AVNEL GOLD MINING LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005

The following discussion and analysis (the "MD&A") for Avnel Gold Mining Limited ("Avnel" or "the Company") describes the operating and financial results of the Company for the period from January 1, 2005 to December 31, 2005. Avnel was incorporated under The Companies (Guernsey) Laws 1994 on February 18, 2005 with the purpose of becoming the holding company for, and to carry on the business of, Avnel Gold, Limited, a Cayman Islands company ("Avnel Cayman"), pursuant to a reorganization which was completed on February 22, 2005 (the "Reorganization"). Accordingly, the information contained in this MD&A is presented on a pro forma basis as if the Reorganization was completed as of January 1, 2005. The results and cash flows for the years ended December 31, 2004 and 2003 and the balance sheet as at December 31, 2004 are the amounts reported by Avnel Gold, Limited in its consolidated financial statements for the year ended December 31, 2004.

This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2005 and related notes thereto. The selected financial information and the discussion of results of operations were prepared in accordance with U.S. GAAP. Reference should be made to Note 15 of the consolidated financial statements of the Company for a reconciliation of Canadian and U.S. GAAP. All amounts in this discussion are expressed in U.S. dollars, unless identified otherwise.

This MD&A contains forward-looking statements that involve numerous risks and uncertainties and which are based on the Company's expectations, estimates and projections regarding its business and the gold market and economic environment in which it operates. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Therefore, actual results of the Company could differ materially from those discussed in such forward-looking statements as a result of these risks and uncertainties and readers should not place undue reliance on such statements.

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the company's disclosure controls and procedures as of December 31, 2005. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports filed or submitted by the Company under Canadian securities legislation is recorded, processed, summarized and reported within the time period specified in those rules.

Results of Operations for the Years Ended December 31, 2005, 2004 and 2003

Selected Annual Information

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

	2005	2004	2003
Total Revenue...	5,699	2,621	-
Total Expenses..	11,312	6,719	435
Net Loss..	(7,106)	(5,411)	(573)
Loss per share	$(0.29)	$(58.00)	$(11.46)
Weighted average shares outstanding	24,671,988	93,288	50,000
Balance Sheet			
Working Capital (Deficiency)	5,065	(2,959)	(2,527)
Total Assets	26,308	18,514	15,001
Long Term Debt	11,821	19,255	12,254
Shareholders' Equity (Deficit).......................	11,517	(5,538)	(182)

Avnel recorded a net loss of $7,106,000 ($0.29 per share) for the year ended December 31, 2005 compared to a net loss of $5,411,000 ($58.00 per share) in 2004 for Avnel Cayman. The losses have occurred because Avnel's only income earning asset, the Kalana Gold Mine, is in Start-up Phase and is not expected to reach the design production rate of 60,000 tonnes per annum before mid 2007. Avnel continued to invest in the development of the Kalana Mine and exploration on the Kalana Permit.

As compared to the balance sheet of Avnel Cayman as at December 31, 2004, Avnel's cash and cash equivalents as at December 31, 2005 increased by $5,051,000 due to financing received from the issue of share capital totalling $12,102,000 and net shareholder loans of $880,000 exceeding cash utilized in operations of $5,196,000 and capital additions of $2,735,000. Working capital increased to $5,065,000 at December 31, 2005 from negative $2,959,000 as at December 31, 2004 for the same reason. Total assets increased from $18,514,000 as at December 31, 2004 to $26,308,000 at the end of 2005 as a result of the proceeds of the share issues and expenditure on development, property, plant and fixed assets. Long term debt of $19,255,000 at December 31, 2004 decreased to $11,821,000 at December 31, 2005 as a result of a conversion of debt and interest into common shares of the Company which was completed on June 30, 2005 and repayment of part of the term loan in the amount of $2 million. Shareholders' equity increased to $11,517,000 at December 31, 2005 from a deficit of $5,538,000 at the end of 2004 because of the proceeds of the public share issue and the debt conversion.

Consolidated Statement of Operations for the Quarters Ended

Quarter ended	Dec 31 2005	Sep 30 2005	June 30 2005	Mar 31 2005	Dec 31 2004	Sep 30 2004	June 30 2004	Mar 31 2004
Revenue	$ 1,615	$ 1,440	$ 1,295	$ 1,349	$ 593	$ 1,224	$ 439	$ 365
Net loss	$ (1,705)	$ (1,500)	$ (2,324)	$ (1,577)	$ (1,927)	$ (1,243)	$ (1,835)	$ (406)
Loss per share	$ (0.03)	$ (0.03)	$ (11.62)	$ (10.75)	$ (19.27)	$ (12.43)	$ (18.35)	$ (5.54)

The Company's revenue is showing an upward trend in revenue since commencement of operations in 2004 as production is developed towards full capacity. Revenue in the fourth quarter of 2005 was at its highest level since operations commenced. This was largely as a result of higher underground head grades (22.49g/t) and higher gold recovery (87.6%). Production in the fourth quarter of 5,222 ounces was at its highest level since operations began. The Company retained 752 ounces of unsold gold at the refinery at December 31, 2005. The net loss for the quarter was at its lowest level since the third quarter of 2004. This was largely a function of the increased revenue. The high loss per share for the quarters up to June 30, 2005 result from there being only up to 200,000 shares outstanding prior to the Initial Public Offering on June 30, 2005 when a further 47,193,605 common shares were issued. Subsequent to the Initial Public Offering, a further 7,936,000 common shares were issued up until December 31, 2005.

Review of the year ended December 31, 2005 compared to the year ended December 31, 2004

Mining Operations

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

	2005	2004
Tonnes milled	34,885	35,667
Gold grade - grams per tonne (g/t)	15.5	9.4
Recovery rate - %	86.1%	68.6%
Gold production - ounces	14,923	7,396
Cost per tonne milled	$155	$144
Operating cost per ounce of gold sold	$484	$791

Underground production commenced in January 2004 and commercial production was achieved in March 2004 with the first gold sales.

Tonnes milled in 2005 were 2% below the production achieved in 2004 and 20% below the budgeted production. Gold production at 14,923 ounces was 1% below budget reflecting higher grades and gold recovery. During 2005, underground production has mainly come from mining of a new ore reserve block below the lowest haulage level (100m below surface). The ore reserve block is being developed down dip and rock is scraped up dip to the haulage level. This mining method will limit the production capacity of the mine until ore can be gravitated to new haulages being developed on the 150 and 180 levels lower in the mine. Productivity of the underground crews is improving, but at a slower rate than anticipated.

The gold grade of underground ore mined of 17.12 g/t in 2005 was 62% higher than that obtained in the previous year (10.58g/t). The grade was also 3.35g/t higher than budget of 13.77g/t because average stoping widths were reduced and actual grades of ore mined was significantly higher than that indicated by the reserve model. The mill grade of 15.5g/t (2004 – 9.4 g/t) obtained was lower than the underground grade as it was reduced by the processing of 4,614 tonnes of coarse sand (2004 – 4,604 tonnes) at 4.9 g/t (2004 - 4.7 g/t). In the fourth quarter, 8,442 tonnes, including 235 tonnes of coarse sand, were milled at a mill head grade of 21.96 g/t. Gold recovery was 87.6% and 5,222 ounces were produced.

Gold recovery in 2005 also exceeded both the prior year and the budgeted rate. This was because of improved performance in the recovery section, lower than budgeted throughput and higher than budgeted head grades. When ore production increases in future, it is expected that the recovery rate will decrease to between 79% and 84%, depending on head grades and plant performance. Gold production increased to 14,923 ounces, approximately double the production achieved in 2004.

Mine development totalled 249 metres in 2005 compared to 168 metres in 2004. Underground development increased to 103 metres during quarter 4 2005 but progress was unsatisfactory at No 2 Shaft. The shaft is being sunk from 125 metres below surface to a final depth of 200m below surface. Shaft sinking has advanced 61 metres but only 8 metres was achieved during the fourth quarter. During the quarter, the station steelwork and a mid shaft loading facility was installed at the 150 level shaft station. The mid shaft loading facility will enable the 150 level haulage (previously named the 250 level) to be developed while sinking of the shaft and development of the 180 level station is completed. The 150 level was advanced 17 metres. The development of the 150 level is 5 months behind schedule. The main factor delaying the shaft sinking was inexperienced mining crews and turnover of the expatriate staff. The expatriate staff for mine development has been increased from two to six and the Malian mining crews have been increased. The No 1 Sub Incline shaft advanced 40 metres during the quarter and is on the 165 level elevation.

Mine operating costs for the year ended December 31, 2005 amounted to $6,633,000 compared with $5,144,000 in 2004. The costs for 2004 include only those for the period subsequent to commercial production being achieved in March 2004. Cash operating costs of $155 per tonne milled in 2005 were 8% higher than the cost per tonne in 2004 mainly because of higher labour costs resulting from increased numbers of employees and higher wage rates. Cash operating costs per ounce sold of $484/oz in 2005 decreased significantly from $791/oz in 2004 due to the increase in gold production. Cash operating costs reduced to $442/oz in the final two quarters of the year as gold production increased as a result of the increase in the grade of ore milled and the improvement in the recovery rate.

Gold Sales

Gold sales data is as follows:

		2005	2004
Gold ounces sold	- at spot price	6,296	1,244
	- under forward contracts	7,060	5,150
	- total	13,356	6,394
Average realized gold price per ounce	- at spot price	$438.25	$416.02
	- under forward contracts	$413.51	$408.53
	- total	$425.17	$409.75
Metal revenue - $000			
Gold sales if all sales were at spot prices		$6,031	$2,621
Net effect of forward sales		(353)	(1)
Total gold sales		5,678	2,620
Silver sales		21	1
Metal revenue		$5,699	$2,621

Gold spot prices commenced 2005 at $427 per ounce and ended at $513 per ounce, with the London PM Fix averaging $442 per ounce during the year. The traditional inverse relationship with the US dollar uncoupled during the year with gold prices continuing to rise as the U.S. dollar strengthened against other main currencies. Subsequent to the end of the year the gold price has increased to a high of $572 per ounce.

Other Expenses

General and administrative costs amounted to $2,553,000 for the year ended December 31, 2005 compared to $285,000 in 2004. The increase in expense includes costs associated with the completion of a corporate reorganization, an IPO and listing on the TSX, compensation expenses and increased expenses resulting from the reporting and regulatory commitments of a public company. Compensation expenses of $1,126,000 have been included in general and administrative expenses during 2005 which represent the amortization of the estimated fair value of the stock options granted to directors and officers of the Company. There was no equivalent expense in 2004. A further $821,000 of stock option expense is expected to be amortized over the period to August 2008.

Depreciation, depletion and reclamation expenses amounted to $1,108,000 in 2005 compared to $834,000 in 2004. Depletion costs are calculated on the unit-of-production basis and the increase results primarily from the low gold production in 2004 as the mine commenced commercial operations in early 2004.

During the year, Avnel continued with its exploration program on the 387.4 km^2 area property held in accordance with the Exploration Permit. The results of the drilling program, which commenced in April 2005, indicate that a follow-up drilling program is required to define and expand newly-discovered high-grade gold zones. A diamond drill program commenced in November and will be completed during quarter one of 2006. Exploration expenditure totalled $1,018,000 in 2005 compared to $456,000 in 2004.

Interest expense was $1,357,000 for the year ended December 31, 2005 compared to $1,172,000 in 2004. The increase results from the increased debt level incurred to fund mine development, exploration and corporate expenses. In addition, in the first quarter of 2004 interest costs of $134,000 were capitalized prior to the commencement of commercial production. As a result of the conversion of debt to equity, which was completed on June 30, 2005, interest expense declined substantially in the second half of 2005. This debt conversion, and the repayment of $2 million of a term loan on December 30, 2005, will result in a further decline in interest expense in 2006.

Review of the year ended December 31, 2004 compared to the year ended December 31, 2003

Avnel Cayman recorded a net loss of $5.4 million ($58.00 per share) for the year ended December 31, 2004 compared with a loss of $573,000 ($11.46 per share) for the year ended December 31, 2003. The Kalana Gold Mine commenced production in January 2004 and was deemed to have achieved commercial production with effect from March 1, 2004. Prior to this date all mine operating costs, depreciation and interest expense were capitalized as development costs. Accordingly, there were no comparable revenues or expenses relating to the mining operations in 2003.

Gold produced in 2004 amounted to 7,396 ounces (2003 - nil) from 35,667 tonnes of ore milled at a grade of 9.4 g/t and a recovery rate of 69%. Development of the ore reserve block was hampered by unexpected mining problems associated with water in the vein and lower productivity from the new mining crews. This resulted in lower gold production than budgeted due to delays in opening up new ore reserve blocks. The planned build up of production was also impacted by a slower than anticipated learning curve for new employees and changes in senior management at the mine. Mine operating costs were $5,144,000 for the year ended December 31, 2004 (2003 - $nil) and cash operating costs were $695.57 per ounce of gold produced and $144.22 per tonne milled.   There was no production prior to 2004. During 2004, 6,394 ounces of gold were sold at an average price of $409.75 per ounce for total proceeds of $2,621,000. These sales included 5,150 ounces sold pursuant to forward sales contracts at an average price of $408.53 per ounce.

General and administrative costs decreased to $285,000 for the year ended December 31, 2004 compared to $405,000 in the year ended December 31, 2003. The costs in 2003 included the write-off of non-recurring formation expenses. Depreciation, depletion and reclamation expenses amounted to $834,000 in 2004 and $30,000 in 2003 which was prior to the commencement of commercial production at the Kalana Gold Mine. During 2004, Avnel Cayman commenced an exploration program on its property held in accordance with the Permit. Exploration expenditures were $456,000 in the year ended December 31, 2004 (2003 — nil). Interest expense increased to $1,172,000 in 2004 compared to $137,000 in 2003. Interest attributable to the development of the mine was capitalized as development costs up to the commencement of commercial production in March 2004.

Liquidity and Capital Resources

As of December 31, 2005, Avnel had cash of $5,420,000 (2004 - $369,000) and working capital of $5,065,000 (2004 – working capital deficiency of $2,959,000). In the year ended December 31, 2005, operating activities required cash funding of $5,196,000, compared to $3,979,000 in 2004, as the mine development continues in order to achieve the planned capacity of 60,000 tonnes per annum and approximately 26,000 ounces per annum, exploration of the Permit and general corporate expenses. Avnel expended $2,735,000 on mine development and capital additions in 2005 compared to $2,911,000 in 2004. The expenditure was related to the sinking of No 2 Shaft and the No 1 Sub Incline Shaft at the Kalana Gold Mine and associated mining equipment. Avnel expended $1,018,000 on ongoing exploration on the Kalana Permit during 2005.

Net funds received from financing activities amounted to $12,982,000 in 2005 (2004 - $7,051,000). This was a combination of $12,102,000 net of share issue costs being raised during the IPO and a private placement (the "Private Placement") and a further net $880,000 was raised in the form of loans as described below.

A total of $5,795,000, net of share issue costs and IPO expenses, was raised on June 30, 2005 when the Company completed its initial public offering with the issue of 12,393,605 units (the "Units") of the Company at a price of Cdn$0.76 per Unit. Each Unit consists of one common share (the "Common Shares") of Avnel and one-half of one Common Share purchase warrant, each whole Common Share purchase warrant entitling the holder to purchase one Common Share (the "Warrant Shares") at a price of Cdn$1.06 per Warrant Share at any time before 5p.m. on June 30, 2010. The Company has also granted the agents of this offering a non-transferable option to purchase 279,666 units at the offer price up to June 30, 2007.

On November 29, 2005 the Company raised a net $6,307,000 upon the completion of the Private Placement of 7,936,000 units at Cdn$1.00 per unit, each unit comprising one common share and one common share purchase warrant, each exercisable for two years at Cdn$1.30 per share. The Company has also granted the agents of this offering a non-transferable option to purchase 558,600 units at the offer price up to May 29, 2007. The agent may convert the warrants into one common share at an exercise price of Cdn$1.30 within two years (November 29, 2007) of the Private Placement.

Long term debt of the Company consists mainly of shareholder 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"). At June 30, 2005 an aggregate principal amount of $19,255,000 of the Shareholder Loans, together with accrued interest thereon in the amount of $2,627,000, was converted into equal amounts of common shares and convertible loan notes with an aggregate principal amount of $10,941,000. Each convertible loan note is convertible by the holder into common shares of the Company at Cdn$0.95 per share and bears interest at the six month U.S. LIBOR plus 2% payable bi-annually. The Company may elect to pay the interest in common shares in lieu of cash and may, upon maturity, elect to repay the outstanding principal amount in common shares at Cdn$0.95 per share if the 40-day weighted average trading price of the common shares prior to the conversion date is equal to $1.20. The term of the convertible loan notes is five years.

Funding of $2.8 million was provided by shareholders in 2005 under bridge financing loans. On June 30, 2005, these loans, together with interest accrued thereon in the amount of $80,000, were converted into a term loan due December 31, 2008, bearing interest at a rate of 8%. A total of $2 million of this term loan was repaid on December 30, 2005.

Contractual Obligations

The Company has the following contractual obligations at December 31, 2005:

Contractual Obligations - $000	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long Term Debt (1)	11,821	-	880	10,941	-
Operating Leases (2)	269	113	156	-	-
Capital Lease	52	39	13		
Total Contractual Obligations	$12,142	$152	$1,049	$10,941	$ -

Notes:

(1) The long term debt of Avnel consists entirely of shareholder loans provided by Elliott and the Fern Trust, the two major shareholders of Avnel. At December 31, 2005 long term debt comprised of convertible loan notes of $10,940,992 and a term loan of $879,673.

(2) Avnel's operating lease obligations consist of payments due under rental agreements in respect of its offices in London and Bamako.

Related Party Transactions

Kalana Mine Services Limited ("Kalana Mine Services"), a London based, wholly-owned subsidiary of Avnel, provides purchasing, facilitation, and expediting services and technical assistance to SOMIKA at cost plus a fee of 7.5%. During the year ended December 31, 2005, $424,000 of such expenses and fees were charged to SOMIKA by Kalana Mine Services.

SOMIKA purchases explosives from African Explosives Limited ("AEL"). Mr. Ibrahim Kantao, a director of the Company and SOMIKA, is also the Director-General of AEL Mali SARL. Such purchases amounted to $171,000 in the year ended December 31, 2005.

Avnel Cayman entered into forward sales agreements on March 18, 2004 in respect of 31,700 ounces for the period through to December 2006 at an average price of $414.27 per ounce with Elliott, who own 52% of the common shares of Avnel. The facility is margin-free up to $2.5 million. As at December 31, 2005 the Company had sold forward 19,490 ounces of gold at an average price of $427 per ounce. Based on the spot price of $513 per ounce, the mark-to-market value of the Company's gold forward sales agreements was negative $1,990,000.

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 $108,000 in rental costs during the year ended December 31, 2005 (some of this is charged to SOMIKA as 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 heading "Risk Factors" in the Prospectus dated May 27, 2005 and the Annual Information Form dated 31 March 2006

The Company faces risk in respect of its exposure to gold prices. Avnel has sold forward approximately 60% of its forecast gold production through to July 2007 at an average gold price of $427 per ounce. Avnel adopted its forward sales program with a major shareholder to achieve a higher level of confidence in achieving its near-term cash flow objectives. Without this program, it is estimated that a 10% movement in the gold price away from the assumed spot price of $525 per ounce would impact 2006 cash flow by approximately $992,000. With the hedge program, the same movement in the gold price would result in a $330,000 movement. The Company has been granted flexibility in electing whether to deliver against its contracts or roll its position.

All gold revenues and a portion of operating costs are in U.S. dollars. The Company has not hedged its foreign exchange risk relating to its non-U.S. dollar expenses. The following table illustrates the sensitivity of operating costs and capital expenditures in 2006 to a movement of 10% in the South African Rand (the "Rand") and CFA Franc (the exchange of which is fixed to the Euro), the two key currencies for the Kalana project, against the U.S. dollar. An appreciation of 10% by the CFA Franc or Rand against the U.S. dollar would lead to an increase in Avnel's current financial year's costs by the percentages shown in the table below. An appreciation of the U.S. dollar by 10% against the CFA Franc or Rand would reduce the planned operating costs and capital expenditures by the corresponding percentages.

The impact of 10% currency movements on 2006 Budgeted Operating Costs would be as follows:

Currency	Operating Cost
CFA Franc or Euro	6.2%
Rand	1.9%

The Company will require ongoing financing to fund its planned operation and exploration programs. No assurance can be given that such financing can be raised on commercially acceptable terms.

Avnel maintains insurance against risks that are typical in the gold mining industry. Although the Company maintains insurance in amounts that it believes to be adequate, the insurance coverage maintained may not be adequate in the event of unforeseen circumstances. Avnel does not maintain political risk insurance.

The Company is committed to environmental protection, to safe operations and to the control of environmental risks. The Company adheres to the requirements of the Malian Government and has adopted policies and procedures as expected in the mining industry. The Company is committed to maintaining the aforementioned risks at levels as low as can be reasonably achieved, taking into account social and economic factors, and that continued improvement in environmental and health and safety performance be achieved.

Critical Accounting Estimates

The consolidated financial statements of the Company have been prepared in accordance with U.S. GAAP. Management is required to make various estimates and judgements in determining the reported amounts of assets and liabilities, revenues and expenses for each period presented and in the disclosure of commitments and contingencies. Management considers the following critical accounting policies reflect its more significant estimates and judgements used in the preparation of the consolidated financial statements.

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. Measurement of the impairment loss is based on discounted cash flows.

The fair value of a retirement or rehabilitation obligation is recognized as an asset and a liability in the period when it is incurred. The liability is discounted and an accretion expense is recognized using the credit adjusted risk free rate in effect when the liability is incurred.

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, except depreciation and amortization, which are remeasured at historical rates. Revenue and expense transactions are remeasured at the average rate for the period. Remeasurement gains and losses are included in income.

Financial Instruments

As at December 31, 2005, the Company had sold forward 19,490 ounces of gold at an average price of $427 per ounce. The Company believes that these forward sales qualify as normal sales contracts under SFAS 133 and will record the revenues when the gold sold forward is delivered and proceeds are received. The facility is margin-free, up to a maximum exposure of $2.5 million.

The estimated fair values of the Company's other financial instruments approximate carrying values at December 31, 2005. The Company has no other financial instruments or long-term commitments outstanding.

Outlook

For 2006, Avnel is forecasting gold production of 18,910 ounces at an average operating cost of approximately $396 per ounce of gold sold, net of royalties. Tonnes milled is forecast to be 42,000 tonnes, 20% higher than 2005, at an average head grade of 16.91 g/t. Total operating cost is forecast to be $7.5 million net of royalties, an increase of $1.0 million or 15% over 2005 ($6.47 million net of royalties). The increase in cost is mainly attributable to higher labour, power and consumable costs as production increases. Mine development was behind schedule in 2005 and it is planned to advance 1,123 metres during 2006 to catch up the shortfall. Capital cost to complete the sinking and equipping of No 2 shaft and the haulage development on 150 and 180 level is forecast to be $1.8 million. The mine operation is planned to produce a positive cash margin of $1.1 million pre capital expenditure and prior to accounting for depreciation. Using an average gold price of $454 per ounce, management believes that approximately $4.9 million of the cash resources of the Company will be utilised to fund capital expenditures of $3,291,000, mainly required to expand production to 60,000 tonnes per annum, $850,000 for exploration, working capital of $370,000 and corporate expenses of $1,470,000. The Company is forecast to have $500,000 cash at year end and it will require additional financing to meet its development and exploration strategy going forward in 2007.

Additional Information and Continuous Disclosure

This MD&A has been prepared as of March 30, 2006. Additional information is available in the historical consolidated financial statements of Avnel and Avnel Gold, Limited and the related notes thereto which are included in the Prospectus dated May 27, 2005 and the Amendment No.1 to the Prospectus dated June 22, 2005, the Annual Information Form dated March 31, 2006, and through regular filings of press releases, which are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.