

**AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED MARCH 31, 2008**

The following management's 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, 2008 to March 31, 2008. 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.

This MD&A should be read in conjunction with the unaudited consolidated financial statements for the quarter ended March 31, 2008 and related notes thereto. The selected financial information and the discussion of results of operations were prepared in accordance with United States generally accepted accounting principles ("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.

Forward-Looking Statements

This MD&A contains forward-looking statements 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. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections, and other forward-looking statements will not occur. These assumptions may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. 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. The Company disclaims any intention or obligation to update or revise any forward-looking statements, where as a result of new information, future events or otherwise, unless required by applicable law.

Cautionary Note Regarding Technical Information

Technical information in this publication regarding the Kalana Gold Mine and the Kalana Permit (as such terms are defined below) is summarized or extracted from technical reports prepared by Snowden Mining Industry Consultants (Pty) Ltd ("Snowden") entitled "Kalana Gold Mine Technical Report" dated February 20, 2005 and "Kalana Phase I Exploration, Mali, West Africa" dated November 4, 2004 (the "Technical Reports"). The Technical Reports were prepared by G.M. Greenway, Principal Resource Geologist, and D.H. Kullmann, Principal Consultant Mining Engineer, of Snowden, each of whom is a "Qualified Person" as such term is defined in National Instrument 43-101 — *Standards of Disclosure for Mineral Projects* ("National Instrument 43-101").

Technical information in this publication arising subsequent to the date of the Technical Reports, if any, regarding the Kalana Gold Mine and the Kalana Permit is provided by Avnel management under the supervision of Roy Meade and Michel Mercier, each of whom is a "Qualified Person" as such term is defined in National Instrument 43-101.

Overview of the Company

Avnel's principal asset is an 80% indirect interest in Societe des Mines d'Or De Kalana ("SOMIKA"). Avnel has a 90% indirect interest in the Fougadian Exploration Permit, through its subsidiary, Avnel Mali SARL. The State of Mali holds the remaining 20% interest in SOMIKA and 10% interest in the Fougadian Exploration Permit. SOMIKA is the owner of a gold mine located in the southwest of Mali (the "Kalana Gold Mine") and is the holder of an exploration permit in respect of 387.4 kilometers squared in south western Mali (the "Kalana Permit"). 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 Kalana Gold Mine was acquired by Avnel in late 2002 following which the existing plant and infrastructure were upgraded. Mining operations were resumed by SOMIKA in January 2004 with commercial production commencing in March 2004. From 2004 to 2007, Avnel increased gold production at the Kalana Gold Mine from 7,396 ounces in 2004 to 25,359 ounces in 2007. At the same time, Avnel has invested significantly in the capital expenditures and underground development required to expand production to a planned annual rate of 60,000 tonnes. The Kalana Gold Mine development was behind schedule in 2005 and 2006 and it is now anticipated that underground production will increase from 35,000 tonnes in 2007 to 52,000 tonnes in 2008 with the objective of developing the mine to attain its design throughput rate of 60,000 tonnes per annum on a sustainable basis.

On April 14, 2008, the Company completed a Financing to cover a working capital shortfall expected in the second and third quarters of 2008. This is described more fully in the Liquidity section.

Selected Interim Information

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

	Three months ended March 31	
	2008	2007
Total Revenue.....	5,496	4,278
Total Expenses.....	5,089	3,350
Net Income (Loss)	201	769
Income (Loss) per share	\$0.003	\$0.01
Weighted average shares outstanding	65,409,927	61,606,387
Balance Sheet	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Working Capital	169	(261)
Total Assets	30,959	30,102
Long Term Debt	10,941	10,941
Shareholders' Equity	13,605	12,982

Revenue has increased to \$5,496,000 in the first quarter of 2008 from \$4,278,000 in the same quarter of 2007. Gold sales of 5,959 ounces decreased in the first quarter of 2008 compared to 7,466 ounces sold in the first quarter of 2007. Average sales price increased from \$571 per ounce in the first quarter of 2007 to \$920 per ounce in the first quarter of 2008. Spot price has increased significantly from last year. Sales in the first quarter of 2007 included 2,900 ounces sold forward at a significantly lower price than the spot price.

Avnel recorded net income of \$201,000 (\$0.003 per share) for the three months ended March 31, 2008 compared to net income of \$769,000 (\$0.01 per share) in the first quarter of 2007. Whilst revenue has increased by 29% from 2007, costs have increased by 52%.

As compared to the balance sheet as at December 31, 2007, Avnel's cash and cash equivalents as at March 31, 2008 increased by \$297,000. The increase comprised of the net of cash generated by operating activities of \$1,108,000 and cash utilised on capital equipment of \$811,000.

Working capital has increased from a deficit of 261,000 at December 31, 2007 to \$169,000 at March 31, 2008. This was largely as the result of an increase in current assets of \$646,000. Prepayments have increased by \$240,000 largely as a result of prepayment of insurance fees whilst cash and cash equivalents have increased by \$297,000 as described in the paragraph above.

Total assets increased from \$30,102,000 as at December 31, 2007 to \$30,959,000 at the end of the quarter. The largest contributing factor is the increase in current assets described above.

Long term debt of \$10,941,000 at December 31, 2007 remained the same at March 31, 2008. Shareholders' equity increased to \$13,605,000 at March 31, 2008 from \$12,982,000 at the end of 2007. This increase was a combination of an increase in common stock of \$410,000 as a result of the issue of common shares in lieu of the payment of interest on the convertible loan notes and a decrease in the retained deficit of \$201,000 due to the net income generated in the first quarter.

Results of Operations

Mining Operations

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

	Three months ended March 31	
	2008	2007
Tonnes milled	10,290	7,254
Gold grade - grams per tonne (g/t).....	17.06	39.21
Recovery rate - %.....	89.5	94.3
Gold production - ounces.....	5,050	8,620
Cost per tonne milled.....	\$301	\$322
Operating cost per ounce of gold sold.....	\$552	\$325
Operating cost per ounce of gold produced.....	\$614	\$271

Gold production of 5,050 ounces in the first three months of 2008 was 9% above plan and 41% lower than the production in the first quarter of 2007. The higher gold production than plan was due to lower mill throughput (0.4%), higher grade (8%) and higher gold recovery (1.4%).

Tonnes milled in the first quarter of 2008 were 42% above the production achieved in the corresponding period of 2007 and in line with the planned production for the first quarter. 60% of ore was mined from vein 1 with ore being gravitated to the 180m level. Production from vein 18 above 150m level was below plan as the vein split into two parallel veins. The top vein is at a higher grade and the mining teams have focused on opening up this vein for stoping. The vein 18 geometry is not fully understood and diamond drilling will assist to provide stoping layouts. On 180m level, development advancing north has opened up an unplanned mining block and this provided approximately 20% of the ore to the mill.

The gold grade of ore milled in the first quarter of 2008 was 56% lower than that obtained in the first quarter of 2007, which was an exceptional high grade. The grade was 17.3g/t in the fourth quarter of 2007. The grade was 8% higher than the planned grade (15.85g/t) which is forecast to increase in the second half of the year. Gold recovery of 89.5% in the first quarter of 2008 exceeded the planned rate (88.2%).

Development advanced 617 metres in the first quarter of 2008 compared to the planned 558 metres and 534 metres in the first quarter of 2007. The 180m level haulage north advanced 80m and is anticipated it will intersect vein 18 North reserve block in April. In February, the 180m level haulage north intersected a steep dipping vein that is being developed by raising between 180m level and 150m level. The position and geometry of this vein was not anticipated by the current geological model that is based on historic drill holes spaced 50m apart.

Development of diamond drill sites on 150m level have proceeded ahead of plan and will be completed in the second quarter. Using the existing compressed air diamond drill, 1,218m were drilled during the quarter. The holes were targeting vein 18 north and vein 17 north between 100m level and 180m level to assist with mine production planning for 2008 and 2009. A new hydraulic drill was not delivered in the quarter as planned but will be in operation in the second quarter. The drill holes will be drilled from 150m and 180m levels down to the 300m level. These holes will provide additional information on the existing mineral resources and reserves between 180m and 300m levels. This information will be used to update the mineral resource and reserve estimates in early 2009.

Mine operating costs for the three months ended March 31, 2008 amounted to \$3,456,000 compared with \$2,302,000 in the first quarter of 2007, an increase of 50%. One of the key factors driving the increase in costs is that the number of tonnes milled in the first quarter of 2008 was 42% greater than in the same quarter of 2007. A greater amount of ore development tonnes were mined in the first quarter of 2008 compared to the first quarter of 2007. Ore development tonnes are mined at a higher unit cost than ore mined from stopes. Other reasons for the increase in costs is an approximately 6% increase of employee wages and salaries and the weakening of the US dollar against the CFA Franc. The average exchange rate of the US dollar to the CFA Franc has changed from 521 in the first quarter of 2007 to 447 in the first quarter of 2008, making CFA Franc costs incurred in Mali 17% more expensive in US dollar terms.

Cash operating costs of \$301 per tonne milled in the first quarter of 2008 were 7% lower than the cost per tonne in the corresponding period of 2007. Cash operating costs per ounce sold of \$552 per ounce of gold sold in the first quarter of 2008 increased significantly from \$325 per ounce in the same period for 2007. The main factor increasing the costs per ounce of gold sold is the decrease in grade and higher operating costs.

Gold Sales

Gold sales data is as follows:

		Three months ended March 31	
		2008	2007
Gold ounces sold	- at spot price	5,959	4,566
	- under forward contracts	-	2,900
	- total	5,959	7,466
Average realized gold price per ounce	- at spot price	\$919.90	\$655.57
	- under forward contracts	\$ -	\$438.67
	- total	\$919.90	\$571.32
Metal revenue - \$000			
Gold sales if all sales were at spot prices		\$5,482	\$4,904
Net effect of forward sales		-	(638)
Total gold sales		5,482	4,266
Silver sales		14	12
Metal revenue		\$5,496	\$4,278

Gold prices remained at a high level compared to recent years. Gold spot prices commenced 2008 at \$837 per ounce and increased to \$934 per ounce on March 31, 2008, with the London PM Fix averaging \$925 per ounce during the quarter.

Exploration

Avnel advanced its exploration of the Fougadian Exploration Permit by commencing an exploration drill program in March. The Fougadian Permit is located directly south of its Permit on which the Kalana Mine is operating.

The drill program is focused on the Avnel-1 anomaly that is the largest and the most important in terms of gold and arsenic values on the Fougadian Permit. It extends for almost 4 kilometres in a N-S direction and for 1.5 kilometres in an E-W direction.

Two diamond drill holes were completed to a depth of 190 metres. The core will be examined to provide information on the geology underlying this gold anomaly. 5,000m of RC drill holes will be completed during the second quarter covering a portion of the anomaly. Results are expected in the third quarter.

Other Expenses

General and administrative costs amounted to \$850,000 for the three months ended March 31, 2008 compared to \$556,000 for the same quarter of 2007. The increase is mostly accounted for by an increase in salary costs as a result of salary increases and a provision for termination of an employee. Corporate finance expenses also increased compared to the same quarter of 2007.

Depreciation, depletion and reclamation expenses amounted to \$600,000 in the first quarter of 2008 compared to \$424,000 in 2007. There is now a higher asset base leading to higher depreciation expenses.

Interest expense was \$195,000 for the quarter ended March 31, 2008 compared to \$209,000 in 2007. The decrease is largely due to a decrease in the LIBOR U.S. dollar 6 month rate that is used to calculate interest on the convertible loan notes.

Summary of Quarterly Results

Consolidated Statement of Operations for the Quarters Ended

Quarter ended	Mar 31 <u>2008</u>	Dec 31 <u>2007</u>	Sep 30 <u>2007</u>	June 30 <u>2007</u>	Mar 31 <u>2007</u>	Dec 31 <u>2006</u>	Sep 30 <u>2006</u>	June 30 <u>2006</u>
Revenue	\$5,496	\$3,516	\$ 3,487	\$ 4,657	\$ 4,278	\$ 2,957	\$ 3,600	\$ 3,819
Net income (loss)	\$201	\$(633)	\$(1,320)	\$ 280	\$ 769	\$(1,443)	\$ 78	\$ (16)
Income (loss) per share	\$0.003	\$(0.01)	\$(0.02)	\$ 0.004	\$ 0.01	\$ (0.03)	\$ 0.001	\$(0.0003)

In general, the Company's revenue is showing an upward trend since the start of 2006 as production is developed towards full capacity and the spot gold price has increased. There was a dip in revenue in the last two quarters of 2007 as a result of lower production. Production in the second half of the year was 10,595 ounces compared to 14,764 ounces in the first half of the year mainly as a result of lower head grade in the second half of the year. Revenue in the first quarter of 2008 was the highest the Company has achieved and was largely the result of the high gold price.

Liquidity

As of March 31, 2008, Avnel had cash of \$1,304,000 (2007 - \$1,007,000) and working capital of \$169,000 (2006 – a working capital deficiency of \$261,000). In the quarter ended March 31, 2008, operating activities generated cash funds of \$1,108,000, whereas in the same quarter of 2007, operating activities generated cash funds of \$917,000. Avnel expended \$811,000 on mine development and capital additions in the first quarter of 2008 compared to \$922,000 in the first quarter of 2007.

As a result of the Company having incurred recurring operating losses, additional funding has been put in place to cover an expected working capital shortfall during the second and third quarters of 2008 (the "Financing"). The Financing, which was completed on April 14, 2008, involved three transactions with the Company's principal shareholder and two other shareholders of the Company. Elliott, the majority shareholder, and two other shareholders of the Company have purchased 6,542,857 common shares of the Company at a subscription price of Cdn\$0.35 per common share in the form of a private placement (the "Private Placement"). This raised gross proceeds of Cdn\$2,290,000. Elliott has also provided the Company with \$3,000,000 in the form of a term loan, secured on the Company's assets, with an interest rate of 10%, for the purpose of providing additional working capital to bridge the projected cash shortfall in the second and third quarters of 2008 (the "Bridge Loan"). The Company projects that the Bridge Loan could be repaid out of operating cash flow in 2009. In addition the Company's existing term loans with Elliott and Fern have been extended by one year from their current maturity of December 31, 2008 to December 31, 2009.

On current projections, the Company is expected to utilise all of the proceeds raised from the Private Placement and the entirety of the Bridge Loan by the middle of the third quarter of 2008. At this point, the Company is expected to have cash and cash equivalents of approximately \$1,700,000. From the middle of the third quarter, it is planned that higher gold sales will generate a positive cash flow for the remainder of the year.

Contractual Obligations

The Company has the following contractual obligations at March 31, 2008:

Contractual Obligations - \$000	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Current portion of long-term debt (1)	880	880	-	-	-
Long-term Debt (1)	10,941	-	10,941	-	-
Operating Leases (2)	52	49	3	-	-
Total Contractual Obligations	\$ 11,873	\$ 929	\$ 10,944	\$ -	\$ -

Notes:

(1) The long term debt of Avnel consists entirely of shareholder loans provided by Elliott (as defined below) and the Fern Trust, the two major shareholders of Avnel. At December 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.

Capital Resources

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 (the "Shareholder Loans") with an aggregate principle amount outstanding of \$10,941,000. Each convertible loan note is convertible by the holder into Common Shares at Cdn\$0.898299 per Common Share and bears interest at the six month U.S. LIBOR rate 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\$0.898299 per Common 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.

The Company also has term loans provided by Elliott and the Fern Trust with an aggregate principle amount outstanding of \$880,000, bearing interest at a rate of 8% payable bi-annually. The term loans were due for repayment on December 31, 2008. The repayments of the loans have been extended to December 31, 2009 as described in the Liquidity section of this MD&A.

The Company expended \$4,402,000 on capital in 2006 and \$4,803,000 on capital in 2007. The Company forecasts that capital expenditure in 2008 will be \$5,000,000.

Related Party Transactions

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 \$163,000 in the quarter ended March 31, 2008. The Company has an ongoing supply agreement with AEL Mali SARL.

On March 28, 2008, the Company entered in to a forward sales contract of 10,000 ounces of gold at an average price of \$956 per ounce to be delivered between June 2008 and April 2009. 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 March 31, 2008, based on the spot price of \$934 per ounce, the mark-to-market value of the Company's gold forward sales agreements was \$96,000. These forward sales agreements were entered into with Elliott, one of the shareholders of the Company.

The premises occupied by Avnel and Kalana Mine Services in London are leased from a company associated with the Fern Trust, a significant shareholder. The Company incurred \$69,000 in rental costs during the quarter ended March 31, 2008. The Company's lease expires in June 2008.

Subsequent to the end of the period, the Company entered into a term loan for \$3,000,000 with Elliott, the majority shareholder of the Company, which loan is secured on the Company's interests in SOMIKA SA (see Liquidity section above).

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 section entitled "Risk Factors" in the Company's annual information form dated March 30, 2008 ("the AIF"), which section is incorporated by reference into and forms an integral part of this MD&A. A copy of the AIF can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Exploration, Development and Operating Risk

The Company faces risks associated with underground mining such as rock conditions, water, geological faults, variable vein widths, dilution, power supply and equipment failures. 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.

Gold Prices

The Company also faces risk in respect of its exposure to gold prices. The Company has entered in to a forward sales contract for 10,000 ounces of gold at an average price of \$956 per ounce as described in the Related Party Transactions section of this MD&A. All other sales are exposed to changes in the gold spot price.

Hedging Activities

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.

Capital Requirements

The Company will also 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.

Insurance and Uninsured Risks

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 and Avnel does not maintain political risk insurance.

Environmental Risks and Hazards

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.

Governmental Regulation

All phases of Avnel's operations are subject to environmental regulation in the jurisdiction in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Avnel's operations. Environmental hazards may exist on the property which are unknown to Avnel at present and which have been caused by previous or existing owners or operators of the properties.

Certain hazardous materials are presently stored on the Kalana Gold Mine site, including diesel fuel, arsenic trioxide and sulfide concentrates tailings that remain from the SOGEMORK operations in the 1980s. SOMIKA is currently conducting test programs to assess the optimum process to ameliorate the risks associated with production, storage and disposal of arsenic trioxide.

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. Management considers the following critical accounting policies reflect its more significant estimates and judgements used in the preparation of the consolidated financial statements.

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.

All costs, other than acquisition costs, are expensed prior to the establishment of proven and probable reserves. Gains or losses resulting from the sale or abandonment of properties are included in operations. Acquisition and development costs associated with properties brought into production are charged to operations using the units of production method based on estimated proven and probable reserves which can be recovered. Costs of start-up activities and on-going costs to maintain production are expensed as incurred. Production facilities and equipment are stated at cost and are amortized over the estimated proven and probable reserves which can be recovered from the related property.

The Company evaluates the carrying value of its properties and equipment when events or changes in circumstances warrant. With respect to properties with proven and probable reserves, an impairment loss is recognized when the estimated future cash flows expected to result from the use of the asset are less than the carrying amount of the asset.

The fair value of a retirement or rehabilitation obligation is recognised as an asset and a liability in the period when it is incurred. The liability is discounted and an accretion expense is recognised using the credit-adjusted risk free rate in effect when the liability is incurred. The retirement asset is included in mining properties and charged to operations using the units of production method based upon estimated proven and probable reserves which can be recovered.

During 2006, the Company commissioned an environmental report by an independent party. This estimated an increase in estimated cash flow for the retirement and rehabilitation of the Kalana Gold Mine from \$1,000,000 to \$2,236,000. The increase in fair value of this liability was calculated at \$325,000. The environmental liability is based on the work required to be carried out on the tailings facilities to ensure stabilisation of the facility and re-vegetation of the tailings surface area, the capping of the underground shafts and the reclamation of plant, workshops and buildings where appropriate. The area disturbed by mining operations will then be re-vegetated. There will then be an ongoing monitoring of the water quality and re-vegetation programmes.

The Company has used a credit-adjusted risk-free rate of 8.5% to discount future cash flows in arriving at the fair value of its asset retirement and rehabilitation obligations.

Transactions expressed in foreign currencies are translated into U.S. dollars at the rate of exchange prevailing on the date of transaction. Monetary assets and liabilities expressed in foreign currencies are re-converted into U.S. dollars at the rates of exchange prevailing on the balance sheet date.

The financial statements of overseas subsidiaries are remeasured into their functional currency. Mining properties and other non-current assets are remeasured at historical rates. Monetary assets and liabilities are remeasured at current rates. Revenue and expense transactions are remeasured at the average rate for the period. Remeasurement gains and losses are included in income.

Financial Instruments

On March 28, 2008, the Company entered in to a forward sales contract of 10,000 ounces of gold at an average price of \$956 per ounce to be delivered between June 2008 and April 2009. 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.

The estimated fair values of the Company's other financial instruments approximate carrying values at March 31, 2008. The Company has no other financial instruments or long-term commitments outstanding.

Disclosure of Outstanding Share Data

As at March 31, 2008, the Company had issued 65,445,497 common shares.

The following table shows the number of options or rights to purchase common shares of the Company as at March 31, 2008.

Warrants issued through the IPO on June 30, 2005	6,518,713
Convertible Loan Notes	12,462,246
Minority shareholder warrants	1,423,867
CEO Compensation Options	2,500,000
Long Term Incentive Plan	1,724,000
Total as at March 31, 2008	24,628,826

Outlook

For the remainder of 2008, Avnel is planning gold production of approximately 19,700 ounces at an average operating cost of approximately \$500 per ounce of gold produced, net of royalties. Tonnes milled is planned to be approximately 41,000 tonnes at an average head grade of 17.0 g/t. The average grade in the first half of 2008 is forecast to be approximately 14g/t with the grade increasing to 19g/t in the second half of the year. The increase in grade in the second half of the year is due to mining of vein 18 on 180m level which has a reserve grade of 30g/t. This vein has not yet been exposed by development and the achievement of the gold production forecast is dependant on the actual mining meeting these expectations.

It is planned to advance development 1,459 metres during 2008. Development will be focused on accessing the ore reserve blocks on 150m and 180m level and providing diamond drill sites for an underground diamond drill program. The drill holes will be drilled from 150m and 180m levels down to the 300m level. These holes will provide additional information on the existing mineral resources and reserves between 180m and 300m levels. This information will be used to update the mineral resource and reserve estimates in early 2009.

The condition of the gear box for the No. 2 shaft winder has shown abnormal wear. The gear box will be temporarily repaired to allow operations to continue until a new gear box is purchased. An investigation has shown that this gear box, installed in 1985, is under designed for the winder duty. The Company has procured a suitable gear box to replace the existing gear box. Consultants have also completed an analysis of the existing winder drum and drum shaft and concluded that they are suitable for operation with the new gear box. There is some risk that the existing gear box might fail leading to a suspension of operations at No. 2 shaft. New bearings have been ordered to enable a temporary repair until the new gear box is installed during the second quarter of 2008.

For the remainder of 2008, the mine operation is planned to produce a positive cash margin of \$6,500,000 before capital expenditure. Using an average gold price of \$850 per ounce for spot sales and \$953 per ounce for forward sales, management of the Company believes that approximately \$4,200,000 of the cash resources of the Company will be utilised to fund capital expenditures, mainly required to expand production to the planned 52,000 tonnes in 2008 and 60,000 tonnes in 2009 per annum, \$500,000 for exploration expenses, working capital of \$800,000 and corporate expenses of \$2,400,000. The Company has raised funds through a shareholder loan of \$3,000,000 and an equity issue of Cdn\$2,290,000.

The Company is forecast to have approximately \$5,200,000 cash at December 31, 2008. It should be noted that although the Company is expected to have approximately \$5,200,000 at December 31, 2008, the Company is expected to utilize all of the proceeds of the Bridge Loan by the middle of the third quarter, at which point the cash available to the Company is expected to be approximately \$1,700,000. The Company is reliant on generating a

positive cash flow from higher gold sales for the remainder of the year in order to reach its projected year end cash position.

Additional Information

This MD&A has been prepared as of May 15, 2008. For further information about the Company, please visit the Company's website at www.avnelgold.com or the website of the System for Electronic Document Analysis and Retrieval at www.sedar.com.