

**AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD FROM JANUARY 1, 2007 TO MARCH 31, 2007**

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, 2007 to March 31, 2007.

This MD&A should be read in conjunction with the unaudited consolidated financial statements for the period ended March 31, 2007 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.

Overall Performance

Avnel's principal asset is an 80% interest in Societe des Mines d'Or De Kalana ("SOMIKA"). The state of Mali holds the remaining 20% interest in SOMIKA. SOMIKA is the owner of the Kalana Gold Mine located in the southwest of Mali and is the holder of an exploration permit in respect of 387.4 kilometers squared in south western Mali. Avnel's strategic objective, through SOMIKA, is to commercially exploit the reserves at the Kalana Gold Mine, and enhance the economics of the Kalana Gold Mine through underground exploration to increase mineral reserves and through surface exploration.

The mine was acquired by Avnel in late 2002 following which the existing plant and infrastructure were upgraded and mining operations were resumed by SOMIKA in January 2004 with commercial production commencing in March 2004. During the years 2004, 2005 and 2006 Avnel has been engaged on increasing gold production from 7,396 ounces in 2004, to 14,823 ounces in 2005 and to 22,638 ounces in 2006. Gold production for the first quarter of 2007 amounted to 8,620 ounces. At the same time, Avnel has invested significantly in capital expenditures and underground development required to expand production to a planned annual rate of 60,000 tonnes. The mine development was behind schedule in 2005 and 2006 and it is now planned that underground production will increase from 23,000 tonnes in 2006 to 32,000 tonnes in 2007 with the objective of developing the mine to attain its design throughput rate of 60,000 tonnes per annum on a sustainable basis.

Selected Interim Information

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

	Three months ended March 31	
	2007	2006
Total Revenue.....	4,278	1,496
Total Expenses.....	3,350	2,614
Net Income (Loss)	769	(1,294)
Income (Loss) per share	\$0.01	\$(0.02)
Weighted average shares outstanding	61,606,387	55,716,538
Balance Sheet	<u>March 31, 2007</u>	<u>December 31, 2006</u>
Working Capital	4,335	623
Total Assets	29,732	25,821
Long Term Debt	11,821	11,821
Shareholders' Equity	14,217	10,024

Revenue has increased to \$4,278,000 in the first quarter of 2007 from \$1,496,000 in the same quarter of 2006. This is as a result of an increase in gold ounces sold from 3,480 ounces in the first quarter of 2006 to 7,466 ounces in the first quarter of 2007 and an increase in average sales price from \$428 per ounce to \$571 per ounce.

Avnel recorded net income of \$769,000 (\$0.01 per share) for the three months ended March 31, 2007 compared to a net loss of \$1,294,000 (\$0.02 per share) in the first quarter of 2006. The improvement compared to last year is mainly due to the increase in revenue of 186% whilst total expenses have only increased by 28%. Gold production has increased by 95% this quarter compared to the same quarter of 2006.

As compared to the balance sheet as at December 31, 2006, Avnel's cash and cash equivalents as at March 31, 2007 increased by \$2,922,000. This was almost all attributable to cash raised from a rights issue net of costs of \$2,927,000.

Working capital increased to \$4,335,000 at March 31, 2007 from \$623,000 as at December 31, 2006. This was largely as the result of the increase in cash and cash equivalents due to receiving cash in the rights issue. There was also a small increase in inventory and prepayments.

Total assets increased from \$25,821,000 as at December 31, 2006 to \$29,732,000 at the end of the quarter. The largest contributing factor is the increase in cash and cash equivalents described above. There is also an increase in the value of fixed assets of \$498,000 due to capital expenditure incurred in the quarter.

Long term debt of \$11,821,000 at December 31, 2006 remained the same at March 31, 2007. Shareholders' equity increased to \$14,217,000 at March 31, 2006 from \$10,024,000 at the end of 2006. This was largely attributable to the increase in common stock as a result of the rights issue. The other significant factor was that the retained deficit decreased by \$769,000 in the quarter.

Results of Operations

Mining Operations

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

	Three months ended March 31	
	2007	2006
Tonnes milled	7,254	6,194
Gold grade - grams per tonne (g/t).....	39.21	25.04
Recovery rate - %.....	94.3	88.5
Gold production - ounces.....	8,620	4,411
Cost per tonne milled.....	\$322	\$285
Operating cost per ounce of gold sold.....	\$325	\$425
Operating cost per ounce of gold produced.....	\$271	\$400

Gold production of 8,620 ounces in the first three months of 2007 was 46% above plan and 95% above the production in the first quarter of 2006. The higher gold production than plan was due to higher mill throughput (30%), higher grade (6%) and higher gold recovery (6%).

Tonnes milled in the first quarter of 2007 were 17% above the production achieved in the corresponding period of 2006 and 30% above the planned production for the first quarter. Production from stoping on vein 1 was in line with plan. Additional ore was mined from development raises and drives in vein 1 on 160 level. This ore development is ahead of the planned schedule for the year. Water on vein 1 stopes is now draining to 160 level and mining conditions have improved in the stopes. The water is being pumped from 160 level to the 100 level main pump station.

The gold grade of ore milled in the first quarter of 2007 was 57% higher than that obtained in the first quarter of 2006. The grade was 6% higher than the planned grade (37.11g/t) as ore mined continued to be higher than that

indicated by the reserve model. Gold recovery of 94.3% in the first quarter of 2007 also exceeded both the prior year (88.5%) and the planned rate (89.3%).

Development advanced 535 metres in the first quarter of 2007 compared to the planned 445 metres. This included 140 metres of ore development on 160 level.

On 180 level, the rock pass from 180 level to 150 level was completed and commissioned. Rock from 150 level is now gravitated to 180 level via this ore pass. The mid shaft loading facility in No 2 Shaft has now been removed and the speed of rock hoisting increased. Development of the 180 level pump station was completed and civil work will commence in quarter 2. Development of the No 1 water storage dam commenced and is planned to be completed in quarter 2. It is planned to install four 160Kw pumps, electric switchgear and pipes during quarter 2 and partially commission the 180 level pump station in July 2007. The complete pump station facility is planned to be commissioned at the end of quarter 3, 2007.

Development of the 150 level haulage, north to vein 18, advanced 30 metres in March, after the rock pass had been commissioned. The haulage must advance approximately 180 metres to intersect vein 18. The haulage is planned to be completed in quarter 3, 2007.

Development on 160 level advanced 325 metres including 185 metres of waste development. This development has provided access into vein 1 in three positions and ore development commenced ahead of schedule.

Mine operating costs for the three months ended March 31, 2007 amounted to \$2,302,000 compared with \$1,523,000 in the first quarter of 2006. One of the key factors driving the increase in costs is that 26% of the tonnes milled in the first quarter of 2007 was ore development compared to only 3% in the same quarter of 2006. Ore development tonnes are mined at a higher unit cost than ore mined from stopes. Other reasons for the increase in costs is the increase in the number of employees and their rate of pay from the first quarter of 2006, the increase in power costs in line with the increase in tonnes of production and a general inflationary increase in consumables costs.

Cash operating costs of \$322 per tonne milled in the first quarter of 2007 were 13% higher than the cost per tonne in the corresponding period of 2006. Although the number of tonnes milled has increased by 17% from quarter 1 of 2006, operating costs have increased by 51%. One of the key factors in the increase in unit costs is the comparatively high proportion of tonnes produced from ore development which has a higher unit cost than ore mined from stopes. Cash operating costs per ounce sold of \$325 per ounce of gold sold in the first quarter of 2007 decreased significantly from \$425 per ounce in the same period for 2006 due to the increase in gold production resulting from the improved gold grade. Cash operating costs per ounce produced improved from \$400 to \$271.

Gold Sales

Gold sales data is as follows:

	Three months ended March 31	
	2007	2006
Gold ounces sold		
- at spot price	4,566	300
- under forward contracts	2,900	3,180
- total	<u>7,466</u>	<u>3,480</u>
Average realized gold price per ounce		
- at spot price	\$655.57	\$548.50
- under forward contracts	\$438.67	\$416.50
- total	\$571.32	\$427.88
Metal revenue - \$000		
Gold sales if all sales were at spot prices	\$4,904	\$1,974
Net effect of forward sales	(638)	(485)
Total gold sales	<u>4,266</u>	<u>1,489</u>
Silver sales	12	7
Metal revenue	<u>\$4,278</u>	<u>\$1,496</u>

Gold prices remained at a high level compared to recent years. Gold spot prices commenced 2007 at \$640 per ounce and increased to \$662 per ounce on March 30, 2007, with the London PM Fix averaging \$650 per ounce during the quarter.

Exploration

Avnel continued work on the Fougadian Exploration permit. The company is conducting a geochemical soil sampling program over the 150 square kilometre permit which is located directly south of the Kalana permit. During the first quarter, 2,425 soil samples were collected and 2,300 samples prepared for assay at the ALS laboratory in Bamako and South Africa. Assay results from the program are expected in the second quarter 2007. A consultant conducted a regolith study on the Permit in March and started a review of the geophysical data available on the Permit. Expenses in the quarter amounted to \$47,000 on the Fougadian Permit and \$21,000 on the Kalana Permit.

Other Expenses

General and administrative costs amounted to \$556,000 for the three months ended March 31, 2007. This was virtually unchanged from the \$552,000 recorded in the corresponding period of 2006.

Depreciation, depletion and reclamation expenses amounted to \$424,000 in the first quarter of 2007 compared to \$290,000 in 2006. Avnel uses the units of production method of calculate depletion expenses. This has led to greater expenses in the first quarter of 2007 compared to the same period in 2006 as the number of ounces produced was greater.

Interest expense was \$209,000 for the quarter ended March 31, 2007 compared to \$167,000 in 2006. The increase is largely due to the increase in the LIBOR U.S. dollar 6 month rate that is used to calculate interest on the convertible loan note.

Summary of Quarterly Results

Quarter ended	Mar 31 <u>2007</u>	Dec 31 <u>2006</u>	Sep 30 <u>2006</u>	Jun 30 <u>2006</u>	Mar 31 <u>2006</u>	Dec 31 <u>2005</u>	Sep 30 <u>2005</u>	Jun 30 <u>2005</u>
Revenue	\$4,278	\$2,957	\$3,600	\$ 3,819	\$ 1,496	\$ 1,615	\$ 1,440	\$ 1,295
Net income (loss)	\$ 769	\$(1,443)	\$ 78	\$ (16)	\$(1,294)	\$(1,705)	\$(1,500)	\$(2,324)
Income (loss) per share	\$ 0.01	\$(0.03)	\$0.001	\$(0.0003)	\$(0.02)	\$ (0.03)	\$ (0.03)	\$(11.62)

In general, the Company's revenue is showing an upward trend since commencement of operations in 2004 as production is developed towards full capacity. This is most notable for the last three quarters of 2006 and the first quarter of 2007 and is a result of increased production and average sales price. There was a decrease in revenue in the fourth quarter of 2006 compared to the second and third quarters of 2006 as a result of lower gold sales and production. The Company retained 3,164 ounces at the mine site as at March 31, 2007.

Net loss decreased significantly in 2006 compared to 2005. The main differences were seen in the second and third quarters where results of net income of \$78,000 and net loss of \$16,000 respectively in 2006 compared with net losses of \$1,500,000 and \$2,324,000 for the same periods in 2005. Whilst costs have increased by 18% in 2006, revenue has increased by 108%. There was a high net loss in the fourth quarter of 2006 compared to other recent quarters. This was as a result of a number of factors. There was a decrease in revenue without any corresponding decrease in the operating costs when compared to the second and third quarters of 2006. An additional provision was made in the fourth quarter for taxes payable. The first quarter of 2007 has shown a marked improvement in terms of net income (loss). This is mainly as a result of the increased production and sales in the quarter leading to higher revenue than previous quarters.

The high loss per share for the quarter 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.

Liquidity and Capital Resources

As of March 31, 2007, Avnel had cash of \$4,142,000 and working capital of \$4,335,000 compared with \$1,220,000 and \$623,000 respectively at December 31, 2006. The increase for both cash and working capital can be largely attributed to the \$2,927,000 raised net of costs from the rights issue. In the three months ended March 31, 2007, operating activities provided cash of \$917,000. Avnel expended \$922,000 on mine development and capital additions, most of which was spent on completing No 2 Shaft and the related infrastructure as well as some expenditure on mine equipment such as winches and pumps. Metal inventory at March 31, 2007 consisted of 3,164 ounces of gold with a carrying cost of \$954,000 and a market value of \$2,095,000.

Long term debt of the Company consists mainly of convertible loans provided by Elliott International L.P. and Elliott Associates L.P. (collectively "Elliott") and the Fern Trust, the two major shareholders of Avnel. At March 31, 2007, the aggregate principal of the loans amount to \$10,941,000. Each convertible loan note is convertible by the holder into common shares of the Company at Cdn\$0.898 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 or greater than \$1.20. The convertible loan notes mature on June 30, 2010.

During the period, the Company issued 542,659 common shares in settlement of the \$429,016 interest accrued to January 2, 2007 on its convertible loan notes.

Avnel has term loans provided by Elliott and Fern Trust with an aggregate principal of \$880,000 repayable on December 31, 2008. Interest on the loans of 8% per annum is payable bi-annually.

Contractual Obligations

The Company has the following contractual obligations at March 31, 2007:

Contractual Obligations - \$000	Total	Less than			After 5 years
		1 year	1-3 years	4-5 years	
Long Term Debt (1)	11,821	-	11,821	-	-
Operating Leases (2)	333	166	167	-	-
Total Contractual Obligations	\$12,154	\$166	\$11,988	\$ -	\$ -

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, 2007 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, 2007, \$111,000 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 \$92,000 in the quarter ended March 31, 2007.

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, a major shareholder. The facility is margin-free up to \$2.5 million. During 2005, a number of the forward sales were rolled forward with the result that

the contract has been extended to July 2007. As at March 31, 2007 the Company had sold forward 3,960 ounces of gold at an average price of \$444 per ounce. Based on the spot price of \$662 per ounce, the mark-to-market value of the Company's gold forward sales agreements was negative \$890,000.

The Company has entered into operating leases for office space and equipment with a company associated with the Fern Trust, a significant shareholder. The Company incurred \$38,000 in rental costs during the period ended March 31, 2007.

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 March 30, 2007.

The Company faces risks associated with underground mining such as rock conditions, water, geological faults, variable vein widths, dilution and power supply. The international mining industry is facing a shortage of skilled personnel and the Company faces risks in attracting and retaining skilled employees. The Company operates in a remote location in Mali and is reliant on the transport systems to deliver equipment and materials which are purchased in South Africa or Europe. There is a risk that such equipment and materials may not always be available on site when required

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 \$444 per ounce. All other sales are exposed to changes in the gold spot price.

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, 2006 dated March 30, 2007 which is available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Financial Instruments

As at March 31, 2007, the Company had sold forward 3,960 ounces of gold at an average price of \$444 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, 2007. The Company has no other financial instruments or long-term commitments outstanding.

Disclosure of Outstanding Share Data

As at March 31, 2007, the Company had issued 63,749,457 common shares.

The following table shows the number of options or rights to purchase common shares of the Company as at March 31, 2007 and prior to the rights issue which was completed during March 2007.

Type of warrant/option	Maturity Date	Common Shares Issuable	
		Pre-rights issue	As at March 31, 2007
Warrants issued through the IPO on June 30, 2005	June 30, 2010	6,196,801	6,518,713
Warrants issued through the Private Placement on November 29, 2005	November 29, 2007	7,936,000	8,392,748
Agents' warrants related to the IPO	June 30, 2007	419,499	441,291
Broker's warrants related to the private placement	May 29, 2007	1,117,200	1,175,236
Convertible Loan Notes	June 30, 2010	13,433,235	13,433,235
Minority shareholder warrants	December 31, 2009	1,485,400	1,545,832
CEO Compensation Options	February 22, 2015	2,500,000	2,500,000
Long Term Incentive Plan	August – December 2015	1,599,000	1,599,000
Total		34,687,135	35,606,055

The following table shows the exercise price of warrants and the convertible loan notes as at March 31, 2007 and prior to the rights issue which was completed during March 2007.

Type of warrant	Maturity Date	Exercise Price	
		Pre-rights issue	As at March 31, 2007
Warrants issued through the IPO on June 30, 2005	June 30, 2010	1.06	1.008
Warrants issued through the Private Placement on November 29, 2005	November 29, 2007	1.30	1.229
Agents' warrants related to the IPO	June 30, 2007	0.76	0.722
Broker's warrants related to the private placement	May 29, 2007	1.00	0.951
Convertible Loan Notes	June 30, 2010	0.95	0.898
Minority shareholder warrants	December 31, 2009	0.275 (US\$)	0.260 (US\$)

Outlook

For the period from April to December 2007, Avnel is planning gold production of approximately 17,000 ounces at an average grade of 24 g/t. The grade is planned to reduce as mining moves into lower grade ore reserve blocks in the second half of the year. The mine operation is planned to produce a positive cash margin of \$3,500,000 prior to capital expenditure and depreciation. Using an average gold price of \$650 per ounce for spot sales, management believes that approximately \$4,800,000 of the cash resources of the Company will be utilised to fund capital expenditures of \$3,300,000, mainly required to expand production to the planned 54,000 tonnes in 2008 and 60,000 tonnes in 2009, \$300,000 for exploration, working capital of \$200,000 and corporate expenses of \$1,000,000. The Company is forecast to have \$2,800,000 cash at year end and it will require additional financing to meet its development and exploration strategy going forward in 2008.

Additional Information and Continuous Disclosure

This MD&A has been prepared as of May 9, 2007. 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 30, 2007, 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.