

**AVION**  
**GOLD CORPORATION**  

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**(FORMERLY AVION RESOURCES CORP.)**

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

***for the three and nine months ended  
September 30, 2010 and  
the three and ten months ended  
September 30, 2009***

-- unaudited --

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Three and Nine Months Ended September 30, 2010**

**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 November 23, 2010. On May 22, 2009, the Company changed its name to Avion Gold Corporation from Avion Resources Corp. and started trading under its new name on the TSX Venture Exchange on June 5, 2009. 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 consolidated financial statements and notes thereto for the nine months ended September 30, 2010 and our audited annual consolidated financial statements and notes and MD&A for the thirteen-month period ended December 31, 2009. The financial statements and related notes of Avion have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). 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).

The Company had changed its year-end to December 31 from November 30 effective our fiscal year ended 2009. As a result, the nine months ended September 30, 2010 are being compared to the ten months ended September 30, 2009.

References to the first, second and third quarters of 2010 or Q1-2010, Q2-2010 and Q3-2010, and the first, second and third quarters of 2009 or Q1-2009, Q2-2009 and Q3-2009, refer to the three months ended March 31, June 30 and September 30, 2010, and the four months and three months ended March 31, June 30 and September 30, 2009.

Effective September 30, 2009, the Company changed its reporting currency from Canadian dollars (CDN\$) to United States dollars (US\$) as the Company anticipates that the majority of its future revenue stream will be denominated in US\$. The Company has made this change in accordance with Canadian GAAP by following the recommendations of Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants (CICA) Abstract EIC-30 "Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency". The Company's functional currency, which is Canadian dollars, remains unchanged. Consequently, all figures reported herein are in US\$ unless otherwise indicated.

Unless otherwise noted, this MD&A reports our activities through November 23, 2010.

**OVERVIEW AND STRATEGIC DIRECTION OF THE COMPANY**

Avion's common shares are listed on the TSX Venture Exchange ('TSX-V') under the symbol "AVR".

Avion is a Canadian gold mining company with a current focus in West Africa. Avion acquired a 100 square kilometre land and mine asset in May 2008, which contains the Tabakoto and Ségala gold projects, located in Mali, West Africa. To move this asset forward, Avion has built a strong team of qualified operational staff and geologists that executed a plan that resulted in the start of gold milling activities on February 17, 2009.

The Company commenced commercial production at the Tabakoto and Ségala gold projects on May 1, 2009. Prior to this, the Company was a development stage company as defined by the CICA Accounting Guideline 11.

During Q4-2009, the Company entered into an agreement with Great Quest Metals Ltd. ("Great Quest") to acquire 75% of their interest in three mineral concessions located adjacent to the south and west sides of the Tabakoto property. The Company was required to make cash payments of CDN\$2,360,000 and work commitments of CDN\$1,890,000 both over five years. On signing of the Option Agreement, Avion made a cash payment of CDN\$350,000. In Q1-2010, the Company entered into a superseding agreement to acquire 100% of Great Quest's interest in these concessions. Consideration for this interest was CDN\$4,000,000, of which CDN\$500,000 was paid in cash in January 2010. The remainder was paid through the issuance of 7,608,696 common shares of the Company of which 1,902,174 shares are being held in escrow pending reception of the Comifa concession. See the Mineral Properties section of this report for further details.

In Q1-2010, the Company executed an agreement to acquire a 100% interest in the Houndé group of concessions in Burkina Faso from Avocet Mining PLC ("Avocet"). During the quarter, the Company signed a definitive agreement and issued 10,300,000 common shares to Avocet which were held in escrow until just subsequent to end of the quarter, when the acquisition was completed. This property is subject to a 2% NSR due to Barrick Gold, and certain back-in rights. Should Avion be successful in defining a greater than 3 million ounce gold deposit on the Kari Nord and Kari Sud licenses, Barrick has the option to claw-back a 75% indirect interest in the Kari properties by paying Avion an amount equal to the value of this interest subject to an independent valuation report. Should Avion define less than a 3 million ounce gold deposit, Barrick has the option to claw-back 25% equity in the Houndé concession by paying Avion an amount equal to the value of this interest determined from an independent valuation. If the claw-back option in either case is exercised, Barrick will relinquish the NSR over that license(s). If the claw-back option in either case is exercised, Avion and Barrick will form a Joint Venture company under the terms in the Agreement with the majority holder taking on the role of operator. See the Mineral Properties section of this report for further details.

The Company's September 30, 2010 unaudited consolidated financial statements have been prepared in accordance with Canadian GAAP applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in its September 30, 2010 consolidated financial statements. For a full description of the Company's risks, please refer to the Risks and Uncertainties section of this report.

### **Q3-2010 HIGHLIGHTS**

During the three-month period ending September 30, 2010, the following significant activities occurred:

- Avion produced 23,609 ounces of gold during the quarter.
- Avion processed 178,800 tonnes of ore at an average grade of 4.28 g/t Au.
- The average mill recovery for the quarter was 96.2%.
- Subsequent to Q3, underground development commenced at the Tabakoto deposit on October 6, 2010. The Company also started waste rock stripping at its Dioulafoundou deposit in late October.

- Avion signed capital lease agreements with Volvo Construction Equipment AB of Sweden and Amalgamated Mining Inc. of Canada for the supply of 12 underground haul trucks and a wheel loader, and two underground Caterpillar loaders, respectively. The purchase of this equipment will reduce future operating costs by decreasing the reliance on contractor-supplied mining equipment.
- On July 5<sup>th</sup> Avion announced the signing of a definitive agreement with Avocet for the acquisition of the Houndé property in Burkina Faso. Avion followed this release with another on August 3<sup>rd</sup>, which presented the results of nine holes that tested the Vindaloo zone both along strike and to depth. The best hole of this program returned 2.92 g/t Au over 39.3 metres core length.
- Avion released the results of a resource estimation for the Dioulafoundou zone on July 14<sup>th</sup> - Indicated mineral resource comprise, 555,132 tonnes grading 4.984 g/t Au and Inferred mineral resources of 213,616 tonnes grading 5.664 g/t Au.
- During September (September 9<sup>th</sup> and September 21<sup>st</sup>) Avion released the results of drilling on the NE1, NE2, Tabakoto South and Dabo cross structures. High grades were or have been intersected in these zones with drilling to date indicating a steep to moderate east plunge for the mineralized zones.

## **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 is subject to a 1% net smelter return royalty ("NSR") payable to the vendor. The Company bought out this NSR for \$2,000,000 subsequent to the end of the quarter. 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**

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

As of November 11, 2010, Avion had completed 427 core and RC holes (number includes re-started holes) totaling approximately 53,820 metres, local geological mapping, magnetic surveys, soil sampling and trenching. Avion plans to complete approximately 60,000 metres of exploration drilling in 2010 as part of an US\$ 8 million exploration program on the Tabakoto, Ségala and Kenieba properties.

As of November 11<sup>th</sup>, 2010 results have been released for drilling carried out at the Djambaye II, Dioulafoundou, Tabakoto NE, Tabakoto NW, Tabakoto South and Dabo Zones.

Dioulafoundou Zone

Avion completed 138 holes totaling 15,245 metres over the Dioulafoundou area. The strongest of the two zones, Dioulafoundou NW zone (“DNW”), has been traced for approximately 400 metres along strike and to approximately 300 metres depth. A second, parallel, zone of gold mineralization, DNW2, lies approximately 60 metres to the south and has been traced for approximately 200 metres along strike and to 300 metres depth. Both zones are steeply dipping and open down plunge.

Avion’s work has extended the DNW and NW2 zones both along strike and to depth, relative to the historic open pit inferred mineral resource for the Dioulafoundou zone of 349,300 tonnes grading 3.76 g/t Au totaling 42,000 ounces at a 1 g/t Au cut-off (Avion news release, May 19, 2009). On July 14<sup>th</sup> Avion announced an updated Indicated mineral resource for Dioulafoundou of 555,132 tonnes grading 4.98 g/t Au and an additional Inferred mineral resources of 213,616 tonnes grading 5.66 g/t Au. The bulk of this resource, approximately 80%, is deemed open pittable.

### 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 (324,000 ounces of gold, in 2,574,000 tonnes grading 3.92 grams per tonne gold).

To date Avion has received results for 128 reverse circulation and core holes totaling 11,288 metres. Mineralized zones returning grades greater than 1 g/t Au were intersected in most of holes.

Avion’s drilling to date has focused on a 700 metre section of the Djambaye II zones where grades and widths were expected to be stronger and where a parallel zone of gold mineralization was previously identified. The northern end of the Djambaye II zone is located approximately nine kilometres southwest from the Tabakoto mine site. Drilling to date has met with Avion’s expectations with locally high grades and multiple intercepts. The Djambaye II mineralized structure/zone dips at -70 degrees to the east and has now been traced by drilling for approximately 4,400 metres and is still open to the north, south and to depth. Infill drill holes have been emplaced every 25 metres along the northern portion of the zone and were targeted at 25 and 50 metre depths in order to define an initial, potentially near surface, mineable zone and further develop Avion’s understanding of the zone in order to support an envisioned longer term underground mineable resource. The current drilling is expected to provide enough information to support an updated resource statement with a projected release in late Q4, 2010.

### Tabakoto Pit area drilling

In 2010, Avion has completed 63 core and reverse circulation holes totaling 15,632 metres. This drilling has focussed on both northeast and northwest trending cross-structures that host the bulk of the grade in the Tabakoto pit area. The goal of the drilling was to test the major cross-structures to 300 metres below surface and at the same time increase Avion’s confidence level in both the grades of the cross structures and their predictability at depth. Avion’s drill program has accomplished both goals. Drilling continues to test the cross structures with the current focus on increasing Avion’s confidence levels on higher grade portions of the deposit.

### Tabakoto South and Dabo Zones Drilling

The Tabakoto South Trend has been traced for 450 metres along strike and Avion suspects that it extends for at least 750 metres along strike. The Tabakoto South trend lies approximately 260 metres southeast, and is parallel to the NE1 zone described below. Within this trend two coherent zones of higher grade mineralization have been identified, the Dabo and Tabakoto South zones.

The Tabakoto South Zone has been traced for approximately 300 metres along strike, to approximately 300 metres below surface and is open to depth. Twelve of the thirteen 2010 holes intersected significant gold mineralization with hole T-10-37 returning a best intercept of 16.86 g/t Au over 5.7 metres (approximately 3.3 metres true width). Infill drilling will continue to be carried out to increase the confidence levels in the resource.

The Dabo zone has been traced for approximately 250 metres along strike, to 250 metres depth and is open down plunge. Seven of the seven 2010 drill holes that pierced this target horizon returned no significant values. These holes were designed to extend the deposit along strike and to depth. More down-plunge drilling is required to test this zone which appears to increase in grade at depth with the deepest hole returning 7.92 g/t Au over 14.1 metres (approximately 11.0 metres true width).

Avion is currently grade control drilling the near surface portions of the two zones with a goal to developing an open pit resource. Core drilling in 2010 to test the zone to depth consisted of 17 holes totaling 4,521 metres.

#### Tabakoto NE 1 and NE2 Zone Drilling

The NE1 and NE 2 trends lie in the southern part of the Tabakoto pit. On August 17, 2009, Avion released the results of channel samples collected along this trend that returned 108.68 g/t Au (18.24 g/t Au capped at 37.5 g/t Au) over 2.0 metres true thickness, and 25.15 g/t Au (23.47 g/t Au capped) over 2.3 metres (true thickness). This panel of mineralization can be traced along strike for approximately 300 metres and to depth for approximately 400 metres; this zone is still open to depth and partially along strike. Grade control reverse circulation holes indicated the presence of a continuously gold mineralized zone that returned a best value of 17.16 g/t over 9.0 metres (approximately 7.0 metres true width). With this information, Avion excavated a small open pit along this structure during June and July. Open pit grades in excess of 5 g/t Au were returned.

Drill testing of the NE1 trend resulted in the discovery and partial definition of several parallel zones of mineralization which have been modelled as part of the resource update planned for year-end. Significant intercepts of 11.48 g/t Au over 7.2 metres core length (NE1), 16.04 g/t over 6.8 metres core length (NE2) and 10.96 g/t Au over 7.2 metres core length (HW NE zone) have been received.

As part of the 2010 program Avion has tested the NE1 and NE2 zones to 300 metres depth at 50 metre centres along a an approximate 300 metre strike length. To accomplish this goal 28 holes totaling approximately 7,405 metres have been drilled. Assay results for the most recent holes are still outstanding.

## Tabakoto NW1 Zone

The NW1 zone is exposed in the north end of the Tabakoto pit where a channel sample returned 12.4 g/t over 24.4 metres and previous grade control drilling defined two zones 50 to 100 metres in strike length. Based on a long section interpretation of the NW1 and NW2 zones 17 holes totaling approximately 3,605 metres were drilled to test these zones. The NW1 and NW2 cross structures have been traced for 50 to 125 metres along strike and to approximately 300 metres depth. Intercept highlights of the NW1 and NW2 zones include the 12.07 g/t Au over 12.5 metres, 3.58 g/t Au over 8.6 metres, 2.89 g/t Au over 6.9 metres and 5.33 g/t Au over 2.25 metres.

In addition to the NW1 and NW2 zones, numerous other mineralized zones were intersected. Modelling work is in progress to put these other intercepts into context and develop a testable model. Highlights of these other intercepts include the following 8.56 g/t Au over 7.5 metres, 67.71 g/t Au over 3.3 metres, 24.11 g/t Au over 3.8 metres, 275.35 g/t Au over 2.0 metres and 3.16 g/t Au over 12.0 metres

### Current Resources

Avion's current Tabakoto Project Measured and Indicated Mineral Resource is 1.5 million ounces of gold grading 4.04 g/t Au. In addition, Avion's Inferred Mineral Resource is 1.21 million ounces of gold grading 3.82 g/t Au (Avion, January 6, 2010 news release and updated Dioulafoundou new release July 15, 2010). Note that the above resources include a historic 43-101 resource estimate for the Djambaye II zone, which was acquired from Great Quest. An updated resource estimate is in progress with an anticipated completion date in Q4, 2010. This resource update will include most mineralized zones on the Tabakoto Project which includes the Tabakoto, Ségala and Great Quest properties. It is anticipated that the overall mineral resources will reduce somewhat from the above estimate but will demonstrate higher grades in-line with plans to develop the Ségala and Tabakoto deposits from underground.

Avion has agreed to acquire 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). 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. Closing of the acquisition is pending delivery of a final legal opinion to Avion.

#### Mineral Resource Estimates

Measured and Indicated Mineral Resources<sup>(1)(2)(3)(4)(5)(7)</sup>

<b>Zone</b>	<b>Tonnes</b>	<b>Au g/t</b>	<b>Ounces</b>	<b>News Release Date</b>
<b>Potentially Open Pittable Ségala</b>				
Main Measured <sup>5</sup>	50,655	4.52	11,199	January 6, 2010
Main Indicated <sup>5</sup>	200,801	5.64	35,610	January 6, 2010
NW Measured				Dec. 12, 2008
NW Indicated	251,570	3.34	26,997	Dec. 12, 2008

<b>Potentially Open Pittable Tabakoto</b>				
Measured	1,253,370	2.89	116,383	May 19, 2009
Indicated	2,882,992	3.48	322,946	May 19, 2009
<b>Potentially Open Pittable Dioulafoundou</b>				
Indicated <sup>5</sup>	<b>502,487</b>	<b>5.16</b>	<b>83,415</b>	July 14, 2010
<b>Sub Total</b>	<b>5,141,875</b>	<b>3.59</b>	<b>596,550</b>	
<b>Potentially Underground Mineable Ségala</b>				
Main Measured	4,504	4.70	681	Current update
Main Indicated	2,875,302	5.30	489,490	Current update
NW Measured	0	0.00		Dec. 12, 2008
NW Indicated	638,384	3.22	66,166	Dec. 12, 2008
<b>Potentially Underground Mineable Tabakoto</b>				
Measured	39,746	3.39	4,331	May 19, 2009
Indicated	2,645,377	3.73	317,476	May 19, 2009
<b>Potentially Underground Mineable Dioulafoundou</b>				
Indicated	52,645	3.27	5,532	July 14, 2010
<b>Sub Total</b>	<b>6,255,958</b>	<b>4.39</b>	<b>883,676</b>	

### **Inferred Mineral Resources<sup>(1)(2)(3)(4)(5)(6)(7)</sup>**

<b>Zone</b>	<b>Tonnes</b>	<b>Au g/t</b>	<b>Ounces</b>	<b>Comment</b>
<b>Potentially Open Pittable</b>				
Ségala NW	2,196	3.28	231	Dec. 12, 2008
Dioulafoundou <sup>5</sup>	104,626	5.921	19,918	July 14, 2010
Dar Salam	1,195,228	3.49	134,155	May 19, 2009
Tabakoto	982,628	3.47	109,568	May 19, 2009
Djambaye II <sup>6</sup>	2,445,300	3.92	307,800	January 28, 2008
<b>Sub Total</b>	<b>4,729,978</b>	<b>3.76</b>	<b>571,672</b>	
<b>Potentially Underground Mineable</b>				
Ségala NW	214,785	2.74	18,930	Dec. 12, 2008
Ségala Main <sup>5</sup>	1,305,126	4.45	186,523	January 6, 2010
Dioulafoundou <sup>5</sup>	108,990	5.42	18,979	July 14, 2010
Dar Salam	601,965	3.35	64,785	May 19, 2009
Tabakoto	2,682,100	3.73	321,300	May 19, 2009
<b>Sub Total</b>	<b>4,912,966</b>	<b>3.87</b>	<b>610,517</b>	

- + 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.
- + 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.
- + The mineral resources in this press release 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.

- (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 ranging from USD\$825 to USD\$ 900 per ounce.
- (3) Eugene Puritch, P. Eng. of P&E Mining Consultants Inc. Qualified Persons under NI 43-101, prepared the Current mineral resource estimates and have reviewed the technical disclosure herein relating to the resource estimates.
- (4) Milko Rivera, P.Eng and Farshid Gazanfari independent consultants, Qualified Persons under NI 43-101, prepared the May 19, 2009 mineral resource estimates and have reviewed the technical disclosure herein relating to the resource estimates. Eugene Puritch, P. Eng. of P&E Mining Consultants Inc. carried out an independent review of the resource model and provided preliminary open pit and UG mining scenarios.
- (5) 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, are responsible for the mineral resource estimates presented on December 12, 2008 and have reviewed the scientific and technical information in this document relating to those estimates.
- (6) Carl Verley ( P. Geo.), independent consultant, Qualified Person under NI 43-101, prepared the January 28, 2008 Djambaye II mineral resource study for Great Quest Metals Ltd.
- (7) Mineral resources that are not mineral reserves do not have demonstrated economic viability.

### 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 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 of Exploration, Don Dudek, P. Geo. These samples were then delivered to a representative of SGS Mineral Service based in Kayes, Mali. 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.

### Great Quest Metals Ltd. ("Great Quest") Kenieba Property purchase

The Great Quest properties comprise the Kenieba (Sansanto), Kenieba Est and Comifa concessions totaling approximately 32 km<sup>2</sup>, which increases Avion's local property package by approximately 30%. The Kenieba concession hosts a 43-101 compliant inferred resource in the Djambaye II gold zone of 324,000 ounces (Carl Verley (P. Geo.), January 28, 2008 Great Quest news release). This equates to 2,574,000 tonnes grading 3.92 grams per tonne gold.

Avion Gold entered into an agreement in respect of the Kenieba Concessions to acquire 100% of Great Quest's interest in the concessions. Pursuant to the Acquisition Agreement, Avion Gold has paid and will pay Great Quest total consideration of CDN\$4,000,000, comprised of the payment of CDN\$500,000 in cash and the issuance of 7,608,696 Avion Gold common shares. A total of 25% of the shares are being held in escrow pending reception of the Arrêté for the Comifa Concession; Avion expects to receive the Arrêté for the Comifa concession in 2010. Avion Gold has also agreed to make future contingent payments of up to CDN\$2.1 million in the event that it produces more than 400,000 ounces of gold from the Kenieba concessions, payable in increments of 50,000 ounces of production. If

production from the concessions exceeds 600,000 ounces, Avion would be required to make up to a further CDN\$1.4 million in payments to complete its obligations under this new agreement.

The Djambaye II zone, which is open in two directions, has been traced for 4,400 metres along strike and locally to 200 metres depth, by drilling. All historic holes drilled into the Djambaye II zone intersected gold mineralization with values ranging from 0.63 g/t Au over 6.3 metres core length to 16.35 g/t Au over 5.2 metres core length. The Djambaye IIb zone, located 15 to 30 metres to the west, also displays consistent gold bearing intercepts ranging from 1.33 g/t Au over 1.85 metres core length to 8.82 g/t Au over 4.45 metres core length. True widths are approximately 70% or more of core length. The bulk of the mineralization at the Djambaye II zone is hosted by pyrite-, stockwork silicified-, albite- and carbonate-altered felsic intrusion and greywacke. This mineralization style differs from that at Avion's Tabakoto and Ségala mines with the predominance of pyrite over arsenopyrite, a feature more in common with Randgold's Loulo deposits, and the more extensive stockwork-type silicification.

Since acquisition Avion has completed 128 core and reverse circulation holes totaling 11, 288 metres. Avion's focus has been the higher grade near-surface portions of the zone at the northern end of the mineralized structure. While the southern-most hole intersected strong alteration and sulphide mineralization no gold values were returned. However, the gold-bearing portion of the mineralized system is still open to depth and to the north. High priority targets include those areas where both northeast- and northwest-trending cross structures would intersect this mineralized trend.

An updated resource estimate of this zone is in progress. As well a review of the mineability of an open pit over this zone is in progress.

#### Houndé Property, Burkina Faso

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 and Resources totaling 2.35 million ounces of gold and Inferred Resources totaling 0.91 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 nine 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 500 metre strike length of the zone, which is still open along strike and to depth. A summary of significant new 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

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 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.

Avion has completed 30 core holes totaling approximately 5,429 metres with eighteen of the holes completed on the northern concession block, and twelve holes completed in the southern concession block. Drilling resumed, in the northern block of concessions in mid-October after the rainy season. Numerous high priority targets remain to be tested with approximately 7,500 metres of core drilling budgeted for 2010. As well, the drill program will test for extensions of the Vindaloo zone.

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, has focused on the documentation of extensive artisanal works, the collection of over 10,000 soil samples and compilation of available data.

## Mining Operation Review

### 2010 Second Quarter production results

Avion produced 23,609 ounces of gold during Q3-2010, which is an 89% improvement over the 12,517 ounces produced in the third quarter of 2009. The Tabakoto plant processed 178,800 tonnes of ore at an average grade of 4.28 g/t Au and the average mill recovery for the quarter was 96.2%. This compares to third quarter of 2009 production of 125,100 tonnes of ore at an average grade of 3.25 g/t Au and a mill recovery of 95.5%.

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 to the end of the third quarter was 518,100 tonnes of ore processed at an average grade of 3.86 g/t Au, and an average mill recovery of 96.1%, for a total of 61,540 ounces of gold.

## RESULTS OF OPERATIONS

### For the three months ended September 30, 2010

The Company reported net income of \$13,588,390 (\$0.04 per share) for the three months ended September 30, 2010 compared to net income of \$444,261 (\$0.00 per share) for the three months ended September 30, 2009. Other comprehensive income for Q3-2010 amounted to \$2,247,567 (Q3-2009: other comprehensive income of \$2,602,078), which represents the foreign exchange difference determined using the current rate method to translate the financial statements to US\$.

During Q3-2010, the Company sold 25,700 ounces of gold and generated \$31,702,673 in gold sales revenue. In Q3-2009, 14,796 ounces of gold was sold generating \$13,889,255 in gold sales revenue. Mine and processing expenses were \$11,763,087 (Q3-2009: \$9,765,102), which includes \$278,773, (Q3-2009: \$78,260) in amortized deferred stripping costs, and the Company recorded amortization and depletion of \$2,807,928 (Q3-2009: \$962,192). 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 over an estimated 333,558 ounces (approximately four years). The Company was subject to an aggregate NSR of 7% on metal sales during the quarter. Royalties expense totaled \$2,078,488 for the ounces of gold sold during Q3-2010 (Q3-2009: \$1,287,968). Subsequent to the end of the quarter, the Company bought out a 1% royalty for \$2,000,000.

Corporate and administrative expenses for the quarter ended September 30, 2010 totalled \$718,343 compared to \$601,105 for Q3-2009. The increase results primarily from higher audit accruals for the year as well as higher shareholder communications costs due to timing of events. The Company continues to share office space and other resources with companies that have common directors and officers.

Non-cash stock based compensation expense for Q3-2010 was \$33,073 (Q3-2009: \$137,861) related to the estimated fair value of stock options that vested during Q3-2010. No stock options were granted during Q3-2010 compared to 210,000 stock options granted in Q3-2009. Stock based compensation was estimated using the Black-Scholes option pricing model.

During Q3-2010, the Company incurred a non-cash accretion expense of \$113,750 related to the Company's asset retirement obligations acquired through the acquisition of the Mali projects (Q3-2009: \$150,255). As well, the Company incurred lower interest expense in Q3-2010 compared to Q3-2009 accruing on the Government of Mali loans as a result of lower LIBOR rates.

The Company recognized an unrealized gain of \$305,578 during Q3-2010 (Q3-2009: an unrealized loss of \$151,629) related to their held-for-trading investments based on the fair market value of these investments as at September 30, 2010.

The Company also incurred a foreign exchange translation loss of \$1,029,595 during the Q3-2010 compared to \$422,728 during Q3-2009. The FCFA remained weak compared to the US\$ during the quarter and a large proportion of the Company's net assets are carried in FCFA.

For the nine months ended September 30, 2010

The Company reported net income of \$12,834,300 (\$0.04 per share) for the nine months ended September 30, 2010 compared to a net loss of \$1,377,792 (loss of \$0.00 per share) for the ten months ended September 30, 2009. Other comprehensive income for the nine month period in 2010 amounted to \$2,192,706 (2009: other comprehensive loss of \$627,718), which represents the foreign exchange difference determined using the current rate method to translate the financial statements to US\$.

During the nine months ended September 30, 2010, the Company sold 64,722 ounces of gold and generated \$77,056,727 in gold sales revenue. The Company commenced commercial production in May 2009, and in the ten months ended September 30, 2009, 20,971 ounces of gold was sold generating \$19,470,975 in gold sales revenue. Mine and processing expenses were \$38,573,597 (2009: \$13,417,619), which includes \$734,572 (Q3-2009: \$285,116) in amortized deferred stripping costs, and the Company recorded amortization and depletion of \$6,625,971 (2009: \$1,548,354). 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 over an estimated 333,558 ounces (approximately four years). The Company was subject to an aggregate NSR of 7% on metal sales during the period. Royalties expense totaled \$5,254,124 (2009: \$1,792,041) for the ounces of gold sold during 2010. Subsequent to the end of the quarter, the Company bought out a 1% royalty for \$2,000,000.

Corporate and administrative expenses for the nine months ended September 30, 2010 totalled \$2,788,970 compared to \$2,101,379 for the ten months ended September 30, 2009. The significant increases include consulting and management, legal and accounting costs, as well as shareholder communications costs, with the Company listing on the US over-the-counter market OTCQX International. The Company continues to share office space and other resources with companies that have common directors and officers.

Non-cash stock based compensation expense for the current period was \$6,367,365 (2009: \$1,146,340) related to the estimated fair value of stock options that were granted and/or vested during the nine month period. A total of 13,945,000 stock options were granted to directors, officers, employees and consultants of the Company compared to 4,650,000 stock options granted in 2009. Stock based compensation was estimated using the Black-Scholes option pricing model.

During the nine months ended September 30, 2010, the Company incurred a non-cash accretion expense of \$341,250 related to the Company's asset retirement obligations acquired through the acquisition of the Mali projects (2009: \$378,064). As well, the Company incurred interest expense accruing on the Government of Mali loans during the current period. During 2009, the Company incurred interest expense on short term loans payable to Aberdeen International Inc.

The Company recognized an unrealized loss of \$1,289,571 during 2010 (2009: \$40,980) related to their held-for-trading investments based on the fair market value of these investments as at September 30, 2010.

The Company also incurred a foreign exchange translation loss of \$3,209,801 during the nine months ended September 30, 2010 compared to \$292,936 during the ten months ended September 30, 2009. The FCFA weakened substantially compared to the US\$ during the year and a large proportion of the Company's net 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 (Loss)	Income (Loss) per share	Long Term Liability
		\$	\$	\$	\$
Q3-2010	September 30, 2010	31,789	13,588	0.04	5,619
Q2-2010	June 30, 2010	26,038	(208)	(0.00)	5,280
Q1-2010	March 31, 2010	19,467	(546)	(0.00)	5,167
Q4-2009	December 31, 2009	14,202	3,975	0.02	5,053
Q3-2009	September 30, 2009	13,933	444	0.00	3,864
Q2-2009	June 30, 2009	5,597	(581)	(0.00)	3,789
Q1-2009	March 31, 2009	-	(1,241)	(0.02)	3,626
	* four-month period				
Q4-2008	November 30, 2008	-	(4,239)	(0.08)	3,554

The Company commenced commercial production during Q2-2009 resulting in revenue from operations recognized during the period. Q3-2009 reflects a full quarter of commercial production revenues. The Company did not have income from operations prior to the quarter ended March 31, 2009. During Q1-2009, the Company recognized pre-production revenues which were recorded against deferred exploration costs.

During the quarter ended November 30, 2008, included in the loss for this period is a \$2,500,000 write down of the Ethiopian projects. During the quarter ended March 31, 2009, the Company's loss is attributed to large interest and accretion expenses related to short-term debentures and the Company's asset retirement obligations. 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 earned an average of \$1,233 per oz on their 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. During Q3-2010, the Company acquired assets through a capital lease arrangement, thereby marginally increasing long-term liabilities.

## 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 September 30, 2010, the Company had \$28,203,970 in cash and cash equivalents, and working capital of \$38,085,478.

The Company raised \$24,974,662 net of issue costs during the nine months ended September 30, 2010 from a public offering issuing 48,070,000 common shares of the Company at a price of CDN\$0.60. Issue costs totalled \$2,654,421 which included the value of 2,884,200 broker warrants of \$466,932. During the comparative period, the Company raised \$2,361,380 net of issue costs through the issuance of 37,500,000 units of the Company priced at \$0.08 per unit. Issue costs totalled \$254,882 including the value of broker options of \$87,390.

During the nine months ended September 30, 2010, the Company raised \$3,512,744 from the exercise of warrants and options compared to \$1,675,818 during the ten months ended September 30, 2009.

## **CASH FLOWS**

### For the quarter ended September 30, 2010

During the quarter ended September 30, 2010, operating activities provided \$13,768,816 in cash flows compared to \$916,412 during Q3-2009. Operations, net of corporate administrative expenses, generated approximately \$17,300,000 in cash while the net change in working capital used approximately \$3,560,000 during Q3-2010. During Q3-2009, operations generated approximately \$1,950,000 while the net change in working capital used \$1,030,000 for the comparative quarter.

Cash from investing activities used \$17,175,918 during Q3-2010 compared to \$2,821,410 during Q3-2009. Expenditures on properties, plant and equipment used \$19,285,902 during Q3-2010 compared to \$1,141,221 during Q3-2009. The change in working capital related to properties, plant and equipment provided \$2,109,984 for Q3-2010 compared to the use of \$1,680,189 for Q3-2009.

Financing activities provided \$497,295 during Q3-2010 compared to \$1,069,602 during Q3-2009. The exercise of warrants and options generated \$493,325 in cash for Q3-2010 compared to \$1,047,625 during Q3-2009. The Company paid \$48,352 against capital lease obligations during Q3-2010, compared to \$nil during Q3-2009.

The effect of the change in foreign exchange rates on cash was (\$120,391) during Q3-2010 compared to (\$250,684) during Q3-2009.

### For the nine months ended September 30, 2010

During the nine months ended September 30, 2010, operating activities provided \$22,129,447 in cash flows compared to \$891,170 during the ten months ended September 30, 2009. Operations, net of corporate administrative expenses, generated approximately \$29,600,000 in cash while the net change in working capital used approximately \$7,500,000 during 2010. During the ten months ended September 30, 2009, operations generated approximately \$2,580,000 while the net change in working capital used \$1,700,000.

Cash from investing activities used \$43,124,724 during 2010 compared to \$1,222,118 during the ten months ended September 30, 2009. Expenditures on properties, plant and equipment used \$44,659,463 during 2010 compared to \$13,915,730 during 2009. Also, during 2009, the Company realized \$7,255,512 in pre-production revenues that were recorded against deferred project costs. The change in working capital related to properties, plant and equipment provided \$1,940,102 for 2010 compared to the use of \$1,947,921 for 2009. The Company acquired investments using \$405,363 during the nine months ended September 30, 2009 compared to \$91,374 during the ten months ended

September 30, 2009. During the comparative quarter, the acquisition of Dynamite provided net cash of \$7,477,395.

Financing activities provided \$28,878,534 during 2010 compared to \$3,456,323 during 2009. A public offering generated \$25,436,221 net of issue costs in 2010 compared to a private placement financing generating \$2,361,380 net of issue costs during 2009. The exercise of warrants and options generated \$3,512,744 in cash for 2010 compared to \$1,675,818 during 2009. Short-term loans used \$22,079 during 2010, which represents interest and foreign exchange on the shareholder loans. During the ten months ended September 30, 2009, short-term loans used \$580,875 from the retirement of debt. The Company made payments of \$48,352 against capital lease obligations during 2010 compared to \$nil during 2009.

The effect of the change in foreign exchange rates on cash was (\$221,143) during 2010 compared to (\$341,714) during 2009.

## **TRANSACTIONS WITH RELATED PARTIES**

The Company was charged \$43,049 during the nine months ended September 30, 2010 (ten months ended September 30, 2009: \$43,804) for administrative fees charged by a corporation controlled by a director of the Company.

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 \$95,160 as at September 30, 2010 (December 31, 2009: \$44,677) to cover these expenses, and this amount is recorded in prepaid expenses. As well, the Company is owed \$50,845 (December 31, 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 and nine months ended September 30, 2010, the Company was charged \$14,158 and \$325,262 by directors or by companies controlled by directors of the Company for consulting fees and bonuses (Q3-2009: \$13,647; 2009: \$147,182). The Company was charged \$234,475 and \$1,125,516 in consulting fees and bonuses for the three and nine months ended September 30, 2010 (Q3-2009: \$234,675; 2009: \$973,841) by officers of the Company.

## **SHARE DATA**

The authorized capital of the Company consists of an unlimited number of common shares of which 370,472,994 were issued and outstanding as of November 18, 2010.

Pursuant to the Company's Fixed Stock Option Plan, the number of common shares reserved for issuance under the Plan in aggregate is 35,045,024. As of November 18, 2010, 27,646,250 options are outstanding at exercise prices ranging from CDN\$0.20 to CDN\$1.07 expiring between December 12, 2010 and June 7, 2015. As well, 563,500 broker options are outstanding with an exercise price of \$0.40 expiring on December 10, 2010.

The following table sets out all the outstanding share purchase warrants and broker warrants in Avion as at November 18, 2010:

Expiry Date	Exercise Price (CDN\$)	Warrants Outstanding
May 8, 2011	0.65	28,025,000
May 10, 2011	0.60	2,884,200
November 2, 2011	0.60	1,000,000
		<u>31,909,200</u>

Avion has no performance shares or escrow shares.

## **SUBSEQUENT EVENTS**

Subsequent to September 30, 2010, 250,000 warrants, 1,966,500 broker options and 1,175,000 stock options were exercised for gross proceeds of \$1,487,100.

Subsequent to the end of the quarter, the Company bought out a 1% royalty for \$2,000,000.

## **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 April 26, 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 \$4.3 million 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 \$873,000.

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 September 30, 2010.

The Company has received a tax assessment from the Malian government for FCFA 1,303,558,366 (approximately \$2,700,000) covering 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.

The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company cannot reasonably predict the likelihood or outcome of these actions. The Company does not believe that adverse decisions in any other pending or threatened proceedings related to any matter, or any amount which may be required to be paid by reason thereof, will have a material effect on the financial condition or future results of operations. As at September 30, 2010, accounts payable and accrued liabilities include provisions related to such matters totaling \$578,000.

## **SIGNIFICANT ACCOUNTING POLICIES**

The annual consolidated financial statements are prepared using the same accounting policies and methods of application as those disclosed in note 3 to the Company's Audited Annual Consolidated Financial Statements for the period ended December 31, 2009.

### **Future Accounting Pronouncements**

#### Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 - Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27 - Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company has not determined the impact these new standards will have on its consolidated financial statements, if any.

#### Convergence with International Financial Reporting Standards ("IFRS")

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that Avion will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011. The Company is creating an implementation team, which will consist of internal resources and external consultants. A changeover plan is being established to convert to the new standards within the allotted timeline and is expected to consist of the following three key project phases:

1. Raise Awareness and Assess Phase
2. Design Phase
3. Implementation Phase

### **Phase 1: Raise Awareness and Assess**

This first phase of the conversion project has two stages focusing firstly on raising awareness within the Company and providing an initial assessment of the impact of the IFRS conversion, and secondly on carrying out a detailed assessment of the impact of the conversion to IFRS. Each section will be thoroughly reviewed and analyzed for accounting or disclosure differences between Canadian GAAP and IFRS. Once differences have been identified they will be reviewed for potential impacts to existing accounting policies, information systems and business processes. An action plan will then be developed for each impact area. This phase is currently underway.

### **Phase 2: Design**

Following completion of the assessment phase, the focus of the design phase will build the tools required for the conversion based on management's decisions about accounting options and the related disclosures. During this phase, external consultants will assist the project team in designing the changes to be implemented relating to accounting and consolidation processes, information technology systems and other affected business aspects, including but not limited to, changes to contracts, key performance indicators, internal reporting.

The design phase will also involve revisiting the communication and training strategies to be carried out during the implementation of IFRS and updating the operational and milestone plans, and an issues log for finalization of actions to be taken during the implementation phase.

### **Phase 3: Implementation**

The implementation stage is about execution. The roll-out of the designed changes takes place during this phase.

This phase will accomplish:

- Developing the new accounting policies, accounting manuals, guidelines, processes for reporting packages from business units, and consolidation templates;
- Preparing the IFRS financial statements and related disclosures including facilitating and supporting the dry run financial reporting process; and
- Developing revised internal control processes, including updating the key controls for NI 52-109 purposes.

All phases are expected to be completed during 2010 in order to facilitate comparative reporting during 2011.

## **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 regional 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 the nine months ended September 30, 2010.

## **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 nine months ended September 30, 2010.

### **Credit risk**

The Company's credit risk is primarily attributable to 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 Goods and Services Tax due from the Government of Canada, Value Added Tax from foreign governments, employee advances and reimbursable costs, and gold sales receivables. Fuel duty receivable is due from the Government of Mali, recoverable 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 September 30, 2010, the Company had a cash and cash equivalents balance of \$28,203,970 (December 31, 2009 - \$20,541,856) to settle current liabilities of \$17,051,219 (December 31, 2009 - \$9,831,171). Approximately \$15,400,000 of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

### **Market risk**

#### **(a) Interest rate risk**

The Company has cash and cash equivalent balances at September 30, 2010. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

#### **(b) Foreign currency risk**

The Company's functional currency is the Canadian dollar, and its reporting currency is the United States dollar. The Company funds certain operational expenses in Africa using the CFA Francs ("FCFA") and the Euro currencies. The Company's Malian subsidiaries operate in FCFA which is fixed with the Euro. Gold sales are paid in United States dollars. Management does not hedge its foreign exchange risk.

### (c) Price risk

The Company is exposed to price risk with respect to gold and silver prices. 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.

#### Financial instruments and fair values

The Company has designated its cash and cash equivalents as held-for-trading, measured at fair value. Amounts receivable and the fuel duty recoverable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, shareholder loan, and capital leases are classified as other financial liabilities, which are measured at amortized cost. The Company's investment in Midlands Minerals Corporation is classified as held-for-trading and measured at fair value. The Company's other investments are measured at estimated fair value as the investments do not have quoted market prices in an active market.

#### Fair value hierarchy and liquidity risk disclosure

The following table illustrates the classification of the Company's financial instruments within the fair-value hierarchy as at September 30, 2010:

	Level 1	Level 2	Level 3
Cash and equivalents:			
Cash	\$ 13,112,970	\$ -	\$ -
Equivalents	\$ 15,091,000	\$ -	\$ -
Investments	\$ 2,104,391	\$ -	\$ 136,002

The investments classified as Level 3 increased by \$2,556 during the nine months ended September 30, 2010 as a result of fluctuations in the Canadian-US foreign exchange rate.

As at September 30, 2010, the carrying and fair value amounts of the Company's financial instruments are approximately the same, and there were no changes that occurred that attributed to credit risk.

#### Sensitivity analysis

##### Foreign exchange risk

A 10% change in the Canadian Dollar September 30, 2010 exchange rate on financial assets and liabilities as at September 30, 2010 compared to the US Dollar, with all other variables held constant, would impact the Company's net earnings by approximately \$1,138,000. Comprehensive earnings would be impacted by \$12,037,000.

A 10% change in the Canadian Dollar September 30, 2010 exchange rate on financial assets and liabilities as at September 30, 2010 compared to the FCFA, with all other variables held constant, would impact the Company's net earnings by approximately \$618,000. Comprehensive earnings would be impacted by approximately \$10,000.

##### Price risk

A 10% change in the average gold price for the nine ended September 30, 2010 with all other variables constant would have resulted in an impact to earnings of approximately \$7,700,000.

## **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.

## **CAUTIONARY NOTES REGARDING FORWARD LOOKING INFORMATION**

Don Dudek, P.Geol. Avion's Senior VP Exploration and Director, 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.

## OFF BALANCE SHEET ITEMS

The Company does not have any off balance sheet items.

## 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 has been successfully running at an average of approximately 1,900 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, Ségala and Djambaye II Zone properties of Measured and Indicated mineral resources of 12.28 million tonnes grading 3.90 g/t Au or some 1.56 million ounces of gold, and Inferred mineral resources of 15.37 million tonnes grading 3.50 g/t Au or some 1.73 million ounces of gold, supports this goal (please refer to Avion press releases dated January 6, 2010 and July 15<sup>th</sup>). Avion is on course to spend up to \$12 million on exploration during 2010, 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 at the Houndé property is expected to add to the initial resources published on October 26, 2010.

Drilling is planned in Q4 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 Q1, 2011.

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

Project milestones	2010				2011				2012
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
60,000 metre exploration program	•	•	•	•					
Future exploration programs					•	•	•	•	•
Update plant expansion study	•								
Gravity gold vs leach study	•								
Order plant long lead time equipment			•	•					

<b>Tabakoto underground development</b>			•	•	•	•	•	•	
<b>Update mineral resource statement</b>				•					
<b>Issue NI43-101 report with mine plan</b>				•					
<b>Mine Dioulafoundou and other open pits</b>				•	•	•	•	•	•
<b>Plant expansion construction</b>					•	•	•	•	•
<b>Ségala underground development</b>					•	•	•	•	•
<b>200,000 oz/year gold production run-rate</b>									◇

## **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. The contract also includes underground development of the Ségala deposit, to commence in Q1, 2011.

Avion has received a cost estimate report on the Tabakoto plant expansion that supports yearly production of 200,000 ounces of gold per year, subject to completion of a technical report once new mineral resource models are generated based on the 2010 exploration program and development of the Tabakoto underground mine.

The cost estimate report, by an Australian engineering firm, recommended that the Company install a 4,000 tonnes per day semi-autogenous grinding (“SAG”) mill. The Company has also determined that keeping the existing cone crushers and ball mill as a separate circuit will allow for less down time during construction, greater flexibility when operating in the future, and the potential to further increase gold production. With these assumptions, the estimated cost of the expansion, using all new equipment, has been estimated at \$57 million. The opportunity exists to procure used equipment, and source from alternative suppliers, in an effort to reduce capital costs. Detailed engineering is now being done by an Engineering, Procurement, Construction Management (“EPCM”) firm, GENIVAR Limited Partnership of Montreal. The intent is to quickly verify the size of the proposed grinding equipment and place orders for a SAG and a ball mill. Avion plans to increase plant throughput from 2,000 tonnes per day to 4,000 tonnes per day. This project is anticipated to be completed in 2012. Activities during 2010 will focus on detailed engineering analysis, and ordering of long lead time equipment. Most of the construction will take place in 2011, 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.

Additionally, the Company has received final reports for all of the leach and gravity gold recovery test work that has been performed on Ségala and Tabakoto sub-grade and low grade mineralized material. The results of this test work will be considered in the final design configuration of the expanded plant. The test work indicated that a significant amount of gold, even in the sub-grade mineralization, can be recovered using a gravity circuit, with recoveries between 72% and 87%, depending on the grind size. Heap leach test work studies were halted once it became evident that gravity gold recoveries were as high as those that might be expected by leaching.

It is estimated that mill source feed will be derived from underground sources at Ségala and Tabakoto. However management believes that recent exploration success at the Dioulafoundou and Djambaye II zones and the acquisition of Axmin's Kofi Project, have the potential as alternative feed sources for the Tabakoto mill. Continued exploration, in 2010 has the potential to firm up these prospective alternative ore sources. Studies would then evaluate which ore source would provide the best return in the short term. The Company has received its Environmental Permit to mine the Dioulafoundou Deposit. Preparations for mining, such as a stream diversion, fencing around the deposit, and access road construction are complete. Subsequent to Q3, the Company started waste rock stripping at Dioulafoundou in late October. In 2011, the Company plans to supplement Ségala open pit ore with production from Dioulafoundou, and development ore from Tabakoto and Ségala underground operations.

Avion has signed capital lease agreements with Volvo Construction Equipment AB of Sweden and Amalgamated Mining Inc. of Canada for the supply of 12 underground haul trucks and a wheel loader, and two underground Caterpillar loaders, respectively. The purchase of this equipment will reduce future operating costs by decreasing the reliance on contractor-supplied mining equipment.

**Avion's future plans include:**

- Updated mineral resource models scheduled to be completed Q4 2010.
- Proposed construction and development timeline
  - Develop additional open pitable resources in 2010 via accelerated exploration in priority target areas
  - Order plant expansion long lead time equipment in 2010
  - Continue Tabakoto underground development to prepare for production mining in 2012
  - Ségala underground development expected to commence Q1, 2011
  - Plant expansion construction expected to be completed during 2012
- Project studies
  - Avion continues to analyze a 200,000 ounce per year production scenario. Significant progress has been made towards this target, with a goal to update the production plan in Q4 2010 with the support of a NI 43-101 compliant technical report once new mineral resource models are completed. The new mineral resource models will be based on the 2010 exploration program and advancements in Tabakoto underground mine development.

November 18, 2010