for the exploration and exploitation of Group 2 minerals as defined in the 1999 Mineral Code. Group 2 minerals includes gold and silver, base metals but excludes precious stones, semi- precious stones and fossils. Details are shown in the Press Release dated 17 October and a Material Change Report filed on SEDAR (see www.sedar.com and the Company’s website www.avnelgold.com)

Liquidity and Capital Resources

As of September 30, 2006, Avnel had cash of \$2,017,000 and working capital of \$2,975,000 compared with \$5,420,000 and \$5,065,000 respectively at December 31, 2005. In the nine months ended September 30, 2006, operating activities required cash funding of \$227,000 which included an increase of gold inventory and a build up of materials and supplies of \$904,000. Avnel expended \$3,177,000 on mine development and capital additions. Due to the delays in deepening No 2 shaft and associated development the forecast capital expenditure of \$1.8 million for this project will be exceeded. These amounts were funded from the Company’s cash balances and no additional funding was obtained during the period. Metal inventory at September 30, 2006 consisted of 2,764 ounces of gold with a carrying cost of \$1,248,000 and a market value of \$1,656,000.

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 9 months ended September 30, 2006 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 September 30, 2006:

Contractual Obligations - \$000	Total	Less than			After
		1 year	1-3 years	4-5 years	5 years
Long Term Debt (1)	11,821	-	880	10,941	-
Operating Leases (2)	198	117	81	-	-
Capital Lease	27	27			
Total Contractual Obligations	\$12,046	\$144	\$961	\$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 September 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 nine months ended September 30, 2006, \$303,000 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 \$190,000 in the nine months ended September 30, 2006.

As at September 30, 2006 the Company has forward sales of 10,010 ounces of gold at an average price of \$434.70 per ounce with Elliott, who own 52% of the common shares of Avnel. The facility is margin-free up to \$2.5 million. Based on the spot price of \$599 per ounce, the mark-to-market value of the Company’s gold forward sales agreements was negative \$1,715,000.

The Company has entered into operating leases for office space and equipment with Fern. The Company incurred \$83,000 in rental costs during the period ended September 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 \$435 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 September 30, 2006 spot price of \$599 per ounce would impact cash flow in the remainder of 2006 by approximately \$308,000. With the hedge program, the same movement in the gold price would result in an \$119,000 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 September 30, 2006, the Company had sold forward 10,010 ounces of gold at an average price of \$435 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 September 30, 2006. The Company has no other financial instruments or long-term commitments outstanding.

Outlook

For the fourth quarter of 2006, Avnel is forecasting gold production of 4,900 ounces compared to 6,205 ounces in the third quarter of 2006. It is expected that planned production will be impacted by the delays in developing the vein 18 North ore reserve block as discussed in the review of mining operations. Using an average gold price of \$484 per ounce, management believes that the Company's cash balance will reduce by approximately \$1.5 million by December 31, 2006 based on the projected revenue. The Company forecasts it will utilise \$620,000 to fund capital expenditure, mainly required for development to access the ore reserves from No 2 shaft, \$110,000 for exploration and \$505,000 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 November 13, 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, the 2005 Audited Consolidated Financial Statements 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.