

AVNEL GOLD MINING LIMITED
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2009

The management of Avnel Gold Mining Limited is responsible for the preparation of the accompanying interim consolidated financial statements. The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and are considered by management to present fairly the financial position, operating results and cash flows of the Company. These interim financial statements have not been audited or reviewed by an auditor.

“Howard Miller”
Howard Miller
Chief Executive Officer

“Alan McFarlane”
Alan McFarlane
Vice President Finance

Avnel Gold Mining Limited
Consolidated Balance Sheets
June 30, 2009 and December 31, 2008
Expressed in thousands of US Dollars

	June 30	Dec 31
	2009	2008
ASSETS	<u>unaudited</u>	<u>audited</u>
Cash and cash equivalents	927	277
Inventories	3,495	5,499
Prepaid and other assets	747	911
	<hr/>	<hr/>
Total current assets	5,169	6,687
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Property, plant and equipment, at cost		
Mining properties and capitalised mine development costs	22,708	23,000
Other property and equipment	9,788	8,970
	<hr/>	<hr/>
	32,496	31,970
Accumulated depreciation and depletion	10,611	6,814
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Net property, plant and equipment	21,885	25,156
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Total Assets	<u>27,054</u>	<u>31,843</u>
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LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	902	954
Tax creditor	1,436	1,324
Other accrued liabilities	1,602	2,168
Short term debt	13,821	2,880
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Total current liabilities	17,761	7,326
Notes payable - long term	-	10,941
Retirement and rehabilitation obligations	966	911
	<hr/>	<hr/>
Total liabilities	<u>18,727</u>	<u>19,178</u>
	<hr/>	<hr/>
STOCKHOLDERS' EQUITY		
Share Capital	28,228	28,093
Additional paid in capital	4,898	4,898
Retained Earnings	<u>(24,775)</u>	(20,288)
Accumulated and other comprehensive income	(24)	(38)
	<hr/>	<hr/>
Total stockholders' equity	<u>8,327</u>	<u>12,665</u>
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Total Liabilities and Stockholders' Equity	<u>27,054</u>	<u>31,843</u>

Avnel Gold Mining Limited
Consolidated Statement of Operations and Comprehensive Income
For the periods ended June 30, 2009 and 2008
Expressed in thousands of US Dollars
(except share and per share information)

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
REVENUE				
Metal revenue	4,738	3,330	11,222	8,826
EXPENSES				
Operating	4,016	3,212	9,196	6,668
Depreciation	1,645	489	3,790	1,089
Exploration	199	519	348	702
Administration expense	573	847	1,191	1,697
	6,433	5,067	14,525	10,156
(Loss)/profit from operations	(1,695)	(1,737)	(3,303)	(1,330)
Other income/(expense)				
Interest expense	(172)	(198)	(342)	(393)
Exchange gain/(loss)	474	(165)	(838)	(172)
Total other income/(expense)	302	(363)	(1,180)	(565)
(Loss)/profit before tax	(1,393)	(2,100)	(4,483)	(1,895)
Income tax expense	(2)	(2)	(3)	(6)
Net (loss)/profit	(1,395)	(2,102)	(4,486)	(1,901)
(Loss)/income per share	(0.018)	(0.030)	(0.058)	(0.030)
Weighted average shares outstanding	79,187,189	70,981,761	77,525,114	68,195,844

Avnel Gold Mining Limited
Consolidated Statement of Cash Flows
For the periods ended June 30, 2009 and 2008
Expressed in thousands of US Dollars

	Three months ended June 30		Six months ended June 30	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:				
(Loss) from continuing operations	(1,395)	(2,102)	(4,486)	(1,901)
Non cash items				
Depreciation	1,645	489	3,790	1,089
Change in reclamation liability	35	18	55	36
Stock option expense	-	44	0	93
Tax creditor	56	(26)	112	97
Changes in operating assets and liabilities	-	-	-	-
Inventories	431	(544)	2,004	(653)
Prepaid and other assets	(62)	15	164	(225)
Accounts payable	(520)	(454)	(52)	(294)
Other accrued liabilities	(712)	(143)	(411)	163
Net cash provided by operating activities	<u>(522)</u>	<u>(2,703)</u>	<u>1,176</u>	<u>(1,595)</u>
Cash flows from investing activities:				
Purchases and development of				
property and equipment	(87)	(747)	(599)	(1,558)
Disposal of property and equipment	73	-	73	-
Net cash used in investing activities	<u>(14)</u>	<u>(747)</u>	<u>(526)</u>	<u>(1,558)</u>
Cash flows from financing activities:				
Proceeds of issue of share capital	-	2,182	-	2,182
Proceeds from term loans	-	1,000	-	1,000
Net cash provided by financing activities	<u>-</u>	<u>3,182</u>	<u>-</u>	<u>3,182</u>
Net increase in cash and cash equivalents	(536)	(268)	650	29
Cash and cash equivalents at beginning of period	1,463	1,304	277	1,007
Cash and cash equivalents at end of period	<u>927</u>	<u>1,036</u>	<u>927</u>	<u>1,036</u>

Avnel Gold Mining Limited

Consolidated Statement of Changes in Stockholders' Equity

	<u>Common Stock</u>		<u>Additional Paid in Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income/(loss)</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
At December 31, 2007	64,366,529	25,141	4,716	(16,832)	(43)	12,982
Issuance of common stock in payment of interest	1,078,968	410	-	-	-	410
Stock based compensation	-	-	49	-	-	49
Net income	-	-	-	201	-	201
Other comprehensive gain						
Exchange loss	-	-	-	-	(37)	(37)
Comprehensive income						164
At March 31, 2008	65,445,497	25,551	4,765	(16,631)	(80)	13,605
Issuance of common stock in payment of interest	1,921,018	360	-	-	-	360
Issuance of common stock for cash net of issue costs	6,542,857	2,182	-	-	-	2,182
Stock based compensation	-	-	133	-	-	133
Net loss	-	-	-	(3,658)	-	(3,658)
Other comprehensive loss						
Exchange profit	-	-	-	-	43	43
Comprehensive loss						(3,615)
At December 31, 2008	73,909,372	28,093	4,898	(20,289)	(37)	\$ 12,665
Issuance of common stock in payment of interest	5,277,817	135	-	-	-	135
Net loss	-	-	-	(4,486)	-	(4,486)
Exchange profit	-	-	-	-	13	13
Comprehensive loss						(4,473)
At June 30, 2009	79,187,189	28,228	4,898	(24,775)	(24)	8,327

1. Nature of Operations and Liquidity

Avnel Gold Mining Limited (the "Company") was incorporated under the laws of Guernsey on February 18, 2005. On February 22, 2005, Elliott Associates L.P., Elliott International L.P. (collectively "Elliott") and Fern Trust ("Fern") acquired 100% of the issued and outstanding common shares of the Company in exchange for 95% of the issued and outstanding shares of Avnel Gold, Limited, a company incorporated in the Cayman Islands, pursuant to a reorganization agreement. Under the reorganization agreement, obligations of Avnel Gold, Limited to Elliott and Fern in respect of existing shareholder loans of Avnel Gold, Limited were assumed by the Company. The reorganization has been accounted for as an exchange between entities under common control whereby the assets and liabilities of the Avnel Gold, Limited group are initially recognized at their carrying amounts in the accounts of the Avnel Gold Mining Limited group at the date of the transfer. The Company's principal assets are an 80% indirect interest in Societe des Mines d'Or De Kalana ("SOMIKA") and a 90% indirect interest in the Fougadian Exploration Permit.

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. The Company has total current liability debts of \$13.8 million, \$2.9 million due for repayment on 31 December 2009, and \$10.9 million due 30 June 2010. This debt repayment and continuing operations of the Company are dependent on its ability to restructure and re-negotiate the debt and/or obtain additional financing. There is a risk that additional financing will not be available on a timely basis or on acceptable terms. Management are actively looking at re-financing options to address this issue and expect that financing options will be available to enable the Company to continue to operate as a going concern. In the event that the Company is unable to repay this debt, refinance such debt, or secure additional financing and continue as a going concern, material adjustments would be required to the carrying value of the assets and liabilities and the balance sheet classifications used.

The Company's cash flow and profitability is dependent primarily on the volume of production, gold prices, operating costs, interest rates on borrowings and investments and discretionary expenditure levels including exploration, resource development and general and administrative costs. With the world economy in recession sources of finance are more difficult to obtain and more expensive. Since the Company has subsidiaries operating in UK, Mali and the Cayman Islands, exposure also arises from fluctuations in currency exchange rates, political risks and varying levels of taxation. While the Company seeks to manage these risks, many of these factors are beyond its control.

The US Dollar is the functional currency of the company's principal operations.

2. Interim Accounting Policy

The accompanying unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly in accordance with accounting principles generally accepted in the United States, the financial position of the Company and the results of its operations and cash flows for the period ended June 30, 2009. Although the Company believes that disclosure in these financial statements is adequate to make the information presented not misleading, certain information and foot note information normally included in annual financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted. These financial statements are prepared using the same accounting policies and method of application as those disclosed in Note 3 to the consolidated financial statements of the Company for the year ended December 31, 2008.

Results of operations for the period ended June 30, 2009 are not necessarily indicative of what operating results may be for the full year. In addition, these unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008.

3. Share Capital

The Company may elect to pay the interest payable on its convertible loan notes in common shares in lieu of cash. The number of shares payable in lieu of interest is calculated by dividing the cash value of the interest payable by the U.S. Dollar equivalent of the 20-day weighted average trading price of the common shares with the last day being five trading days before the interest payment date.

4. Commitments and Contingencies

On March 28, 2008, the Company entered into 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 have recorded the revenues when the gold sold forward is delivered and proceeds are received. At June 30, 2009, the Company's gold forward sales had been fully delivered. These forward sales agreements were entered into with Elliott, one of the shareholders of the Company.

Management is currently reviewing the potential care and maintenance costs of the Kalana underground mine, including potential retrenchment costs.

5. Short Term Debt

All debt of the Company is short term and is with related parties

The Company has a secured bridge loan with a related party of \$2,000,000. The loan matures on December 31, 2009 and bears interest at a rate of 10% per annum, payable bi-annually.

The Company also has unsecured term loans provided by related parties with an aggregate principle amount outstanding of \$880,000, bearing interest at a rate of 8% payable bi-annually. The term loans are due for repayment on December 31, 2009.

Other debt of the Company consists 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.

6. Related Party Transactions

The Company has entered into operating leases for office space with a company related to Fern. The Company incurred \$34,000 in rental costs during the quarter ended June 30, 2009.

SOMIKA purchased \$91,000 of explosives from African Explosives Limited ("AEL") during the three months ended June 30, 2009. Mr. Ibrahim Kantao, a director of the Company and SOMIKA, is also the Director-General of AEL Mali.

7. Canadian Generally Accepted Accounting Principles

Canadian Generally Accepted Accounting Principles ("Canadian GAAP") vary in certain respects from U.S. GAAP. The effect of the principal measurement differences on the Company's consolidated financial statements are described below.

Convertible Loan Notes

Under Canadian GAAP, the Company's convertible loan notes would be recorded in part as debt and in part as shareholders' equity, rather than entirely as debt as considered under U.S. GAAP. The amount recorded as debt represents the present value of future interest and principal amounts of the notes. The amount will be accreted to the face value of the notes over the term to maturity through periodic charges to interest expense.

Under Canadian GAAP, the convertible loan notes liability would originally decrease by \$916,000, and other paid in capital, included in shareholders' equity, would increase by \$916,000. At June 30, 2009 the remaining balances to be amortized amounts to \$183,000.

The following table presents the net loss and loss per share for the six months to 30 June following Canadian GAAP:

	2009	2008
Net loss under US GAAP	\$ (4,486)	\$ (1,901)
Accretion of convertible notes	\$ (92)	\$ (92)
Net loss under Canadian GAAP	\$ (4,578)	\$ (1,993)
Net loss per share under Canadian GAAP	\$ (0.058)	\$ (0.029)