



**RE-STATED**

***Management's  
Discussion &  
Analysis***

***for the three months ended March 31, 2011  
and  
the three months ended March 31, 2010***

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Three Months Ended March 31, 2011**  
**RE-STATED**

**General**

This management's discussion and analysis ("MD&A") has been prepared based on information available to Avion Gold Corporation ("we", "our", "us", "Avion", or the "Company") as of June 2, 2011. This MD&A provides a detailed analysis of the Company's business and compares its financial results with those of the previous period and should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the three months ended March 31, 2011. The interim consolidated financial statements and related notes of Avion have been prepared in accordance with International Financial reporting standards ("IFRS"). Refer to the Notes of the March 31, 2011 condensed interim consolidated financial statements for disclosure of the Company's significant accounting policies. The Company's functional and reporting currency is the United States dollar.

Additional information including press releases have been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and are available online under our profile at [www.sedar.com](http://www.sedar.com).

Unless otherwise noted, this MD&A reports our activities through June 2, 2011.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

The Canadian Accounting Standards Board requires publicly accountable enterprises such as us to adopt IFRS for fiscal years beginning on or after January 1, 2011. Accordingly, the Company's consolidated interim financial statements for the quarter ending March 31, 2011 have been prepared in accordance with IFRS as published by the International Accounting Standards Board.

For each reporting period in 2011, we will also present comparative information for 2010, both for interim and annual financial statements, as applicable, on an IFRS basis. Our consolidated financial statements for the year ending December 31, 2011, will be our first annual financial statements that comply with IFRS. As this will be our first year of reporting under IFRS, First time Adoption of IFRS (IFRS 1) is applicable.

In accordance with IFRS 1, we have applied IFRS retrospectively as of January 1, 2010 (the Transition Date) for comparative purposes. In preparing our opening balance sheet in accordance with IFRS, we have adjusted amounts reported previously in our financial statements prepared in accordance with pre-conversion Canadian GAAP (for detailed information see Changes in Accounting Policies).

For further information, please refer to the Company's Condensed Interim Consolidated Financial Statements and Notes for the three months ended March 31, 2011.

**CAUTIONARY NOTES REGARDING FORWARD LOOKING INFORMATION**

Don Dudek, P.Geo. Avion's Senior VP Exploration, and Andrew Bradfield, P.Eng., Avion's Chief Operating Officer, are the Qualified Persons for this MD&A as defined under National Instrument 43-101 and are responsible for the technical and scientific work carried out and have reviewed and approved the scientific and technical information presented in this MD&A.

The ability of Avion to increase production to 200,000 ounces of gold per year has not been the subject of a feasibility study and there is no certainty that the proposed expansion will be economically viable.

Except for statements of historical fact relating to Avion, certain information contained herein constitutes "forward-looking information" under Canadian securities legislation. Forward-looking information includes, but is not limited to, statements with respect to the development potential of the Company's properties; future mineral prices; the estimation of mineral reserves and mineral resources; conclusions of economic evaluations, the realization of

mineral reserve and resource estimates; the timing and amount of estimated future production; costs of production; capital expenditures; success of exploration activities; permitting time lines and permitting, mining or processing issues; currency exchange rates; government regulation of mining operations; and environmental risks. Generally, forward looking information can be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”. Forward-looking information is based on the opinions and estimates of management as of the date such statements are made. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: unexpected events and delays during permitting, construction, expansion and start-up; variations in mineral grade and recovery rates; delay or failure to receive government approvals; timing and availability of external financing on acceptable terms; actual results of current exploration activities; changes in project parameters as plans continue to be refined; future mineral prices; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry, as well as those factors discussed herein under the heading `Risks`. Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

## **OVERVIEW AND STRATEGIC DIRECTION OF THE COMPANY**

Avion is a publicly – traded company on the Toronto Stock Exchange (TSX: AVR)

Avion is a Canadian-based gold mining company focused in West Africa that holds 80% of the Tabakoto and Ségala gold projects in Mali. Gold production commenced at these projects in 2009 with just over 138,660 ounces of gold produced to date. In 2011 production is estimated to be 100,000 ounces.

In early 2010 Avion acquired the adjacent Kenieba Property from Great Quest Metals Limited (“Great Quest”) which added an inferred resource of 324,000 ounces of gold to Avion’s resource base. Following that in October of 2010 Avion acquired the 1,670km<sup>2</sup> Hounde Property in Burkina Faso from Avocet. This property hosts at least eight gold zones and has added an indicated and inferred resource of 610,000 ounces of gold to the Avion’s resource base. Recently in December 2010 Avion announced the acquisition of the Kofi Project from AXMIN Inc.(“Axmin”) which added 660,000 indicated and inferred ounces to Avion’s Resource Base.

Production sustainability has been supported and enhanced by an aggressive drill program over an approximately 500 km<sup>2</sup> exploration package that both surrounds and is near to the Company's existing mine infrastructure. The current mineral resources estimate for the Tabakoto project demonstrates several sources of grade for open pit and good grade underground mineral resources thus providing significant flexibility for Avion's future mining plans. Additionally, the 1,670 km<sup>2</sup> Houndé exploration property in Burkina Faso has returned promising results. These properties are the subject of an approximate US\$ 10 million dollar, 60,000 metre, drill-focused, exploration program in 2011.

Avion continues to progress towards its medium term goal of 200,000 ounces of gold per year and a longer term goal of organic growth through development of its exploration properties. The Company is open pit mining at the Dioulafoundou and Tabakoto South Deposits and developing an underground mine at the Tabakoto deposit, and is preparing to mine underground at the Ségala deposit.

## Q1-2011 HIGHLIGHTS

During the three-month period ending March 31, 2011, the following significant activities occurred:

- Avion produced 20,270 ounces of gold during the quarter after final refinery adjustments at a cash cost per ounce produced of \$462. (Please refer to non-GAAP measures).
- Avion processed 180,800 tonnes of ore at an average grade of 3.64 g/t Au. Most of the ore processed was mined from the Segala open pit in Q4-2010 and had been stockpiled for processing in Q1-2011.
- The average mill recovery for the quarter was 96.2%.
- Expansion plans continued at Tabakoto, consisting of the following activities:
  - 1,332 m of underground development was completed at the Tabakoto deposit, plus a ventilation raise. Over 13,000 tonnes of development ore was mined from various zones within the deposit. Development remains on plan to enable production in 2012.
  - Over 1.87 million tonnes of oxide waste material was mined at the Dioulafoundou deposit, and over 46,000 tonnes of ore was mined during Q1-2011. By the end of the quarter, the waste pre-stripping program was completed, allowing access to ore in the future at a reduced strip ratio.
  - Purchase orders and down payments were submitted to vendors for the remaining long lead time equipment required for the planned plant expansion to 4,000 tonnes per day in 2012. The project remained on schedule and within budget.
- On January 11 Avion announced the discovery of a new zone of gold mineralization, Kofi C West zone, which returned 3.58 g/t Au over 83.7 metres. In addition Avion announced an intersection of Kofi C zone which returned 6.05 g/t Au over 27.0 metres.
- On January 26 Avion announced the discovery of two new zones of mineralization on the Houndé property, the Bouéré zone, which returned 3.84 g/t Au over 47.5 metres and the Grand Espoir zone, which returned 0.55 g/t Au over 33.0 metres.
- On March 7 Avion released the results of a recent airborne VTEM survey that was carried out over the Kofi Project which demonstrated the northward continuation of the Loulo structural corridor on the Kofi Property. This structural corridor hosts in excess of 17,000,000 ounces of Au in Randgold's Loulo and Goukoto project areas.

## MINERAL PROPERTIES

### Mali, West Africa (Tabakoto and Ségala gold projects)

The Company acquired an 80% interest in the Tabakoto and Ségala gold projects in Mali, West Africa (the "Mali Projects") in May 2008. The remaining 20% interest is owned by the Government of Mali. This interest was subject to a 3% net smelter return royalty ("NSR") payable to the vendor. During 2009, the Company bought out 2% of this royalty with a cash payment of \$1,000,000 and the issuance of 3,500,000 common shares and 1,000,000 warrants, exercisable into common shares of the Company at a price of \$0.60. The Company bought out the remaining 1% NSR for \$2,000,000 during Q4-2010. As well, the Mali Projects are subject to a 6% NSR payable to the Government of Mali.

The Government of Mali owns a 20% interest in the Mali Projects. The Company is required to fund 100% of all expenditures related to the exploration and development of these properties and holds preferential rights to recover all funding plus interest from future cash flows prior to the Government of Mali receiving dividends.

## Exploration Review

As of March 31, 2011, Avion had completed 132 drill holes totalling 15,646 metres of drilling, an airborne VTEM survey over the Kofi and Tabakoto properties and ground IP gradiometer surveys over two areas on the Hounde Property. Drilling focused on the Vindaloo zone area on the Hounde property and the Djambaye II and Tabakoto NW zones on the Tabakoto Project.

### Tabakoto Project - Tabakoto, Ségala and Kenieba Properties, Mali

As of March 31, 2011, Avion had completed 79 core and reverse circulation holes totaling 7,817 metres, an airborne VTEM and magnetic survey, local geological mapping, soil sampling and trenching.

This drill program was focused in two areas as follows:

- Djambaye II
- Tabakoto Deposit NW zones

The goal of this initial drill program was to carry out enough in-fill drilling on these two zones to convert Inferred resources to Measured and Indicated resources in advance of Avion's maiden reserve report due in Q2.

As of April 5, 2011, results have been released for drilling carried out at the Djambaye II Zone.

### Kenieba Property - Djambaye II zone

The Kenieba Property lies adjacent to the south and southwestern boundary of Avion's Tabakoto Property approximately 6.5 kilometres southwest of the Tabakoto Mine and hosts the Djambaye II deposit (318,200 ounces of gold, in 3,050,000 tonnes grading 3.25 grams per tonne gold – Avion news release, December 30, 2010).

The initial 34 holes, which tested a 600 metre portion of the zones, returned a weighted average grade for the combined Djambaye II and Djambaye II West zones of 8.25 g/t Au uncapped and 4.82 g/t Au capped over an average width of 3.2 metres true width. Individually the Djambaye II zone returned an average weighted grade of 12.48 g/t Au uncapped and 6.56 g/t Au capped over an average true width of 3.2 metres. The Djambaye II West zone returned an average grade of 3.25 g/t Au uncapped and 2.78 g/t Au capped over an average true width of 3.2 metres.

The Djambaye II mineralized zone has been traced for approximately 2,500 metres along strike and is still open to the north, south and to depth. Infill drill holes were emplaced every 25 metres along a 600 metre portion of the northern part of the zone and were targeted at the 25 metre depth in order to define an initial, potentially near surface, mineable zone. Additional in-fill holes are planned at the 50 metre vertical depth in the same area. The drill holes were designed to intersect the Djambaye II and Djambaye II West zones, which are 30 to 60 metres apart. Additional mineralization was also intersected during the drill program which may represent (as of yet) un-modeled cross structures. A summary of the drill intercepts are presented in the attached tables.

Management expects the current drilling to provide enough information to support an updated and upgraded resource statement in preparation for a reserve statement.

In December, Avion announced an updated Open Pit Inferred mineral resource for Djambaye II of 1,858,400 tonnes grading 3.22 g/t Au and additional Underground Inferred mineral resources of 1,191,500 tonnes grading 3.29 g/t Au for a total Inferred mineral resource of approximately 318,200 ounces.

### Kofi Property, Mali

In Q1, 2011 Avion completed an Airborne VTEM and magnetic survey over the Kofi property, continued data compilation and developed a follow-up drill program over the Kofi C zone, Kofi C West zone, Betea zones, Kofi B zone and A Linear zone. The airborne survey was successful in tracing the approximately 5 kilometre wide Loulo structural corridor northward into the Kofi property with the eastern limb of the structure extending to the northern limit of the concessions, a distance of over 20 kilometres and the western limb of the corridor extending for about

7 kilometres into the Kofi concession. This structural corridor hosts in excess of 17,000,000 ounces on the adjacent Randgold property and has only been partially tested, in the southern approximate 5 kilometres of the eastern limb of the corridor, on the Kofi property.

Avion announced that it had closed the acquisition of the Kofi Nord, Kofi Dabora, Walia (ACGRI) and Dianissi Concessions, which form part of the Kofi Property, from AXMIN Inc. ("AXMIN") on December 29, 2010. In March 2011, the Company closed its acquisition of the Walia Saakola concession as well as the Walia West Concession which form part of the Kofi Property from AXMIN Inc. In consideration for 100% of AXMIN's interest in the Walia Sakkola and Walia West concessions, Avion has paid AXMIN CAD \$6,250 (\$6,434) and 56,250 shares have been issued, representing 25% of the consideration due to AXMIN in relation to these concessions. The remaining 75% will be paid in three equal tranches on June 11, 2011, March 11 2012 and September 11, 2012.

In consideration for 100% of AXMIN's interest in the Kofi Property, Avion shall pay an aggregate amount of CAD \$500,000 and issue 4,500,000 shares of Avion to AXMIN, of which CAD \$81,250 and 731,250 shares have been issued and future payments and share issuances have been accrued. This represents 25% of the consideration due to AXMIN in relation to Kofi Nord, Kofi Dabora, Walia (ACGRI) and Dianissi concessions. The remaining 75% of the consideration, for these four concessions, is to be paid in three equal tranches on March 24, 2011, December 24, 2011 and June 24, 2012. The closing of the remaining five concessions will take place once the concessions are transferred to Avion's Malian subsidiary.

The Kofi property is a large, 470 sq. km (after renewals) property package situated, at its nearest point, within approximately 5 kilometres to the northwest of Avion's Tabakoto Project. The Kofi property wraps around the north side of Randgold's Loulo Mine concessions (Historic Measured and Indicated resources of 62.69 million tonnes grading 4.55 g/t Au). Four of the nine known mineralized zones on the Kofi property are located along two linear mineralization trends that are defined by the alignment of deposits within the nearby Randgold Property.

The Kofi property contains nine mineralized zones with identified mineral resources. All of the estimated mineral resources lie in the Kofi Nord concession of which Avion's interest is 81.25% with 12.5% held by African Mining Selection Corporation and 6.25% held by Societe Financiere d'Exploration d'Or au Mali. These interests are prior to a 10% or 20% interest due to the Mali government upon commencement of production. Therefore, Indicated mineral resources of 238,000 ounces and Inferred mineral resources of 299,000 ounces can now be credited to Avion based on the closing of the acquisition. Total estimated Indicated mineral resources are approximately 3.24 million tonnes grading 2.55 g/t Au totaling 293,000 ounces Au (Roberts, 2008 43-101 compliant report). In addition, the Kofi property hosts total Inferred mineral resources of approximately 5.26 million tonnes grading 2.18 g/t Au totaling 368,000 ounces (December 11, 2007 AXMIN news release, Roberts, 2008 43-101 compliant report). Most of the zones are open along strike and to depth with zones only tested from 60 to 150 metres below surface. All of the zones are within 15 to 38 kilometers of Tabakoto's mine infrastructure, potentially placing these zones, including the estimated mineral resources, within trucking distance to Tabakoto.

Subsequent to the Kofi Nord concession being transferred to Avion's Malian subsidiary and the closure of the acquisition of this concession, Avion re-furbished the exploration camp, compiled the historic exploration data and completed 22 drill holes totaling 4,458 metres over and near to the Kofi C zone. Avion continues to compile the project data and develop targets in preparation for an aggressive drill program of approximately 22,000 metres in 2011. An airborne VTEM survey was carried out over the property in early 2011.

Avion announced the results from 22 drill holes totaling 4,458 metres completed over the Kofi Project on January 11, 2011. Drilling was focused in and around the Kofi C zone which has Indicated resources of 873,000 tonnes grading 3.6 g/t Au totaling 99,000 ounces of gold and Inferred resources of 913,000 tonnes at 3.7 g/t Au totaling 109,000 ounces gold (Roberts, 2008, NI43-101 compliant resource report, available under the SEDAR profile of AXMIN Inc.).

Significant results include the following:

- 6.05 g/t Au over 27.0 metres
- 3.83 g/t Au over 52.0 metres
- 3.58 g/t Au over 83.7 metres (Kofi C West zone)
- 6.05 g/t Au over 21.0 metres
- 7.34 g/t Au over 7.9 metres
- 3.19 g/t Au over 16.2 metres
- 50.99 g/t Au over 4.5 metres
- 8.26 g/t Au over 9.1 metres
- 13.44 g/t Au over 11.2 metres
- 6.05 g/t Au over 11.2 metres

The Kofi C zone lies within a north-northeast trending corridor of deposits, approximately 30 kilometres long and 5 kilometres wide where at least nineteen deposits and zones have been discovered, fifteen of which are on the adjacent Randgold property. A clear break, defined by the magnetic data, suggests that this trend continues onto the Kofi property for at least 15 kilometres.

Avion's 2010 drill program tested a number of model-driven-conceptual, mineralization step-out and verification targets in the Kofi zone area. This program succeeded by extending known zones, verifying mineralization and grades within the historically defined zones, and in the discovery of new mineralized zones.

The Kofi C zone has been traced for about 350 metres along strike and to approximately 200 metres depth, with the bulk of the reported resources located within 100 m from surface. The gold mineralization is predominantly hosted by an altered package of greywackes, calcareous siltstones, silty limestone and argillites. In detail, gold grades are returned from carbonate-, silica-, sulphide- (pyrite, arsenopyrite and pyrrhotite) and sericite-altered syn-genetic polymictic breccias to carbonate-dominant, secondary, sedimentary breccias. Tourmaline- and talc-altered greywackes occur proximal to the mineralization but are not mineralized.

The Kofi C West zone intercept lies approximately 100 metres west of the Kofi C zone and at approximately 100 metres depth. This target area, if it has the same orientation as the nearby Kofi C zone (flat plunging) in management's opinion, has the potential to host a mineral resource of in excess 1 million ounces. Drilling is required to determine if this potential can be realized.

Additional drilling is planned to commence in May 2011.

#### Houndé Property, Burkina Faso

To the end of Q1, 2011 Avion has completed 53 core and reverse circulation holes totalling 7,729 metres on and near the Vindaloo zone. This drilling has traced the Vindaloo alteration zone for over 1,700 metres with mineralization traced for about 1,500 metres and open north, south and to depth. In addition, IP gradiometer surveys were completed over the Vindaloo and Kari Pompe areas with additional surveys planned over the Bouéré and Grand Espoir areas. The IP survey resistivity and chargeability data correlates very well with known mineralization and highlights additional areas that require drill testing. A significant amount of drill sample assay data was outstanding at the end of Q1, 2010.

Avion acquired the Houndé property in Burkina Faso from Avocet Mining PLC (see Avion news release, July 5, 2010 and October 7, 2010).

This very large, 1,670 km<sup>2</sup> property, lies within an emerging gold camp and is 60 kilometres southwest of SEMAFO's Mana Mine (which hosts estimated reserves totaling 2,159,700 million ounces of gold, Measured and Indicated mineral resources of 1,126,000 ounces of gold and Inferred resources totaling 2,678,000 million ounces of gold). The property is centred approximately 250 km southwest of Ouagadougou, the capital of Burkina Faso.

Avion has intersected gold mineralization in each of thirteen holes that were designed to extend the Vindaloo zone both along strike and to double the depth of the previously defined zone. These holes tested a 1,000 metre strike length of the zone, which is still open along strike and to depth. A summary of significant intercepts is as follows:

- 7.96 g/t Au over 7.5 metres
- 9.77 g/t Au over 6.9 metres
- 2.08 g/t Au over 22.9 metres
- 4.01g/t Au over 9.7 metres
- 1.79 g/t Au over 68.4 metres
- 1.84 g/t Au over 28.5 metres
- 2.92 g/t Au over 39.3 metres
- 3.06 g/t Au over 10.4 metres
- 2.72 g/t Au over 18.7 metres
- 2.56 g/t Au over 29.0 metres
- 3.14 g/t Au over 39.8 metres
- 1.45 g/t Au over 36.0 metres
- 2.97 g/t Au over 18.0 metres
- 1.47 g/t Au over 56.9 metres

Avion's drilling in 2010 has been traced the Vindaloo Zone for 700 metres along strike, to approximately 200 metres depth and is open to the north, south and to depth. This zone correlates exceptionally well with a 3,400 metre long geophysical anomaly (induced polarization resistivity) that has only been tested for 700 metres of its strike length. Parallel, untested geophysical anomalies of similar character occur both east and west of this target trend on the Houndé Project.

The mineralization trend, associated with the Vindaloo zones, can be traced through drilling, soil survey data and magnetic surveys for over 2,500 metres along strike.

The Vindaloo zone is hosted near the contact between an intensely sericite-, epidote- and silica-altered mafic intrusion and similarly-altered, intensely sheared and altered intermediate volcanoclastics. The mineralization is often quartz stockwork-style, intrusion-hosted and weakly to moderately pyritic. The entire mineralized package strikes north-northeast and dips steeply to the west. Higher gold grade zones have been intersected where the intrusion narrows.

There is also evidence of cross-cutting zones of mineralization near the Vindaloo zone where previous drilling returned intercepts of 2.39 g/t Au over 38.0 metres and 1.20 g/t Au over 34.0 metres.

Additional parallel zones of mineralization are evident both to the east and west of the Vindaloo zone. It is likely these zones will be further evaluated in the future. A summary of these additional intercepts are as follows:

- Vin West zone (VWZ) – approximately 100 metres to the west
  - 6.96 g/t Au over 3.0 metres
  - 2.96 g/t Au over 8.0 metres
  - 1.60 g/t Au over 13.0 metres
  - 3.86 g/t Au over 14.0 metres
  - 2.18 g/t Au over 8.0 metres
- Vin East Zone (VEZ) – approximately 700 metres to the East
  - 1.34 g/t Au over 7.0 metres
  - 8.7 g/t Au over 1.0 metres
  - 1.21 g/t Au over 6.0 metres
  - 1.82 g/t Au over 4.0 metres
  - 27.2 g/t Au over 2.0 metres
  - 2.19 g/t Au over 5.0 metres
  - 400 metre long untested artisanal trend at south end

The VEZ can be traced for approximately 3,500 metres along strike based on drill data and artisanal workings.

#### Bouere Zone

Avion is excited about a new zone of gold mineralization that it discovered at the Bouere artisanal site, which is located approximately 14 kilometres northwest of the Vindaloo Zone. Hole H-10-41 tested a wide zone of artisanal workings and intersected 3.84 g/t over 47.6 metres. A nearby hole, H-10-42, which tested a separate artisanal trend and followed up on a historic intercept of 5.97 g/t Au over 10.0 metres, returned 6.24 g/t Au over 10.5 metres. These two holes are approximately 150 metres apart. Additional drilling and perhaps IP geophysical surveys are being planned over this area.

#### Madras Zone

A single drill hole, completed to test an IP resistivity anomaly that lies north and west of the Vindaloo Zone, intersected 2.53 g/t Au over 18.3 metres in hole H-10-24 at the Madras Zone.

#### Kueredougou Zone

Avion tested the Kueredougou zone with five holes, one of which returned 21.13 g/t Au over 4.0 metres. This zone lies in the middle of the southern concession block. Historic drill intercepts from this zone returned highlight intercepts of 83.35 g/t Au over 4.0 metres and 9.24 g/t Au over 13.0 metres. Avion believes that the Keuredougou zone may correlate extremely well with an open ended induced polarization (IP) chargeability geophysical anomaly that has been traced for approximately three kilometres along strike. Drilling has tested about a third of the geophysical anomaly. The IP survey has also identified at least six additional geophysical anomalies that demand review. The Keuredougou zone is hosted by a sheared, intensely sericite-, carbonate- and sulphide-altered mafic fragmental at the contact between massive mafic flows and more fragmental volcanic rocks.

#### Diosso South Zone

The Diosso South zone returned intercepts of up to 2.18 g/t Au over 8.5 metres. The Diosso South zone lies near the south central part of the southern block of the Houndé concessions. Previous drill holes intersected the Diosso South zone for 500 metres along strike to approximately 65 metres depth. Highlights of the six historic holes that intersected the Diosso south zone include 3.44 g/t Au over 14.0 metres and 2.72 g/t Au over 20.0 metres. The Diosso South zone is hosted by sericitized and quartz veined mafic volcanic rocks and appears to be part of the same shear zone system that hosts the Kueredougou zone.

#### Douhoun Zone

The Douhoun zone is located approximately 14.5 kilometres north-northwest of the Vindaloo zone. The Douhoun zone has been traced by drilling for 400 metres along strike and is open to the north, south and to depth. Previous drilling has returned intercepts to 4.86 g/t Au over 17 metres. Avion's drilling returned 2.63 g/t Au over 5.3 metres in hole H-10-39 and 7.80 g/t Au over 3.4 metres in hole H-10-40 at Douhoun Zone. The zone is a quartz vein/quartz breccia system hosted by a mixture of mafic volcanics and intrusions. The Douhoun zone is open along strike and to depth with clear evidence of parallel and cross-cutting zones of mineralization.

#### Grand Espoir Zone

The Grand Espoir zone lies approximately 16.8 kilometres northwest of the Vindaloo zone. Previous rotary air blast holes in the area returned up to 2.26 g/t Au over 12.0 metres. Avion completed four follow-up holes in this area with one hole returning a wide zone of gold mineralization with an intercept of 0.55 g/t Au over 33.7 metres. The Grand Espoir area is underlain by a mixture of felsic intrusion and mafic volcanic breccia.

On October 26, 2010 Avion announced an initial resource for the Vindaloo Zone on the Houndé property of 883,000 tonnes Indicated mineral resources at 2.23 g/t Au totaling 63,000 ounces of gold and 5,725,000 tonnes Inferred mineral resources at 2.97 g/t Au totaling 547,000 ounces of gold. This zone lies along a well developed ductile deformation zone which is clearly evident in both resistivity and magnetic geophysical data. The zone is open to depth and along strike.

Field work, which commenced in late May, 2010, had focused on the documentation of extensive artisanal works, the collection of over 10,000 soil samples and compilation of available data.

Current Mineral Resources

Tabakoto Project

Compared to the initial Tabakoto Deposit resource, presented on May 19, 2009, through additional drilling and refining of the geological models, the average grade of the Measured and Indicated Tabakoto Resources (including the Tabakoto [Tabakoto NW zones, Tabakoto NE zones], Dar Salam and Dioulafoundou deposits) increased 72% from 3.47 g/t Au to 5.98 g/t Au and the average grade of the Inferred mineral resource increased 46% from 3.66 g/t Au to 5.33 g/t Au.

**Mineral Resource Estimates<sup>(1)(2)(3)(4)</sup>**

<b>ZONE</b>	<b>CATEGORY</b>	<b>TONNES</b>	<b>GRADE</b>	<b>OUNCES</b>	<b>TYPE<sup>(5)</sup></b>
<b>Tabakoto NE1, 2 etc zones</b>	measured	26,855	5.275	4,554	UG
	indicated	1,047,027	5.574	187,633	UG
	inferred	496,389	5.194	82,891	UG
<b>Tabakoto NW Zones</b>	indicated	8,030	8.005	2,067	OP
	inferred	199,580	4.388	28,156	OP
	Indicated	174,972	6.941	39,046	UG
	inferred	1,165,479	5.671	212,498	UG
<b>Tabakoto South /Dabo Zones</b>	indicated	120,354	4.218	16,321	OP
	inferred	193,553	4.830	30,056	OP
	Indicated	271,231	7.696	67,111	UG
	inferred	696,978	5.283	118,383	UG
<b>Djambaye II</b>	inferred	1,858,354	3.217	192,207	OP
	inferred	1,191,481	3.289	125,992	UG
<b>Ségala Main</b>	measured	2,946	4.41	418	UG
	indicated	2,547,956	5.29	433,022	UG
	inferred	1,442,242	4.35	201,474	UG
<b>Ségala NW</b>	measured	4,010	4.429	571	UG
	indicated	844,974	3.614	98,180	UG
	inferred	257,451	3.396	28,109	UG
<b>Dioulafoundou</b>	indicated	597,885	4.988	95,882	OP
	inferred	257,126	6.348	52,478	OP
	indicated	48,977	4.644	7,313	UG
	inferred	394,769	5.414	68,715	UG
<b>Dar Salam</b>	indicated	266,140	2.57	21,990	OP
	inferred	445,076	2.532	36,232	OP
	indicated	44,616	3.37	4,834	UG
	inferred	418,305	3.638	48,927	UG

- (1) The Inferred resources are in addition to the Measured and Indicated resources.
- (2) The mineral resources have been classified in accordance with requirements of NI 43-101 and the CIM standards. Resource estimates based on a gold price of USD\$1000 per ounce and a 96% recovery.
- (3) Eugene Puritch, P.Eng. and Antoine Yassa, P.Geo. from P&E Mining Consultants Inc., Qualified Persons under NI 43-101 who are independent of the Company and are responsible for the mineral resource estimates presented on December 30, 2010. They have reviewed the scientific and technical information in this document relating to those estimates.
- (4) Mineral resources that are not mineral reserves do not have demonstrated economic viability.
- (5) UG – Underground; OP – Open Pit

During 2010, Avion continued to focus on delineating higher grade cross-structures in the Tabakoto pit area, defining additional open pit and underground mineral resources at Dioulafoundou, and better defining the near surface resources at the northern end of the Djambaye II zone. Avion's current resources are concentrated above 300 metres vertical depth from surface with most zones open down plunge and to some extent along strike. Thus, management believes that the likelihood of adding additional resources in the future is high.

### Open Pit Mineral Resources

At the Tabakoto Project, open pit resources have been defined in six deposits. The currently estimated open pit Indicated mineral resources include 992,000 tonnes grading 4.27 g/t Au containing 136,300 ounces of gold and open pit Inferred resources of 2,954,000 tonnes grading 3.58 g/t Au containing 339,100 ounces of gold. Open pits have been designed for the Dioulafoundou and Tabakoto South/Dabo zones using Whittle software. An open pit is being designed for the Djambaye II zone. Additional drilling and trenching will be carried out at the Dar Salam zone and north of the Tabakoto pit prior to designing open pits in these areas. More drilling is also required along the Djambaye II trend which has some large gaps between drill holes and is open to the north and south. Of particular interest are those areas where the gold mineralized Tabakoto cross structures would intersect the Djambaye II trend. Avion plans to convert as many open pit resources to reserves as the available data will permit by the end of Q1-2011.

Dioulafoundou hosts open pit Indicated resources estimated to be 598,000 tonnes grading 4.99 g/t comprising 95,900 ounces of gold and open pit Inferred resources of 257,000 tonnes grading 6.35 g/t Au comprising 52,500 ounces of gold. The current resource represents a 76% increase in contained gold resources compared to the resource statement presented in July 2010 (Avion news release July 14, 2010). Mining of the open pit commenced in October. The Dioulafoundou open pit is expected to provide at least 50% of the ore feed to the Tabakoto Mill in 2011.

### Underground Mineral Resources

Underground mineral resources are currently focused below and near to the Ségala Main and Tabakoto pits; initial underground development is planned in both of these areas. Avion will continue to work toward converting Inferred mineral resources to Measured and Indicated resources with in-fill drill holes and will further test the Ségala Main and Tabakoto zones to depth. Additional underground resources have been defined at Dioulafoundou, Djambaye II and Dar Salam zones; more drilling is required in these three zones in order to define sufficient underground resources to support underground mining.

### Kofi Project

Avion has acquired the Kofi Project which contains estimated Indicated mineral resources of approximately 3.6 million tonnes grading 2.5 g/t Au totaling 293,000 ounces Au (Roberts, 2008, 43-101 compliant report). In addition, the Kofi property hosts total Inferred mineral resources of approximately 5.26 million tonnes grading 2.2 g/t Au totaling 368,000 ounces (Dec. 11, 2007 Axmin news release, Roberts, 2008 43-101 compliant report). Avion owns an 81.25% interest in the concessions that host the above mineral resources prior to any carried government ownership, upon commencement of production. Field work commenced on this project in August 2010. The concession that includes all of the historic resources, has been transferred to an Avion controlled company in Mali. A summary of the project resources are listed below:

Zone	Tonnes (i)	g/t Au	Ounces	Comment
INDICATED RESOURCES				
C Zone	873,000	3.5	99,000	Tested to less than -100 m depth
B Zone	1,216,000	2.1	83,000	Tested to -140 m depth
Betea Central	1,154,000	2.3	111,000	Tested to -150 m depth
TOTAL	3,243,000	2.55	293,000	
INFERRED RESOURCES				
C Zone	913,000	3.7	109,000	Tested to less than -100 m depth
A zone	378,000	2.0	25,000	Tested to 150 m depth
A Zone Linear	675,000	1.7	36,000	Tested to -60 m depth
B Zone	160,000	1.7	9,000	Tested to -140 m depth
Blanaid	510,000	2.4	39,000	Tested to -85 m depth
Betea Central	981,000	1.6	52,000	Tested to -150 m depth
Betea North	473,000	1.6	25,000	Tested to -150 m depth
Betea South	1,169,000	2.0	74,000	Tested to -150 m depth
TOTAL	5,259,000	2.18	369,000	

(i) Mineral resources presented by AXMIN on December 11, 2007 and supported by a 43-101 compliant technical report by Roberts, 2008.

### Houndé Project

Avion announced on January 26, 2011 an initial resource estimate for the Vindaloo zone on the Houndé Property in Burkina Faso. Highlights of the Vindaloo initial resource estimate at a 1.0 g/t Au cut-off grade defined within an optimized pit shell are as follows: 883,000 tonnes Indicated mineral resources at 2.23 g/t Au totaling 63,000 ounces gold<sup>(i)</sup> and 5,725,000 tonnes Inferred mineral resources at 2.97 g/t Au totaling 547,000 ounces gold<sup>i</sup>. Drilling has continued to extend the zone to the north and south beyond the limits of the above resource estimate.

(i)

1. Mineral resources which are not mineral reserves do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, sociopolitical, marketing, or other relevant issues and are subject to the findings of a definitive feasibility study.
2. The quantity and grade of reported inferred resources in this estimation are uncertain in nature and there has been insufficient exploration to define these inferred resources as an indicated or measured mineral resource and it is uncertain if further exploration will result in upgrading them to an indicated or measured mineral resource category.
3. The Vindaloo Zone Resource Estimates were prepared by Eugene Puritch, P. Eng. and Antoine Yassa, P. Geo. from P&E Mining Consultants Inc., Qualified Persons under NI 43-101 who are independent of the Company
4. The mineral resources were estimated using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), CIM Standards on Mineral Resources and Reserves, Definitions and Guidelines prepared by the CIM Standing Committee on Reserve Definitions and adopted by CIM Council December 11, 2005.
5. The gold price used in this estimate was the June 30, 2010 two year trailing average of US\$1,027/oz. Au recovery was 92% and mining costs were US\$2.75/tonne of ore and US\$1.50/tonne of waste. Processing and general and administration costs combined were US\$30/tonne. Pit optimization slopes were 50 degrees.

## QA/QC Procedures

Avion's procedures for handling drill core and reverse circulation chips are consistent with international standards and comprise initial description and logging into a Microsoft Access or an Excel database. Mineralized and suspected mineralized intervals in the holes are described in detail and marked for sampling. Core is then cut in half with the right-hand portion of the core put into plastic sample bags and sealed. Assay standard samples are inserted every 20<sup>th</sup> sample and split core from every 20<sup>th</sup> sample is also quartered and sent in as a separate sample to double check the assays from these intervals. This sampling procedure was initiated and periodically reviewed by Avion's Senior Vice President Exploration, Don Dudek, P. Geo. These samples were then delivered to a representative of SGS Mineral Service based in Kayes, Mali, to SGS Mineral Service based in Ouagadougou, Burkina Faso and to Avion's mine lab at the Tabakoto Mine. The assay samples are then crushed to 2 mm with riffle split if required to 1.5 kg, the entire sample milled in a LM2 mill to a nominal 95% passing 75µm. All the preparation equipment is flushed with barren material prior to the commencement of the job. Gold values were determined by Fire Assay and AAS with a 50 gram nominal sample weight. Some of Avion's reverse circulation chips and drill core samples were analyzed at Avion's Tabakoto mine laboratory. In order to ensure that local, exceptionally high grade assays are not overly represented in assay composites Avion is also presenting assay composites with high grade samples capped at 27.5 g/t Au, which is the capping level deemed appropriate for the Ségala Main Deposit and 32.0 g/t Au for the Tabakoto Deposit (Avion December 12<sup>th</sup>, 2008 news release) and from 2.25 g/t Au to 50 g/t Au for Dioulafoundou. Exploration holes are capped at 30 g/t Au.

## **Mining Operation Review**

### **2011 First Quarter production results**

Avion produced 20,272 ounces of gold during Q1-2011, which is a 29% improvement over the 15,716 ounces produced in Q1-2010. The Tabakoto plant processed 180,800 tonnes of ore at an average grade of 3.64 g/t Au and the average mill recovery for Q1-2011 was 96.2%. This compares to Q1-2010 production of 156,100 tonnes of ore at an average grade of 3.26 g/t Au and a mill recovery of 96.5%.

Production in 2009 was 51,291 ounces of gold. 562,750 tonnes of ore were processed at an average grade of 2.95 g/t Au, and an average mill recovery of 95.4%.

2010 production was 705,900 tonnes of ore processed at an average grade of 4.02 g/t Au, and an average mill recovery of 96.5%, for a total of 87,631 ounces of gold after final adjustments for refined product.

## **RESULTS OF OPERATIONS**

### For the three months ended March 31, 2011

The Company reported net income of \$12,564,705 (\$0.03 per share, basic and diluted) for the three months ended March 31, 2011 compared to \$663,279 (\$0.00 per share, basic and diluted) for the three months ended March 31, 2010.

During Q1-2011, the Company sold 22,583 ounces of gold and generated \$31,489,868 in gold sales revenue. In Q1-2010, 17,298 ounces of gold was sold generating \$19,466,619 in gold sales revenue. Mining and processing costs were \$13,017,240 (Q1-2010: \$11,409,242), which includes \$385,304 (Q1-2010: \$191,150) in amortized deferred stripping costs, and the Company recorded amortization and depletion of \$1,560,056 (Q1-2010: \$1,407,716). The Company is amortizing deferred property, plant and equipment related to the Mali projects on a unit of production basis from the current mine plan. The Company was subject to a 6% royalty on metal sales during Q1-2011. Royalties expense totaled \$1,473,593 (Q1-2010: \$1,358,440) for the ounces of gold sold during Q1-2011. The Company previously bought out an aggregate 3% royalty in late 2009 and 2010 for a combined \$3,000,000 in cash, and shares and warrants worth \$1,107,116. These amounts have been deferred and will be amortized over the life of the mine.

The Company realized a cash cost per ounce produced of \$462 per ounce for Q1-2011 compared to \$886 for Q1-2010. Please see "Non-GAAP Measures" below.

Corporate and administrative expenses for the quarter ended March 31, 2011 totalled \$1,067,176 compared to \$711,958 for Q1-2010. This moderate increase in corporate and administrative expenses reflects the increased level of activities of the Company, increased executive travel requirements, and higher expenses associated with a TSX listing. The Company continues to share office space and other resources with companies that have common directors and officers.

Non-cash share based compensation expense for Q1-2011 was \$3,479,773 (Q1-2010: \$2,382,567) related to the estimated fair value of stock options that were granted and vested during Q1-2011. A total of 4,455,000 stock options were granted during Q1-2011 compared to 3,905,000 during Q1-2010. Share based compensation was estimated using the Black-Scholes option pricing model as at the date of grant.

During Q1-2011, the Company incurred a non-cash accretion expense of \$61,750 related to the Company's asset retirement obligations acquired through the acquisition of the Mali projects (Q1-2010: \$55,500).

The Company recognized a nominal unrealized loss of \$10,916 during Q1-2011 (Q1-2010: an unrealized loss of \$711,958) related to their held-for-trading investments based on the fair market value of these investments as at March 31, 2011.

The Company also incurred a foreign exchange translation gain of \$1,477,095 during Q1-2011 compared to a loss of \$309,349 during Q1-2010. The FCFA which is pegged to the Euro strengthened compared to the US\$ during the quarter and a large proportion of the Company's net monetary assets are carried in FCFA.

## SUMMARY OF QUARTERLY RESULTS

This summary of unaudited quarterly results has been prepared in accordance with Canadian GAAP.

(in '000's except per share amounts)		Revenue	Income	Income	Long Term
		\$	(Loss)	(Loss) per	Financial
			\$	share	Liabilities
				\$	\$
Q1-2011	March 31, 2011	31,490	12,565	0.03	9,744
Q4-2010	December 31, 2010	38,252	18,794	0.05	6,159
Q3-2010	September 30, 2010	31,789	17,900	0.05	5,733
Q2-2010	June 30, 2010	26,038	(1,484)	(0.00)	5,678
Q1-2010	March 31, 2010	19,467	664	(0.00)	5,622
Q4-2009	December 31, 2009	14,202	2,316	0.01	4,753
Q3-2009	September 30, 2009	13,933	(439)	(0.00)	4,707
Q2-2009	June 30, 2009	5,597	(1,052)	(0.01)	4,662

The Company commenced commercial production during Q2-2009 resulting in revenue from operations being recognized. Q3-2009 reflects a full quarter of commercial production revenues. The Company did not have income from operations prior to Q1-2009.

In Q2-2009, the Company incurred a large stock-based compensation expense but the start of commercial production has mitigated the loss. Income from Q3-2009 is a result of full commercial production during the quarter. An unrealized gain on investments of approximately \$1,289,000 contributed to income generated during Q4-2009. The loss during Q1-2010 is a result of an unrealized loss on investments of \$0.7 million as well as a foreign exchange loss of \$1.97 million. The loss during Q2-2010 is a result of a large stock-based compensation expense. During Q3-2010, the Company received an average gold price of \$1,233 per ounce on their gold sales. During Q4-2010, the Company recognized higher revenues as a result of increased ounces sold, as well as a higher average gold price of \$1,370 per ounce on gold sales.

The Company's long term debt consists of asset retirement obligations related to the Mali projects acquired at the end of May, 2008. Management had reassessed the asset retirement obligation during 2009 and had recorded an increase during 2009. In Q4-2010, the Company increased the amount of the estimate of the asset retirement obligation, but also changed the estimated time to reclamation to the year 2022. Therefore, the value of the asset retirement obligation decreased. During Q3-2010, the Company acquired assets through a capital lease arrangement, thereby marginally increasing long-term liabilities. The Company continued to acquire assets through capital lease arrangements during Q4-2010 to increase their long-term liabilities.

During Q1-2011, the Company continued to achieve profitable operations achieving revenues of \$27.5 million with mineral processing costs at \$12.2 million. Long term debt has increased marginally as a result of a slightly increase asset retirement obligation along with the acquisition of additional mining equipment financed through capital leases

## **LIQUIDITY AND CAPITAL RESOURCES**

As of the start of production, financing of operations is achieved primarily through metal sales. However, the Company has raised funds through the issue of common shares to fund further exploration and underground development. At March 31, 2011, the Company had \$19,070,923 in cash and cash equivalents, and working capital of \$28,692,848.

Subsequent to the quarter, the Company announced that it had completed a \$35 million credit facility available for a three year term with an annual interest rate of 7 percent. The Company has full flexibility with regard to drawdowns and pre-payments.

## **CASH FLOWS**

### For the quarter ended March 31, 2011

During Q1-2011, operating activities provided \$15,397,626 in cash flows compared to using \$1,874,535 during Q1-2010. In Q1-2011 the Company continued to generate significant cash flow from operations as production costs remain significantly lower as compared to the selling price achieved for the gold produced.

Cash from investing activities used \$38,595,476 during Q1-2011 compared to \$14,722,135 during Q1-2010. Expenditures on properties, plant and equipment used \$36,649,198 during Q1-2011 compared to \$10,249,847 during Q1-2010. During Q1-2011, significant funds were directed to the Company's three extensive capital programs being Tabakoto underground development, the mill expansion program and the exploration program. The Company intends on expending \$10 million on exploration and a total of approximately \$61 million on the mill expansion program.

Financing activities provided \$3,395,883 through the exercise of stock options and warrants during Q1-2011 compared to \$677,713 during Q1-2010. The Company paid \$303,309 against capital lease obligations during Q1-2011, compared to \$nil during Q1-2010.

## **NON-GAAP MEASURES**

Avion believes that investors use certain indicators to assess gold mining companies. The indicators are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared with GAAP. "Cash flow from operating activities before changes in non-cash working capital" is a non-GAAP performance measure which could provide an indication of the Company's ability to generate cash flows from operations, and is calculated by adding back the change in non-cash working capital to "Cash provided by (used for) operating activities as presented on the Company's consolidated statements of cash flows. "Cash cost per ounce produced" is a non-GAAP performance measure which could provide an indication of the mining and processing efficiency and effectiveness at the Mine. It is determined by dividing the relevant mining and processing costs excluding royalties by the ounces produced in the period. There may be some

variation in the method of computation of “cash cost per ounce produced” as determined by the Company compared with other mining companies. In this context, “ounces produced” includes in-process and dore inventory along with ounces of gold sold in the period. “Cash costs per ounce produced” may vary from one period to another due to operating efficiencies, waste to ore ratios, grade of ore processed and gold recovery rates in the period.

The following table provides a reconciliation of mining and processing costs per the financial statements and cash operating for the purposes of calculating cash costs per ounce produced and total cash costs produced.

	<b>Three months ended March 31, 2011</b>	<b>Three months ended March 31, 2010</b>
Mining and processing expenses	13,017,240	11,409,422
By-product silver sales credit	(298,022)	(41,237)
Inventory movements and adjustments	(3,364,038)	2,512,881
<b>Cash operating costs</b>	<b>9,355,180</b>	<b>13,881,066</b>
Divided by ounces of gold produced	20,270	15,716
Cash cost per ounce produced	462	883
Royalties	1,473,593	1,358,440
Total cash cost per ounce produced	534	970
Operating cashflow	15,397,626	2,454,619
Operating cashflow per ounce produced	760	156

## **TRANSACTIONS WITH RELATED PARTIES**

The Company was charged \$14,575 for administrative fees during the three months ended March 31, 2011 (2010: \$14,765) by Forbes & Manhattan, Inc., a corporation for which Mr. Stan Bharti, a director of the Company, is a director and serves as President.

The Company shares its premises with other companies that have common directors and officers, and the Company reimburses the related companies for its proportionate share of the expenses. The Company has advanced \$204,856 as at March 31, 2011 (2010: \$35,485; January 1, 2011: \$13,202) to cover these expenses, and this amount is recorded in prepaid expenses. As well, the Company is owed \$35,858 (2010: \$20,231; 2009: \$46,554) in reimbursable payments, and this amount is recorded in amounts receivable. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

## **DIRECTORS AND OFFICERS COMPENSATION**

For the three months ended March 31, 2011, the Company was charged \$43,725 by directors or by companies controlled by directors of the Company for consulting fees, salaries or directors fees (2010: \$14,765). The Company was charged \$281,104 in consulting fees for the three months ended March 31, 2011 (2010: \$275,892) by officers of the Company. The Company granted 2,600,000 stock options to directors and officers during the three months ended March 31, 2011 (March 31, 2010: 2,900,000) with an estimated fair-value of \$2,130,593, (March 31, 2010: \$1,615,719) which was estimated using the Black-Scholes option pricing model.

The Company has passed resolutions to compensate directors. The independent directors will receive \$20,000 annually for their role as directors. In addition, The Chairman of the Board of Directors will receive \$10,000 annually, while the Chairman of the Audit Committee will receive \$5,000 annually and the Chairmans of the Compensation Committee and Governance Committee will each receive \$2,500 annually.

## **SHARE DATA**

The authorized capital of the Company consists of an unlimited number of common shares of which 406,233,193 were issued and outstanding as of June 2, 2011.

Pursuant to the Company's Fixed Stock Option Plan, the number of common shares reserved for issuance under the Plan in aggregate is 35,048,024. As of June 2, 2011, 31,377,500 options are outstanding at exercise prices ranging from CDN\$0.20 to CDN\$1.70 expiring between July 12, 2011 and May 12, 2016.

As of June 2, 2011, 1,000,000 warrants were outstanding with an exercise price of \$0.60 expiring November 2, 2011.

Avion has no performance shares or escrow shares.

## **RISKS AND UNCERTAINTIES**

The Company's principal activity is mineral exploration, development and mining. Companies in this industry are subject to many and varied kinds of risks, including, but not limited to, environmental, metal prices, political and economical risks.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters.

For additional disclosure regarding certain risks that could affect the Company, please refer to the Company's Annual Information Form filed on March 21, 2010 or its most recent prospectus dated May 3, 2010.

## **COMMITMENTS**

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to \$5,000,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Additional minimum management contract commitments remaining under these contracts are approximately \$1,100,000.

The Company has contracted to purchase fuel as required, however if the contract was terminated, the Company would be obligated to pay approximately \$720,000 at December 31, 2010. The Company has contracted for mining services at the Tabakoto and Segala mine sites. Should the Company terminate the contract without cause, the Company will be liable for any costs incurred to date of termination, reasonable costs for demobilization and any other costs for which the contractor is legally liable as a result of the termination. The Company also entered into a contract to purchase a Sag Mill for \$6,900,000.

The Company has received a tax assessment from the Malian government for FCFA 1,303,558,366 (approximately \$2,700,000) covering some periods prior to the acquisition of the Mali Projects by the Company. The Company believes that this assessment is without merit and will not result in any significant expense to the Company. A sum of approximately \$200,000 was paid to the Malian government as an advance against this assessed amount.

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These law and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

## **CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The capital

structure of the Company consists of capital stock, warrants and stock options. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is in production and has begun to generate cash flows to support the ongoing and longer term strategy focused on mining, development and exploration. However, the Company may continue to rely on capital markets to support continued growth. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no significant changes in the Company's approach to capital management during March 31, 2011.

## **FINANCIAL RISK FACTORS**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no significant changes in the risks, objectives, policies and procedures for managing risk during the quarter ended March 31, 2011 and 2010.

### *Credit risk*

The Company's credit risk is primarily attributable to cash and equivalents, amounts receivable and the fuel duty recoverable. The Company has no significant concentration of credit risk arising from operations other than that related to the fuel duty recoverable. Financial instruments included in amounts receivable consist of sales taxes due from the Government of Canada, Value Added Tax from foreign governments, employee advances and reimbursable costs, and gold sales receivables. Fuel duty recoverable is due from the Government of Mali, currently being recovered by way of offset against certain royalties and any taxes otherwise payable to the Government of Mali. The right to offset and the full value of the recoverable amount have not been confirmed by the Government of Mali. Management believes that the credit risk with respect to these financial instruments is minimal. There is no formal offset agreement with the Malian Government, however the Government has not rejected the offsets to date.

### *Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2011, the Company had a cash and cash equivalents balance of \$19,070,923 (December 31, 2010: \$38,610,362; January 1, 2010: \$20,541,856) to settle current liabilities of \$20,823,537 (December 31, 2010: \$16,690,893; January 1, 2010: \$9,831,171).

### *Market risk*

#### (a) Interest rate risk

The Company has cash and cash equivalent balances at March 31, 2011. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by Canadian banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

#### (b) Currency risk

The Company's functional and reporting currency is the United States dollar. The Company funds certain operational expenses in Africa using the CFA Francs ("FCFA") and the Euro currencies, as well as corporate expenses in Canadian dollars. The Company's Malian subsidiaries operate in FCFA which is fixed with the Euro. Gold sales are paid in United States dollars.

The three main types of foreign exchange risk of the Company can be categorized as follows:

i) Transaction exposure

The Company's operations incur costs in different currencies. This creates exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. The Company has not hedged its exposure to currency fluctuations.

ii) Exposure to currency risk

The Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the United States dollar:

Balances as at March 31, 2011	CAD\$	CFA	Euros	Australian dollar
Cash and cash equivalents	8,033,881	3,348,787	-	-
Amounts receivable	176,999	1,000,573	-	-
Fuel duty recoverable	-	6,664,319	-	-
Investments	2,530,929	-	-	-
Accounts payable and accrued liabilities	(2,400,639)	(15,673,560)	-	-
Shareholder loan	-	(579,006)	-	-
Long term liabilities	-	-	-	-
Capital lease obligations	(444,353)	-	-	-
<b>Net balance sheet exposure</b>	<b>7,896,817</b>	<b>(5,238,887)</b>	<b>-</b>	<b>-</b>

Balances as at December 31, 2010	CAD\$	CFA	Euros	Australian dollar
Cash and cash equivalents	20,647,768	3,163,071	-	-
Amounts receivable	238,396	1,192,238	-	-
Fuel duty recoverable	-	5,626,336	-	-
Investments	2,716,857	-	-	-
Accounts payable and accrued liabilities	(1,553,178)	(12,830,844)	(101,801)	-
Shareholder loan	-	(521,282)	-	-
Long term liabilities	-	-	-	-
Capital lease obligations	(512,897)	-	-	-
<b>Net balance sheet exposure</b>	<b>21,536,945</b>	<b>(3,370,481)</b>	<b>(101,801)</b>	<b>-</b>

Balances as at December 31, 2009	CAD\$	CFA	Euros	Australian dollar
Cash and cash equivalents	19,375,752	757,879	-	-
Amounts receivable	120,268	974,726	-	-
Fuel duty recoverable	-	4,742,989	-	-
Investments	3,089,537	-	-	-
Accounts payable and accrued liabilities	(1,552,814)	(6,919,365)	-	(64,116)
Shareholder loan	-	(549,889)	-	-
Long term liabilities	-	-	-	-
Capital lease obligations	-	-	-	-
<b>Net balance sheet exposure</b>	<b>21,032,743</b>	<b>(993,660)</b>	<b>-</b>	<b>(64,116)</b>

iii) Translation exposure

The Company's operations translate their operating results from the host currency to United States dollars, the functional currency. Therefore, exchange rate movements in the United States dollar, Canadian dollar, Euro and CFA can have a significant impact on the Company's consolidated operating results.

(c) Price risk

The Company's earnings and cash flows are subject to price risk due to fluctuations in the market price of gold and silver. World gold prices have historically fluctuated widely and are affected by numerous factors beyond the

Company's control, including:

- The strength of the US economy and the economies of other industrialized and developing nations;
- Global or regional political or economic crises;
- The relative strength of the US dollar and other currencies;
- Expectations with respect to the rate of inflation;
- Interest rates;
- Purchases and sales of gold by central banks and other holders;
- Demand for jewelry containing gold; and
- Investment activity, including speculation in gold as a commodity.

The Company closely monitors these metal prices to determine the appropriate course of action to be taken by the Company. The Company currently does not hedge for price risk.

The Company is also subject to price risk for fluctuations in the cost of energy, principally electricity and purchased petroleum products. The Company's production costs are also affected by prices of commodities it consumes or uses in its operations such as lime, reagents and explosives. The prices of such commodities are influenced by supply and demand trends affecting the mining industry in general and other factors outside the Company's control. The Company has entered into fuel contracts to mitigate this risk.

The Company is also subject to price risk for changes in the market price of its investments.

#### Sensitivity analysis

##### Foreign exchange risk

A 10% change in the United States Dollar exchange rate as at March 31, 2011 compared to the Canadian Dollar, with all other variables held constant, would impact the Company's net earnings by approximately \$800,000.

A 10% change in the United States Dollar exchange rate as at March 31, 2011 compared to the FCFA, with all other variables held constant, would impact the Company's net earnings by approximately \$1,600,000.

##### Price risk

A 10% change in the average gold price during the first quarter of 2011 with all other variables constant, would have resulted in an impact to earnings of approximately \$3,150,000.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reported period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized to mineral properties, plant and equipment or expensed, and estimates for asset retirement obligations and reclamation costs. Significant estimates used in the preparation of the consolidated financial statements include, but are not limited to, the recoverability of amounts receivable, fuel duty receivable and investments; the measurement of material in circuit and the recoverable gold in this material used in determining the estimated net realizable value of inventories; and the proven and probable ore reserves and resources, and the related depletion and amortization. Other significant estimates made by the Company include factors affecting valuations of stock-based compensation, warrants, and income tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

## **OFF BALANCE SHEET ITEMS**

The Company does not have any off balance sheet items.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

In compliance with Form 52-109F2 of National Instrument 52-109, management must disclose in its Management's Discussion and Analysis any material weakness found to exist within its system of internal control over financial reporting.

A material weakness is a deficiency, or a combination of deficiencies, in internal controls over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

A material weakness in internal control over financial reporting as of March 31, 2011 existed as management did not have sufficient accounting personnel to appropriately review and approve accounting transactions. As a result, a calculation error on the accrual of gold sales occurred. The material weakness resulted in the restatement of the Company's condensed interim consolidated financial statements for the three months ended March 31, 2011.

Management has taken steps to resolve this weakness with the hiring of a Director of Finance to provide further oversight in the Company's financial reporting and to assist in the further development, implementation and maintenance of Company-wide internal controls.

## **OUTLOOK**

In February 2009, Avion commenced mining operations at its Ségala and Tabakoto properties in Mali West Africa mining. The Company restarted the mill on February 17, 2009 and during 2010 processed an average of approximately 1,930 tonnes per day.

Avion has set an objective of achieving a production rate of 200,000 ounces of gold per year from its Tabakoto/Ségala operations. The ability of Avion to increase production to 200,000 ounces of gold per year has not been the subject of a feasibility study and there is no certainty that the proposed expansion will be feasible or economically viable. Avion considers its current estimated mineral resource at the Tabakoto Project of Measured and Indicated mineral resources of 7.44 million tonnes grading 4.94 g/t Au or some 1.18 million ounces of gold, and Inferred mineral resources of 7.89 million tonnes grading 4.01 g/t Au or some 1.04 million ounces of gold, supports this goal (please refer to Avion press release dated May 2, 2011). Avion is on course to spend up to \$4 million on exploration at the Tabakoto Project during 2011, with a mandate to increase the mineral resource base, and convert some of the Inferred mineral resources to Measured and Indicated mineral resources.

Continued exploration in 2011 at the Houndé property is expected to add to the initial resources published on October 26, 2010 and further define the zones identified during the 2010 drill program. Avion plans to update the project resources in Q4, 2011 and produce a 43-101 compliant resource report in support of the updated resources. If sufficient resources are defined by the resource update, Avion may initiate a PEA (preliminary economic assessment) to define potential economic parameters for the development of the project.

Drilling is planned in Q2 and Q3, 2011 to test a series of new mineralization models that have been developed for the Kofi property. Depending on results Avion may plan to produce an updated mineral resource estimate in Q4-2011.

A development schedule for the Tabakoto Project to achieve a 200,000 oz/year production run-rate is presented in the table below.

Project milestones	2011				2012
	Q1	Q2	Q3	Q4	Q1
60,000 metre exploration program	•	•	•	•	
Future exploration programs					•
Tabakoto underground development	•	•	•	•	
Issue updated NI43-101 mineral resource report	•				
Issue NI43-101 mineral reserve report		•			
Mine Dioulafoundou and other open pits	•	•	•	•	•
Plant expansion construction	•	•	•	•	•
Ségala underground development		•	•	•	•
200,000 oz/year gold production run-rate					◇

## **Technical Details**

### **Avion's progress to date towards expansion is summarized below:**

Avion has contracted Byrnegut Offshore Pty Ltd ("Byrnegut"), a large international mining contractor based in Perth, Australia, to carry out underground development of the Tabakoto deposit. Portal development at the bottom of the existing Tabakoto open pit commenced on October 6, 2010. As of the end of Q1-2011, over 1910 metres of development has been completed, plus a ventilation raise. The contract also includes underground development of the Ségala deposit, currently planned to commence in Q2, 2011.

Avion has hired an Engineering, Procurement, Construction Management ("EPCM") firm, GENIVAR Limited Partnership of Montreal, Canada to double the capacity of the process plant from 2,000 tonnes per day to 4,000 tonnes per day. A SAG mill has been ordered from Polysius Corporation with delivery scheduled in Q4-2011. The expansion project is anticipated to be completed in 2012. Activities during 2011 will focus on completing detailed engineering, ordering equipment, and site construction with commissioning planned in 2012.

Avion raised gross proceeds of \$28,842,000 in a financing, as described in a press release issued on May 10, 2010. A substantial portion of the funds have been allocated to underground development and process plant expansion. Cash flow from operations is expected to provide a significant amount of the funds required for the upgrade.

Mill feed plans for 2011 include open pit mining at the Dioulafoundou and Tabakoto South deposits, underground development ore from the Tabakoto deposit, and stockpile reclamation of ore from the Ségala open pit that was mined out in 2010. It is expected that ore derived from the Dioulafoundou pit and Tabakoto underground development will be higher grade than that mined at the Ségala Pit in 2010. Several other ore zones will be available to provide alternative open pit ore sources (Djambaye II and Dar Salam zones) with these being developed as required and as equipment availability permits. Underground development of the Ségala deposit is planned to be well underway during the year. Gold production in 2011 is targeted at 100,000 ounces.

Avion has purchased its own open pit mining equipment to decrease its reliance on contractors and in turn expects to lower open pit mining costs and increase equipment availability. The first batch of machines arrived on site in Q1-2011, and the full fleet is due on site in Q2-2011.

Avion is working towards providing its initial reserve statement with a guided completion in Q2, 2011. Current open pit and underground Measured and Indicated mineral resources will be incorporated into the reserve model as well as new drill data expected from the Tabakoto NW1, Tabakoto NW2 and Djambaye II zones.

June 2, 2011