

**AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD TO SEPTEMBER 30, 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 to September 30, 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 period ended September 30, 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 or 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") covering an area of two kilometres squared situated close to the north western boundary of SOMIKA's exploitation permit in respect of 387.4 kilometres 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 and to continue with the exploration of the under explored SOMIKA exploitation Permit and Fougadian Permit.

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 a target of 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 September 30		Nine months ended September 30	
	2008	2007	2008	2007
Total Revenue	5,592	\$ 3,487	14,418	\$ 12,422
Total Expenses	5,724	4,131	15,880	11,498
Net Income (Loss)	(455)	(1,320)	(2,356)	(271)
Income (Loss) per share	0.00	\$(0.02)	0.03	\$(0.00)
Weighted average shares outstanding	69,481,055	64,346,407	69,194,713	61,713,304

Balance Sheet

	September 30, 2008	December 31, 2007
Working Capital	2,594	(261)
Total Assets	32,031	30,102
Long Term Debt	13,821	10,941
Shareholders' Equity	13,415	12,982

Revenue has increased to \$5,592,000 in the third quarter of 2008 from \$3,487,000 in the same quarter of 2007. Gold sales of 6,108 ounces increased in the third quarter of 2008 compared to 5,334 ounces sold in the third quarter of 2007. Average sales price increased from \$651 per ounce in the third quarter of 2007 to \$915 per ounce in the third quarter of 2008. Spot price has increased significantly from last year. Sales in the third quarter of 2007 included 900 ounces sold forward at a significantly lower price than the spot price. Sales in the third quarter of 2008 included 2,500 ounces sold forward at a price of \$951 per ounce.

In the year to date, revenue has increased to \$14,418,000 from \$12,422,000 in the corresponding period last year. Gold ounces sold decreased from 20,804 ounces in the first nine months of 2007 to 15,746 ounces in the nine months of 2008 which was offset by an increase in average sales price from \$651 per ounce to \$913 per ounce.

Avnel recorded a net loss of \$455,000 (\$0.0 per share) for the three months ended September 30, 2008 compared to net loss of \$1,320,000 (\$0.02 per share) in the third quarter of 2007. Expenses have increased 39% due to an increase of 65% in production tonnes, increases in consumable costs and the weak dollar. Avnel recorded a net loss of \$2,356,000 (\$0.03 per share) for the nine months ended September 30, 2008 compared to net loss of \$271,000 (\$0.00 per share) in the first nine months of 2007. Expenses also increased by 38% due to an increase in production tonnes of 49%, increases in consumable costs and the weak dollar.

As compared to the balance sheet as at December 31, 2007, Avnel's cash and cash equivalents as at September 30, 2008 increased by \$1,149,000. The Company received funds of \$4,182,000 from the proceeds of a share issue and a loan. The Company utilised cash of \$1,949,000 on capital expenditure and \$1,084,000 on operating activities.

Working capital has increased from a deficit of \$261,000 at December 31, 2007 to \$2,594,000 at September 30, 2008. This was largely as the result of the term loan of \$880,000 having its maturity extended and so being

reclassified out of current liabilities in to notes payable - long term, an increase in Cash and Cash equivalents by \$1,149,000, a reduction in Accounts Payable by \$394,000 and Accrued Liabilities by \$316,000. Inventory increased by \$636,000, to meet production requirements.

Total assets increased from \$30,102,000 as at December 31, 2007 to \$32,031,000 at the end of the third quarter 2008. The largest contributing factors are the changes described above.

Long term debt of \$10,941,000 at December 31, 2007 increased to \$13,821,000 at September 30, 2008. This was a result of the reclassification of the term loan of \$880,000 from current liabilities and a draw down on the Bridge Loan of \$2,000,000. Shareholders' equity increased to \$13,415,000 at September 30, 2008 from \$12,982,000 at the end of 2007. Although the retained deficit increased by \$2,536,000, this was more than offset by the net proceeds of shares issued of \$2,182,000 combined with the issue of shares in lieu of interest on the convertible loan notes.

Results of Operations

Mining Operations

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

	Three months ended Sept 30		Nine months ended Sept 30	
	2008	2007	2008	2007
Tonnes milled	13,993	8,458	36,391	24,405
Gold grade - grams per tonne (g/t).....	16.21	20.9	15.17	27.6
Recovery rate - %.....	86.7	92.2	87.2	92.4
Gold production - ounces	6,328	5,242	15,526	20,006
Cost per tonne milled	\$228	\$295	\$252	\$291
Operating cost per ounce of gold sold.....	\$700	\$480	\$678	\$359
Operating cost per ounce of gold produced.....	\$ 504	\$476	\$592	\$355

Gold production of 6,328 ounces in the third quarter of 2008 was 21% higher than the production in the third quarter of 2007. The higher gold production plan was due to lower head grade (23%), lower gold recovery (5.5%) but offset by a 65% higher mill throughput.

Tonnes milled in the third quarter of 2008 were 65% above the production achieved in the corresponding period of 2007 but 10% lower than the planned production for the third quarter. Mining is mainly focused on vein 17 above 150m level and vein 18C above 180m level.

The gold grade of ore milled in the third quarter of 2008 was 23% lower than that obtained in the third quarter of 2007. The grade was 17% lower than the planned grade (19.5g/t) as mining of the forecast high grade reserve block, Vein 18, was not possible (see discussion below). Gold recovery was 86.7% in the third quarter of 2008 compared to the planned rate (89%). Recovery was lower than plan due to the lower head grade and increasing mill throughput.

Development advanced 354 metres in the third quarter of 2008 compared to the planned 215 metres and 485 metres in the third quarter of 2007. The 180m level haulage north intersected vein 18 North reserve block in May. An ore raise has been developed on this vein from 180m level to 150m level. The vein dip is over 50 degrees and the vein appears to have been faulted between 130m level and 180m level, resulting in a change of dip and location. The complexity of the mineral vein was not possible to forecast prior to the underground development in 2008. Limited ore development was carried out on this vein and the grade of approximately 10g/t is less than the 30g/t reserve grade. This reserve block needs to be exposed by more development and diamond drilling to evaluate the block but it appears that the mean grade may be lower than forecast.

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. This vein has been designated vein 18C and

has been developed from 180m level to 150m level. During the third quarter stoping of Vein 18C continued The gold grade of this ore block is approximately 15g/t .

During the quarter development has focused on the Vein 17 ore reserve block between 150m level and 100m level. The reserve grade is 8.5g/t but diamond drilling and ore development indicates the mining grade will be approximately 20g/t. The in stope development and stoping during the third quarter have confirmed this reserve block can be mined at 20g/t

Using the existing compressed air diamond drill, 975m 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 delivered in the second quarter and the first drill hole started in June. During the third quarter 879 metres were drilled. The drill holes will be drilled from 100m level 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 2009.

Gold production of 15,526 ounces in the first nine months of 2008 was 14% below plan and 22% lower than the production in the first nine months of 2007. The lower gold production in the first nine months of 2008 was due to significantly lower grade (45%) and gold recovery (5%) despite a 49% increase in mill throughput.

Tonnes milled in the first nine months of 2008 were 49% above the production achieved in the corresponding period of 2007 and 2% lower than the planned production for the first nine months of 2008. The increase in production has resulted from increased ore development and the opening up of additional stopes in 2008, following the commissioning of No 2 Shaft in 2007.

The gold grade of ore milled in the first nine months of 2008 was 45% lower than the corresponding period of 2007. The gold grade was 10% lower than the plan due to the forecast higher grade vein 18 (30g/t) not being exposed by underground development and diamond drilling. .

Gold recovery 87.2% in the plant was lower than 92.4% in the corresponding period in 2007 and lower than the plan 88.5%. Gold recovery decreased from the first half of 2008 due to a lower head grade.

Development for the first nine months of 2008 advanced 1,507 metres compared to 1,439 metres in the corresponding period in 2007.

Mine operating costs for the three months ended September 30, 2008 amounted to \$4,392,000 compared with \$2,669,000 in the third quarter of 2007, an increase of 64.6%. One of the key factors driving the increase in costs is that the number of tonnes milled in the third quarter of 2008 was 49% greater than in the same quarter of 2007. Another reason for the increase in costs is the weakening of the US dollar against the CFA Franc and internationally traded currencies. The average exchange rate of the US dollar to the CFA Franc has changed from 474 in the third quarter of 2007 to 466 in the third quarter of 2008, making CFA Franc costs incurred in Mali 2% more expensive in US dollar terms.

Cash operating costs of \$228 per tonne milled in the third quarter of 2008 were 23% lower than the cost per tonne in the corresponding period of 2007. Cash operating costs per ounce sold of \$700 per ounce of gold sold in the third quarter of 2008 increased significantly from \$480 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 Sept 30		Nine months ended Sept 30	
	2008	2007	2008	2007
Gold ounces sold				
- at spot price	3,608	4,444	12,496	13,994
- under forward contracts	2,500	900	3,250	6,860
- total	6,108	5,344	15,746	20,804
Average realized gold price per ounce				
- at spot price	886.50	\$692.31	903.60	\$671.18
- under forward contracts	951.30	\$446.55	951.30	\$441.60
- total	912.98	\$650.92	913.25	\$595.48
Metal revenue - \$000				
Gold sales if all sales were at spot prices	5,415	\$3,675	14,228	\$13,895
Net effect of forward sales	165	(197)	155	(1,507)
Total gold sales	5,580	3,478	14,383	12,388
Silver sales	12	9	35	34
Metal revenue	5,592	\$3,487	14,418	\$12,422

Gold prices remained at a high level compared to recent years. Gold spot prices commenced 2008 at \$837 per ounce and increased to over \$1,000 per ounce during March. The London PM Fix averaged \$910 per ounce in the year to date.

Exploration

Avnel advanced its exploration of the Fougadian Exploration Permit by commencing an exploration drilling program in March 2008. The Fougadian Permit is located directly south of its SOMIKA Permit on which the Kalana Mine is operating.

The drill program was focused on the Avnel-1 gold-in-soil geochemical anomaly that is the largest and the most important in terms of gold and arsenic values on the Fougadian Permit. The anomaly is defined by an area where gold value in soil generally exceed 32ppb Au and attain a maximum of 1731ppb Au. 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 in order to provide information on the bedrock structure that can be used to optimise the orientation of the RC drilling programme. 48 inclined RC drill holes totalling 5422 metres were completed on a grid pattern during the second quarter, covering only a small portion of the Avnel 1 anomaly. The holes were drilled in a heel-to-toe fashion to ensure complete coverage across the width of the anomaly. As the budget was inadequate to fully test this large anomaly the holes were drilled along pairs of lines spaced 200m apart, one pair in the north and a second pair 800m further to the south. Because of encouraging geological indications an additional three holes were drilled to the south of the latter set of lines.

In summary, out of the 50 holes drilled 15 (30%) intersected values above 1g/t Au.

Other Expenses

General and administrative costs amounted to \$860,000 for the three months ended September 30, 2008 compared to \$959,000 for the same quarter of 2007. There was no one off exceptional costs in the quarter. This was the principle reason for the cost reduction.

Depreciation, depletion and reclamation expenses amounted to \$360,000 in the third quarter of 2008 compared to \$434,000 in 2007.

Interest expense was \$194,000 for the quarter ended September 30, 2008 compared to a net expense of \$202,000 in 2007.

Summary of Quarterly Results

Consolidated Statement of Operations for the Quarters Ended

Quarter ended	Sept 30	June 30	Mar 31	Dec 31	Sep 30	June 30	Mar 31	Dec 31	Sept 30
	<u>2008</u>	<u>2008</u>	<u>2008</u>	<u>2007</u>	<u>2007</u>	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
Revenue	\$5,592	\$3,330	\$5,496	\$3,516	\$ 3,487	\$ 4,657	\$ 4,278	\$ 2,957	\$ 3,600
Net income (loss)	\$(455)	\$(2,102)	\$201	\$(633)	\$(1,320)	\$ 280	\$ 769	\$(1,443)	\$ 78
Income (loss) per share	\$0.007	\$(0.03)	\$0.003	\$(0.01)	\$(0.02)	\$ 0.004	\$ 0.01	\$(0.03)	\$ 0.001

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 2007 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 3rd quarter of 2008 was the highest the Company has achieved and was largely the result of the high gold price. Revenue dipped in the second quarter due to a decrease in gold ounces sold.

Liquidity

As of September 30, 2008, Avnel had cash of \$2,156,000 (2007 Sep 30 - \$2,020,000) and working capital of \$2,594,000. In the nine months ended September 30, 2008, operating activities utilised cash funds of \$1,084,000, whereas in the same period of 2007, operating activities generated cash funds of \$1,756,000. Avnel expended \$1,949,000 on mine development and capital additions in the nine months ending September 30 2008 compared to \$3,803,000 in the same period 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 2008 (the "Financing"). The Financing, which was completed on April 14, 2008, involved three transactions with its principal shareholders and two other shareholders of the Company. Manchester Securities, an affiliate of Elliott, the majority shareholder, has 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"). In addition, Elliott 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.

On current projections, the Company is expected to utilise all of the proceeds raised from the Private Placement and \$2,000,000 of the Bridge Loan. During the fourth quarter negative cash flow is forecast.

The Company has utilised \$2,000,000 of the Bridge Loan as at September 30, 2008. The Company projects that the Bridge Loan could be repaid out of operating cash flow in 2009. The Company's existing term loans with Elliott and Fern have been extended by one year from their current maturity of December 31, 2008.

Contractual Obligations

The Company has the following contractual obligations at September 30, 2008:

Contractual Obligations - \$000	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term Debt (1)	13,821	-	13,821	-	-
Operating Leases (2)	298	85	142	71	-
Total Contractual Obligations	<u>\$ 14,119</u>	<u>\$ 85</u>	<u>\$ 13,963</u>	<u>\$ 71</u>	<u>\$ -</u>

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 September 30, 2008 long term debt comprised of convertible loan notes of \$10,940,992, a term loan of \$879,673 and a Bridge Loan of \$3,000,000 of which \$2,000,000 has been utilised.

(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 additionally has a Bridge Loan facility of \$3,000,000 of which \$2,000,000 has been drawn and is described in the Liquidity section above.

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 \$3,492,000.

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 \$355,000 in the nine months ended September 30, 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 September 30, 2008, based on the spot price of \$884.50 per ounce, the mark-to-market value of the Company's gold forward sales agreements was \$461,000. 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 \$138,000 in rental costs during the nine months ended September 30, 2008. The Company's lease expires in June 2012.

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.

The State of Mali has signed up to the Extractive Industry Transparency Initiative (EITI), sponsored by the World Bank. EITI has as its objective to improve transparency and accountability in the extractives sector and thereby to strengthen governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining. Avnel is fully supportive of this initiative and will seek to publish all payments that it makes to the Malian authorities in its financial publication.

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 September 30, 2008. The Company has no other financial instruments or long-term commitments outstanding.

Disclosure of Outstanding Share Data

As at September 30, 2008, the Company had issued 71,988,354 common shares.

The following table shows the number of options or rights to purchase common shares of the Company as at September 30, 2008.

Warrants issued through the IPO on June 30, 2005	6,518,713
Convertible Loan Notes	12,957,104
Minority shareholder warrants	1,419,446
CEO Compensation Options	2,500,000
Long Term Incentive Plan	3,449,000
Total as at September 30, 2008	26,844,263

Under the terms of the convertible loan described under Capital Resources above, the Company may elect to pay the interest in Common Shares in lieu of cash. Pursuant to this agreement, the Board of Avnel has elected and approved the issue of 1,921,018 shares in lieu of the interest on the Convertible Loan Notes for the 6 month period ended June 30, 2008. These shares are not included in the total issued capital of 71,988,354, pending issue.

Outlook

For the remainder of 2008, Avnel is planning gold production of approximately 7,600 ounces at an average mine operating cost of approximately \$455 per ounce of gold produced, net of government royalties. Tonnes milled is planned to be approximately 15,000 tonnes at an average head grade of 17.0 g/t. This grade is similar to the third quarter of the year is mainly due to mining of vein 17 on 150m level at a grade of 20g/t.

It is planned to advance development 206 metres during the fourth quarter of 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 2009.

For the remainder of 2008, the mine operation is planned to produce a positive cash margin of \$2,553,000 before capital expenditure. Using an average gold price of \$750 per ounce for spot sales and \$956 per ounce for forward sales, management of the Company believes that the positive cash margin at the mine will be utilised to fund capital expenditures of \$1,300,000, mainly required to expand production to the planned 52,000 tonnes in 2008 and 60,000 tonnes in 2009 per annum, working capital of \$326,000 and corporate expenses of \$675,000. The Company is forecast to have approximately \$2,000,000 cash at December 31, 2008., although only \$2,000,000 of the \$3,000,000 bridge loan has been drawn down.

FOR THE STUDY OF THE POTENTIAL FOR BLOCK MINING THE KALANA DEPOSIT ("The Kalana Main Project")

The focus of the Kalana Main Project is to study the potential for non-quartz vein hosted gold mineralisation and explore the potential for the mining of the Kalana Gold Mine or parts of it either as an open pit or by underground bulk mining methods.

For the period from the commencement of the fourth quarter through to the end of 2009, the Company has allocated a budget to the Kalana Main Project which will be led by the Company's VP Exploration, Dr. Andrew Killick.

The objective of the Kalana Main Project is to (i) capture the very large geological database generated in paper form by SONAREM and SOGEMORK (two Malian state companies operating with financial and technical assistance from the former Soviet Union), and (ii) re-interpret that data to assess the potential for gold mineralisation outside of the flat dipping quartz vein structures mapped and assayed by SONAREM and SOGEMORK. These quartz vein

structures host substantially all of the Kalana Gold Mine's resources, as reported in the NI 43-101 compliant "Kalana Gold Mine Technical Report 17 January, 2005" prepared by Snowden Mining Industry Consultants (the "2005 Snowden Technical Report") and filed on SEDAR. Avnel has continued underground exploration by development and diamond drilling and this data will be included in the database. Underground mining has exposed numerous quartz vein, stockworks and mineralization in the metasediments that had not been traversed by SONAREM and SOGEMORK drilling.

The SONAREM and SOGEMORK exploration in its first and most substantive phase aimed at establishing a high grade free milling gravity gold recoverable underground mine targeting a set of stacked, flatly dipping quartz veins that occur in and around a diorite plug. This has a number of implications in terms of the Russian exploration methodology being:

- As the target was perceived by SONAREM and SOGEMORK to consist of flatly dipping veins, more than 98% of their drilling was vertical or sub-vertical. The joint venture between Ashanti Gold Fields Ltd. ("Ashanti") and Johannesburg Consolidated Investments Ltd. which studied the mine in 1995/1996 and the surrounding area also drilled predominantly vertical holes.
- With SONAREM and SOGEMORK's perception that only the high grade free milling quartz veins could be profitably mined, they analysed the quartz veins and their immediate hanging and foot walls with the result that only a fraction of the core was analysed (likely being significantly less than 10%).
- All drilling by SONAREM and SOGEMORK was core drilling but the core was not kept and stored, although it was meticulously logged. Ashanti drilled two twin holes (one vertical and one inclined) which had good correlation with the SONAREM and SOGEMORK holes that they twinned.
- As SONAREM and SOGEMORK were not targeting anything other than free milling gold, they have neglected the oxide cap, the potential for mineralisation in the sulphides, stockworks and other quartz vein structures.

The first step in this project, for which a budget of \$800,000 (of which \$200,000 is expected to be spent in 2008) has been allocated, is to electronically compile the entirety of the database to enable a geological re-interpretation to be conducted using modern data management methods.

The database compiled by SONAREM and SOGEMORK in respect of the Kalana underground mine alone is extensive and consists of in excess of 815 diamond drill holes (totalling 81,524 metres) in the first phase with a further 56 holes totalling 16,000 metres in the second phase testing the deeper parts of the underground mine.

At this stage no mineral resources have been outlined (in excess of those set out in the 2005 Snowden Technical Report referred to above) that demonstrate economic quantities of mineralisation styles other than the flatly dipping quartz veins and stockworks described in the 2005 Snowden Technical Report. However, management believes there is sufficient evidence to justify embarking on the Kalana Main Project to test for their existence.

This Project will also benefit the existing recovery operations in that it will produce a digital data set that will be accessible to the current operating mine and may enable the identification of additional mineralization that is exploitable by the present underground mine.

Qualified Person

The technical information about the Company's Kalana Gold Mine contained in this MD&A has been prepared under the supervision of Roy Meade, a director of the Company, who is a "qualified person" within the meaning of National Instrument 43-101.

Additional Information

This MD&A has been prepared as of November 5, 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.