



Annual Consolidated Financial Statements  
for the twelve months ended  
December 31, 2010  
and the thirteen months ended  
December 31, 2009



INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Avion Gold Corporation

We have audited the accompanying consolidated financial statements of Avion Gold Corporation, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations and comprehensive income, consolidated statements of retained earnings, consolidated statements of accumulated other comprehensive income, consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Avion Gold Corporation as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

Chartered Accountants  
Licensed Public Accountants

TORONTO, Canada  
March 21, 2011

# AVION GOLD CORPORATION

## Consolidated Balance Sheets

(Stated in United States Dollars - Note 3)

As at December 31,	2010	2009
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 38,610,362	\$ 20,541,856
Amounts receivable (Notes 5 and 19)	1,430,702	1,095,272
Fuel duty recoverable (Note 6)	2,670,527	2,974,000
Prepaid expenses (Notes 7 and 19)	8,663,577	4,800,913
Inventory (Note 8)	15,608,019	13,077,714
	<b>66,983,187</b>	42,489,755
Investments (Note 9)	2,716,857	3,089,537
Fuel duty recoverable (Note 6)	2,955,809	1,768,989
Deposits and advances (Note 7)	11,888,874	3,844,415
Properties, plant and equipment (Note 10)	124,945,987	36,562,898
	<b>\$ 209,490,714</b>	\$ 87,755,594
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 15,061,617	\$ 9,281,282
Current portion of capital lease obligations (Note 11)	1,108,084	-
Shareholder loan (Note 12)	521,282	549,889
	<b>16,690,983</b>	9,831,171
Long term liabilities	81,234	-
Capital lease obligations (Note 11)	2,605,543	-
Asset retirement obligations (Note 13)	3,767,000	5,053,000
Future income tax liability (Note 23)	13,136,373	-
	<b>36,281,133</b>	14,884,171
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 14)	126,679,802	71,236,109
Commitment to issue shares (Note 10)	3,823,709	-
Warrants and broker warrants (Note 15)	3,494,082	5,064,584
Contributed surplus (Note 18)	10,745,154	5,958,358
Retained earnings/(deficit)	20,573,630	(10,883,796)
Accumulated other comprehensive income (Note 3)	7,893,204	1,496,168
	<b>173,209,581</b>	72,871,423
	<b>\$ 209,490,714</b>	\$ 87,755,594

Commitments and contingencies (Notes 2, 10 and 22)  
Subsequent events (Note 26)

APPROVED ON BEHALF OF THE BOARD:

"John Begeman", Director

"Stan Bharti", Director

-- See Notes to the Audited Annual Consolidated Financial Statements --

# AVION GOLD CORPORATION

## Consolidated Statements of Operations and Comprehensive Income

(Stated in United States Dollars - Note 3)

	Twelve months ended December 31, 2010	Thirteen months ended December 31, 2009
<b>OPERATING REVENUES</b>		
Gold sales	\$ 115,306,132	\$ 33,647,850
Silver sales	239,551	84,643
	<u>115,545,683</u>	<u>33,732,493</u>
<b>OPERATING EXPENSES</b>		
Mining and processing	53,486,908	21,295,256
Royalties	7,273,258	2,864,842
Amortization and depletion	7,759,959	3,344,403
Corporate and administrative	4,092,667	3,525,051
Stock-based compensation (Note 16)	6,865,189	1,227,261
	<u>79,477,981</u>	<u>32,256,813</u>
<b>INCOME FROM OPERATIONS</b>	36,067,702	1,475,680
Interest income	136,705	6,517
Interest expense and accretion (Notes 11, 12 and 13)	(503,287)	(795,345)
Unrealized (loss)/gain on investments (Note 9)	(910,319)	1,248,066
General exploration(expense)	(88,964)	(6,354)
Foreign exchange (loss)/gain	(3,244,411)	668,621
	<u>31,457,426</u>	<u>2,597,185</u>
<b>NET INCOME for the period</b>	31,457,426	2,597,185
OTHER COMPREHENSIVE INCOME for the period (Note 3)	6,397,036	6,474,716
<b>COMPREHENSIVE INCOME for the period</b>	\$ 37,854,462	\$ 9,071,901
Net income per share, basic	\$ 0.09	\$ 0.01
Net income per share, diluted	\$ 0.09	\$ 0.01
Weighted average number of shares outstanding:		
basic	338,542,201	173,808,471
diluted	347,334,059	181,916,000

-- See Notes to the Audited Annual Consolidated Financial Statements --

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# AVION GOLD CORPORATION

## Consolidated Statements of Retained Earnings/(Deficit)

(Stated in United States Dollars - Note 3)

	Twelve months ended December 31, 2010	Thirteen months ended December 31, 2009
(Deficit), beginning of period	\$ (10,883,796)	\$ (13,480,981)
NET INCOME for the period	31,457,426	2,597,185
Retained earnings/(deficit), end of period	\$ 20,573,630	\$ (10,883,796)

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# AVION GOLD CORPORATION

## Consolidated Statements of Accumulated Other Comprehensive Income

(Stated in United States Dollars - Note 3)

	Twelve months ended December 31, 2010	Thirteen months ended December 31, 2009
Balance, beginning of period	\$ 1,496,168	\$ (4,978,548)
Gain on foreign currency translation	6,397,036	6,474,716
Balance, end of period	\$ 7,893,204	\$ 1,496,168

# AVION GOLD CORPORATION

## Consolidated Statements of Cash Flows

(Stated in United States Dollars - Note 3)

	Twelve months ended December 31, 2010	Thirteen months ended December 31, 2009
Cash flows provided by (used in)		
Operating activities		
Net income for the period	\$ 31,457,426	\$ 2,597,185
Changes not affecting cash:		
Stock based compensation (Note 16)	6,865,189	1,227,261
Amortization and depletion	10,561,729	3,837,641
Accretion expense (Notes 12 and 13)	455,000	398,875
Foreign exchange	5,421,988	2,506,482
Unrealized (losses)/gains on investments held	910,319	(1,248,066)
Net change in non-cash working capital items	(9,330,883)	(6,284,934)
	46,340,768	3,034,444
Financing activities		
Public offerings or private placements	27,629,083	24,208,577
Cost of issue	(2,036,686)	(1,903,768)
Exercise of warrants and options	12,660,600	3,877,941
Acquisition of subsidiary, net of cash acquired	-	7,409,907
Capital lease payments	(180,667)	-
Change in short term loans	(28,607)	(582,386)
	38,043,723	33,010,271
Investing activities		
Properties, plant and equipment	(64,024,444)	(20,648,305)
Preproduction revenues	-	7,255,512
Net change in working capital related to properties, plant and equipment	(780,278)	(4,461,595)
Acquisition of investment	(405,363)	(91,374)
	(65,210,085)	(17,945,762)
Effect of change of exchange rates on cash balances	(1,105,900)	(375,369)
Change in cash and cash equivalents	18,068,506	17,723,584
Cash and cash equivalents, beginning of period	20,541,856	2,818,272
Cash and cash equivalents, end of period	\$ 38,610,362	\$ 20,541,856
Cash and cash equivalents consist of:		
Cash	\$ 19,361,908	\$ 2,628,840
Cash equivalents	19,248,454	17,913,016
	\$ 38,610,362	\$ 20,541,856
<b>SUPPLEMENTARY INFORMATION:</b>		
Common shares issued for acquisition of property	\$ 13,676,239	\$ -
Common shares committed to be issued for acquisition of property	\$ 3,823,709	\$ -
Common shares issued for acquisition of subsidiary	\$ -	\$ 13,139,567
Value of warrants granted for acquisition of subsidiary	\$ -	\$ 10,569
Value of options granted for acquisition of subsidiary	\$ -	\$ 1,068,225
Common shares issued for acquisition of investment	\$ -	\$ 1,379,342
Common shares issued for royalty buyout	\$ -	\$ 967,920
Value of warrants issued for royalty buyout	\$ -	\$ 139,196
Broker warrants/options issued	\$ 466,932	\$ 591,444
Equipment acquired on capital leases	\$ 3,894,294	\$ -
Amortization charged to mineral properties	\$ 6,721	\$ 61,574
Interest paid	\$ -	\$ 141,017
Income taxes paid	\$ -	\$ -

-- See Notes to the Audited Annual Consolidated Financial Statements --

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# **AVION GOLD CORPORATION**

## **Notes to the Audited Annual Consolidated Financial Statements**

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009

*(Stated in United States dollars – Note 3)*

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### **1. NATURE OF OPERATIONS**

Avion Gold Corporation ("Avion" or the "Company") declared commercial production at its Segala on May 1, 2009. Prior to this date, the Company was a development stage entity, as defined by the Canadian Institute of Chartered Accountants (the "CICA") Accounting Guideline 11. The Company changed its fiscal year end from November 30 to December 31 effective 2009. Consequently, the twelve-month period ending December 31, 2010 is being compared to the thirteen-month period ending December 31, 2009.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of operations of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, political uncertainty and currency exchange fluctuations and restrictions.

### **2. CONTINUING OPERATIONS**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern which assume that the Company will realize its assets and discharge its liabilities in the normal course of operations rather than through a process of forced liquidation. Realization values may be substantially different from the carrying values as shown in the consolidated financial statements should the Company be unable to continue as a going concern.

Future operations are dependent upon the Company's ability to finance expenditure requirements and upon the continuance of profitable operations, including the achievement of profitable operations from underground operations. There is no guarantee that the Company will continue to achieve profitable operations or be able to obtain necessary financings. These consolidated financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations. Such adjustments could be material.

### **3. CHANGE IN REPORTING CURRENCY**

Effective September 30, 2009, the Company changed its reporting currency from Canadian dollars (CDN\$) to United States dollars (US\$ or \$), as the Company anticipates that the majority of its future income 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 CICA Abstract EIC-130 "Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency".

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# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009  
(Stated in United States dollars – Note 3)

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### 3. CHANGE IN REPORTING CURRENCY (continued)

Following the recommendations of EIC-130, the consolidated financial statements for all periods presented have been translated using the current rate method. Under this method, consolidated revenues, expenses, and cash flow statement items have been translated using weighted-average exchange rates for the applicable periods. Consolidated assets and liabilities have been translated using the exchange rates in effect on the balance sheet dates, while shareholders' equity has been translated using the exchange rates in effect on the date of each transaction. Resulting exchange differences are reported in a separate component of other comprehensive income. All comparative financial information has been translated and restated as if the US\$ had been used as the Company's reporting currency. As a result of the change in reporting currency, the Company has recorded accumulated other comprehensive income on the consolidated balance sheet at December 31, 2010 of \$7,893,204 (December 31, 2009 - \$1,496,168).

The Company's functional currency, which is Canadian dollars, remains unchanged.

The exchange rate between the US dollar and Canadian dollar and Mali FCFA for the periods ended December 31, 2010 and December 31, 2009 were as follows:

	Twelve months ended December 31, 2010		Thirteen months ended December 31, 2009	
	Average	Closing	Average	Closing
US dollars per Canadian dollar	0.9717	0.9998	0.8848	0.9532
US dollars per Mali FCFA	0.0021	0.0020	0.0021	0.0021
Canadian dollars per Mali FCFA	0.0022	0.0020	0.0024	0.0023

### 4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian GAAP and their basis of application is consistent with that of the previous period, except as disclosed. Outlined below are those policies considered particularly significant.

a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, as listed below.

<u>Subsidiary:</u>	<u>Percent Ownership:</u>
Avion Africa Barbados Limited, Barbados	100%
Avion Resources (Mali) Ltd., Barbados	100%
Tambaoura Mining Corp. S.A., Mali	80%
Segala Mining Corp. S.A., Mali	80%
Nevsun Mali Exploration Limited, Mali	100%
Avion Mali Limited, Barbados	100%
Burkina Faso Exploration Ltd., Jersey	100%
Avion Gold (Burkina Faso) SARL, Burkina Faso	100%
Dynamite Resources Ltd., Canada	100%

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# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009

*(Stated in United States dollars – Note 3)*

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### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### b) Use of 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 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 recoverable 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; the proven and probable ore reserves and resources, and the related depletion and amortization; and the measurement and timing of future asset retirement obligations. 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.

#### c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks and short-term investments with original maturities of three months or less. Cash and cash equivalents are held with Canadian chartered banks or a financial institution controlled by a Canadian chartered bank.

#### d) Inventory

Inventory consists of finished goods (gold doré), in-process metals, stockpiled ore, and spare parts and supplies. Inventory is valued at the lower of average costs or net realizable value. The cost of finished goods, in-process metals and stock-piled ore include the costs of raw materials, direct labour, mine-site overhead expenses, and depreciation and depletion of mining interests. Net realizable value is calculated as the estimated price less estimated future production costs to convert the inventories into saleable form.

In-process inventory represents materials that are currently in the process of being converted into finished goods. The average cost of finished goods represents the average cost of in-process inventories incurred prior to the refining process, plus applicable refining costs.

As at December 31, 2010 and 2009, inventory is presented at cost.

#### e) Investments

Securities which are traded on a recognized securities exchange and for which no sales restrictions apply are recorded at fair values based on quoted closing market prices at the balance sheet date or the closing price on the last day the security traded if there were no trades at the balance sheet date. Securities in privately-held companies are recorded at cost unless an upward adjustment is considered appropriate and supported by pervasive and objective evidence such as a significant subsequent equity financing by an unrelated, professional investor at a transaction price higher than the Company's carrying value. Downward adjustments to carrying values are made when there is evidence of a decline in value as indicated by the assessment of the financial condition of the investment based on third party financing, operational results, forecasts, and other developments since acquisition. The Company has classified its investments as held-for-trading.

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# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009

(Stated in United States dollars – Note 3)

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### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### f) Interest in mining properties, plant and equipment

Mining properties, plant and equipment are carried at cost, net of pre-production revenues and recoveries, until they are brought into production, at which time they are generally depleted on a unit of production method based on measured and indicated resources. Costs include acquisition costs and exploration and development costs, net of any pre-production revenues and related costs. Certain vehicles and other equipment included in mining properties, plant and equipment have been amortized on a straight line basis over a three to eight year period. Other general exploration expenses are charged to operations as incurred. If a mining property is abandoned, the accumulated acquisition and deferred costs relating to that mining property are written off to operations.

The Company reviews its mining properties, plant and equipment to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to maintain profitable production. An impairment loss is recognized when the carrying amount of the properties is not recoverable and exceeds its fair value. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near term could require a change in the determination of the need for and amount of any write down.

#### g) Deferred stripping costs

Certain mining costs, principally those that relate to the stripping of waste and which relate to the future economically recoverable ore to be mined, have been capitalised. These costs are deferred or taken to the production cost as the case may be, so that each tonne of ore mined bears the average cost of waste removal per tonne of ore, as determined by the waste to ore ratio derived from the current pit plan. The waste to ore ratio is regularly assessed by management to ensure the carrying value and the rate of deferral is appropriate. The Company has adopted the recommendations of the CICA with respect to stripping charges, EIC-160 Stripping Costs Incurred in the Production Phase of a Mining Operation ("EIC-160"). These recommendations require the costs associated with the removal of overburden and other mine waste materials that are incurred in the production phase of mining operations to be charged to income in the year in which they are incurred, except when the costs represent a betterment to the mineral property. Costs represent a betterment when the stripping activity provides access to reserves that would not have been accessible in the absence of the stripping activity. When costs are deferred in relation to betterment, the costs are amortized over the reserves accessed by the stripping activity using the unit of production method. As at December 31, 2010 the balance of deferred stripping costs of approximately \$466,000 (2009: approximately \$3,000,000) was included in properties, plant and equipment. In accordance with EIC-160, the carrying value of the deferred stripping costs will be amortized over the life of the related mining assets on a unit of production basis.

#### h) Asset retirement obligations

Asset retirement obligations include the costs related to the abandonment of properties, dismantling and removing tangible equipment such as milling facilities and returning the land to its original condition. The Company recognizes an asset retirement obligation ("ARO") in the period in which it is identified and a reasonable estimate of the fair value can be made. Fair value is estimated based on the present value of the estimated future cash outflows to abandon the asset, discounted at the Company's credit-adjusted risk-free interest rate. The fair value of the estimated ARO is recorded as a long-term liability with a corresponding amount capitalized to properties, plant and equipment. The amount capitalized is charged to earnings through the depletion and depreciation of properties, plant and equipment. The ARO liability is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings. Revisions to the original estimated cost or the timing of the cash outflows may result in a change to the ARO. Actual costs incurred to settle the ARO reduce the long-term liability.

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# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009

*(Stated in United States dollars – Note 3)*

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### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### j) Revenue recognition

Revenue from the sale of metals is recognized when persuasive evidence of an arrangement exists, title and risk passes to the buyer, collection is reasonably assured, and the price is reasonably determinable.

#### k) Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted number of shares outstanding. Diluted earnings (loss) per share is calculated using the treasury stock method. In order to determine diluted earnings (loss) per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted earnings (loss) per share calculation. The diluted earnings (loss) per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. Total shares issuable from warrants and options excluded from the computation of diluted earnings (loss) per share because they were anti-dilutive for the period ended December 31, 2010 were nil (2009 – 29,800,000) and 4,352,500 (2009 – 17,826,000) respectively.

#### l) Stock-based compensation

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to capital stock.

#### m) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the consolidated financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the enacted or substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

#### n) Financial instruments

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in operations for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income (loss) until the asset is removed from the balance sheet or until any impairment is assessed as other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income (loss) for the period, unless the instrument is a cash flow hedge and hedge accounting is applied, in which case changes in fair value are recognized in other comprehensive income (loss).

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# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009

(Stated in United States dollars – Note 3)

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### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### o) Comprehensive income (loss)

Comprehensive income/(loss), composed of net income/(loss) and other comprehensive income/(loss), is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income/(loss) ("OCI") includes unrealized gains and losses on available-for-sale securities and changes in foreign exchange when using the current rate method of translation, all net of related income taxes. The components of comprehensive income/(loss) are disclosed in the statement of operations and comprehensive income/(loss). Cumulative changes in other comprehensive income/(loss) are included in accumulated other comprehensive income/(loss) ("AOCI") which is presented as a new category in shareholders' equity. The Company's OCI balance relates to foreign exchange fluctuations as a result of using the current method to translate the financial statements from the functional currency (CAD\$) to the reporting currency (USD\$).

#### p) Foreign currency translation

The Company's functional currency is the Canadian dollar.

The Company's foreign subsidiaries are considered to be integrated foreign operations. Accordingly, transactions and account balances originally stated in currencies other than the Canadian dollar are translated using the temporal method whereby monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates; and revenue and expenses are translated at the exchange rate in effect on the dates that they occur, using average rates for the period.

Transaction amounts denominated in currencies other than the functional currency are translated at exchange rates prevailing at the transaction dates.

The Company's reporting currency is the United States dollar. Accordingly, balances are translated to United States dollars using the current rate method. Consolidated assets and liabilities have been translated using the exchange rates in effect on the balance sheet dates, consolidated revenues, expenses, and cash flow statement items have been translated using weighted-average exchange rates for the applicable periods, while shareholders' equity has been translated using the exchange rates in effect on the date of each transaction.

#### q) Leases

Leases are classified as capital or operating depending on their terms and conditions. Payments under operating leases are expensed in the period in which they are incurred. The value of assets recorded under capital leases are amortized over their useful lives. A liability is established to reflect the future obligation under capital leases and reduced by principal payments.

#### r) Future accounting changes:

##### 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 the Company will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011. The Company has created an implementation team, consisting of internal resources and external consultants. A changeover plan has been established to convert to the new standards within the allotted timeline.

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# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009  
(Stated in United States dollars – Note 3)

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### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 determined that these new standards will not have any material impact on its consolidated financial statements and will adopt the standards effective January 1, 2011.

### 5. AMOUNTS RECEIVABLE

	2010		2009
Refundable taxes	\$ 870,932	\$	852,961
Reimbursable expenditures	445,543		169,020
Other	114,227		73,291
	<u>\$ 1,430,702</u>	<u>\$</u>	<u>1,095,272</u>

### 6. FUEL DUTY RECOVERABLE

The fuel duty recoverable is recoverable from the Government of Mali. It is currently being recovered by way of offset against royalties related to ore milled from the Tabakoto concession, and certain taxes that would otherwise be payable to the Government of Mali, including payroll taxes. There is no formal offset agreement with the Government of Mali, however, the Government has not rejected any offsets to date. The balance of the recoverable at December 31, 2010 is 2,839,499,113 CFA (\$5,626,336)(2009: 2,213,932,616 CFA (\$4,742,989).

	2010		2009
Balance, beginning of period	\$ 4,742,989	\$	5,295,525
Additions	2,954,113		383,978
Recoveries	(1,714,582)		(1,623,635)
Foreign exchange	(356,184)		687,121
Balance, end of period	<u>\$ 5,626,336</u>	<u>\$</u>	<u>4,742,989</u>
Current portion	<u>2,670,527</u>		<u>2,974,000</u>
Long-term portion	<u>\$ 2,955,809</u>	<u>\$</u>	<u>1,768,989</u>

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# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009  
(Stated in United States dollars – Note 3)

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### 7. PREPAID EXPENSES

	2010	2009
Mining supplier advances	\$ 7,406,068	\$ 4,054,750
Administrative advances (Note 19)	86,146	106,076
Prepaid insurance	107,564	39,409
Tax advances	608,395	195,902
Other advances	455,404	404,776
	<u>\$ 8,663,577</u>	<u>\$ 4,800,913</u>

The amount classified as long-term deposits and advances primarily includes down payments on equipment and supplies required for the commencement of underground development at Tabakoto and Segala and the mill expansion.

### 8. INVENTORY

	2010	2009
Spare parts and supplies	\$ 9,348,293	\$ 7,093,315
Gold doré	1,830,697	4,933,701
In-process precious metals	241,450	173,480
Stockpiled ore	4,187,579	877,218
	<u>\$ 15,608,019</u>	<u>\$ 13,077,714</u>

During 2010, the Company recognized \$61,246,867 of inventories as an expense (2009: \$24,639,659). There were no inventory write-downs during 2010 and 2009.

All inventory is carried at the lower of cost and estimated net realizable value. As at December 31, 2010 and 2009, all inventory is recorded at cost.

### 9. INVESTMENTS

Investments, carried at estimated fair market value, are comprised of the following:

		2010		2009	
	<u>Classification</u>	No. held	Value	No. held	Value
Long term					
Midlands Minerals Corporation	Held-for-trading	10,278,500	\$ 2,576,885	9,098,500	\$2,956,090
Yellow head Mining Inc.	Held-for-trading	100,000	\$ 139,972	100,000	\$ 133,447
			<u>\$ 2,716,857</u>		<u>\$ 3,089,537</u>

The Company has recognized an unrealized loss on their held-for-trading investments of \$910,319 for the twelve months December 31, 2010 (2009: unrealized gain of \$1,248,066).

# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009

(Stated in United States dollars – Note 3)

### 9. INVESTMENTS (continued)

During 2009, the Company acquired 8,581,000 common shares of Midlands Minerals Corporation (“Midlands”) through the issuance of 4,290,500 common shares of the Company. The quoted fair market value of the Company’s shares issued at the time of acquisition was CDN\$1,587,000 (\$1,379,342). As well, during 2009, the Company purchased an additional 517,500 common shares of Midlands for a price of CDN\$0.19 (\$0.16) per share. During 2010, the Company purchased 1,180,000 units of Midlands, consisting of one common share and one-half of a common share purchase warrant, for a price of CDN\$0.35 (\$0.34) per share. Each whole warrant is exercisable into one common share of Midlands at a price of CDN\$0.50 until February 12, 2012.

### 10. PROPERTIES, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization and Depletion	Balance, December 31, 2010
Mining property, plant and equipment	\$70,413,333	(\$15,575,974)	\$54,837,359
Development project costs	\$39,814,936	\$0	\$39,814,936
Exploration project costs	\$30,293,692	\$0	\$30,293,692
	<u>\$140,521,961</u>	<u>(\$15,575,974)</u>	<u>\$124,945,987</u>

	Cost	Accumulated Amortization and Depletion	Balance, December 31, 2009
Mining property, plant and equipment	\$32,859,366	(\$4,345,456)	\$28,513,910
Development project costs	\$7,689,360	\$0	\$7,689,360
Exploration project costs	\$359,628	\$0	\$359,628
	<u>\$40,908,354</u>	<u>(\$4,345,456)</u>	<u>\$36,562,898</u>

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

In November 2010, the Company bought out a 1% Net Smelter Return Royalty (“NSR”) on the Tabakoto and Segala projects for \$2,000,000. This value was deferred to Properties, plant and Equipment, and is being depleted over the life of the mine. In 2009, the Company bought out a 2% NSR also on the Tabakoto and Segala projects for \$1,000,000 in cash as well as the issuance of 3,500,000 common shares of the Company, valued at \$967,920, and the issuance of 1,000,000 warrants at an exercise price of CDN\$0.60 expiring November 12, 2011 and valued at \$139,196. This charge was also deferred to Properties, plant and equipment and is being depleted over the life of the mine. The Company is still subject to a 6% NSR payable to the Government of Mali on these projects.

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# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009

(Stated in United States dollars – Note 3)

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### 10. PROPERTIES, PLANT AND EQUIPMENT (continued)

In January 2010, the Company completed the 100% acquisition of the Keneiba concessions from Great Quest Metals Ltd. ("Great Quest"). As consideration, the Company paid CDN\$500,000 (\$490,754) in cash, and issued 7,608,696 common shares of the Company, recorded at a value of \$5,301,715. Avion 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 for each 50,000 ounces of additional 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 agreement. The Company had previously entered into an agreement with Great Quest in 2009 to acquire a 75% interest in the Keneiba concessions for cash payments and expenditure requirements of which CDN\$350,000 (\$333,619) was paid during 2009. The 2009 agreement was superseded by the 2010 agreement.

The Company also acquired a 100% interest in the Houndé group of concessions in Burkina Faso from Avocet Mining PLC ("Avocet"). During 2010, the Company signed a definitive agreement and issued 10,300,000 common shares, recorded at a value of \$7,099,954 to Avocet. This property is subject to a 2% NSR due to Barrick Gold Corporation ("Barrick"), and certain back-in rights. Should Avion be successful in defining a greater than 3,000,000 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, determined by an independent valuation report. Should Avion define less than a 3,000,000 ounce gold deposit, Barrick has the option to claw-back 25% equity in the Houndé concessions 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 the relative 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.

The Company entered into a purchase agreement with AXMIN Inc. ("AXMIN") under which the Company acquired AXMIN's interest in the Kofi Group of concessions ("Kofi") in Mali for total consideration of CDN\$500,000 and 4,500,000 common shares of the Company. AXMIN's direct interest in the concessions that comprise the Kofi property varies from 81.25% to 100%. Agreements for several of the concessions closed in December 2010 and the following payment schedule was established:

<u>Due Date</u>	<u>Cash (CDN\$)</u>	<u>No. of Shares</u>	<u>Value of shares (CDN\$)</u>	<u>Value of shares (USD\$)</u>
December 24, 2010 (closing, paid and issued)	\$81,250	731,250	\$1,294,313	\$1,274,569
March 24, 2011	\$81,250	731,250	\$1,294,313	\$1,274,569
December 24, 2011	\$81,250	731,250	\$1,294,313	\$1,274,569
June 24, 2012	\$81,250	731,250	\$1,294,313	\$1,274,569

As at December 31, 2010, the remaining cash obligations totaling \$243,750 have been included in accounts payable and accrued liabilities, and the value of the 2,193,750 common shares remaining to be issued has been recorded as a commitment to issue common shares within shareholders' equity.

Several other concessions closed in March 2011 with four cash payments of \$6,250 each and four share issuances of 56,250 each to be paid over an 18 month period. The remaining concessions are expected to close during 2011.

As at December 31, 2010, property, plant and equipment included assets acquired under capital leases totalling approximately \$6,251,000 (2009: \$nil).

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# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009  
(Stated in United States dollars – Note 3)

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### 11. CAPITAL LEASE OBLIGATIONS

The Company has entered into capital leasing arrangements for mining equipment. The Company paid 15% to 75% of the value of the equipment in down payments, and the balances are payable over either two or four year terms at implied interest rates ranging from approximately 7.5% to 9% per annum.

As at December 31, 2010, the future minimum lease payments under these capital lease arrangements are:

2011	\$	1,384,395
2012		1,181,938
2013		926,164
2014		793,975
		<hr/>
		4,286,472
Less: Amounts representing interest		(572,845)
		<hr/>
		3,713,627
Less: Current portion		(1,108,084)
		<hr/>
Long-term portion	\$	2,605,543

### 12. SHAREHOLDER LOAN

The Company, through its Malian subsidiaries, carries a liability payable to the Government of Mali in relation to the Government's 20% ownership of Tambaoura Mining Company S.A. and Segala Mining Corp. The balance of this liability at December 31, 2010 is 263,081,031 FCFA (\$521,282) (December 31, 2009: 256,677,081 FCFA (\$549,889)), including accrued interest. This loan bears an interest rate at the London Interbank Offered Rate ("LIBOR") for United States dollars plus 2%, and is calculated annually. This loan will be paid with priority over shareholder dividends from these Malian subsidiaries. During the year ended December 31, 2010, interest expense related to this loan totalled \$12,809 (2009: \$27,100).

### 13. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations were acquired through the purchase of Tabakoto and Segala projects, and include costs accrued based on the current best estimate of mine reclamation and closure activities that will be required upon completion of mining activities. These activities include costs for earthworks, including land recontouring and revegetation, water treatment and demolition. The Company's provision for future site closure and reclamation costs is based on known legal requirements. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments. During 2010, the Company increased the expected time to reclamation as well as increased the total anticipated future liability, resulting in a net decrease in the discounted obligations. The asset retirement obligation calculation used a credit adjusted risk-free discount rate applicable to Mali of 9% to 9.5% and an inflation factor of 3.0%. Although the ultimate amount to be incurred is uncertain, based on development, legal requirements and estimated costs as at December 31, 2010, the total undiscounted liability for asset retirement obligations is estimated to be approximately \$6,700,000 commencing in approximately 2022 (2009: \$5,800,000 commencing in 2013).

# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009  
(Stated in United States dollars – Note 3)

### 13. ASSET RETIREMENT OBLIGATIONS (continued)

	2010	2009
Balance, beginning of period	\$ 5,053,000	\$ 3,553,991
Additions to liability	459,000	1,114,000
Accretion expense	455,000	325,000
Change in estimate	(2,200,000)	-
Foreign exchange	-	60,009
<b>Balance, end of period</b>	<b>\$ 3,767,000</b>	<b>\$ 5,053,000</b>

### 14. CAPITAL STOCK

a) Authorized - unlimited number of common shares

b) Issued

Common shares	Number of Shares	Amount
Balance, November 30, 2008	75,765,009	\$ 29,517,331
Private placement (iii)	37,500,000	2,528,871
Private placement (ii)	57,500,000	21,679,706
Issue of warrants - warrant valuation	-	(472,899)
Exercise of warrants	19,571,358	3,662,830
Exercise of warrants -- value allocation	-	977,249
Exercise of stock options and broker options	2,430,000	215,111
Exercise of stock options and broker options -- value allocation	-	136,292
Shares issued for acquisition of subsidiary (Note 25)	85,151,250	13,139,567
Shares issued for acquisition of investment (Note 9)	4,290,500	1,379,342
Shares issued to buy out royalty (Note 10)	3,500,000	967,920
Cost of issue	-	(2,495,211)
<b>Balance, December 31, 2009</b>	<b>285,708,117</b>	<b>\$ 71,236,109</b>
Public offering (i)	48,070,000	27,629,083
Exercise of warrants	21,202,428	8,016,421
Exercise of warrants -- value allocation	-	2,037,434
Exercise of stock options	4,500,000	1,883,044
Exercise of stock options -- value allocation	-	1,220,746
Exercise of broker warrants and options	5,646,781	2,761,135
Exercise of broker warrants and options -- value allocation	-	857,647
Property acquisition (Note 10)	18,639,946	13,676,239
Adjustment to value of shares issued for subsidiary	-	(134,438)
Cost of issue	-	(2,503,618)
<b>Balance, December 31, 2010</b>	<b>383,767,272</b>	<b>\$ 126,679,802</b>

# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009

(Stated in United States dollars – Note 3)

### 14. CAPITAL STOCK (continued)

(i) On May 10, 2010, the Company closed a public offering through the issuance of 48,070,000 common shares of the Company at a price of CDN\$0.60 per share for gross proceeds of CDN\$28,842,000 (\$27,629,083). The underwriters received a cash commission of \$1,657,745 as well as 2,884,200 broker warrants entitling them to acquire the same number of common shares at a price of CDN\$0.60 per share on or before May 10, 2011. The estimated fair value of the broker warrants was estimated using the Black-Scholes option pricing model under the following assumptions: estimated dividend yield – 0%; estimated volatility – 71%, risk-free interest rate – 1.15%; estimated life – 1 year. A value of \$466,932 was recorded as cost of issue.

ii) In December 2009, the Company completed a public offering issuing 57,500,000 common shares priced at CDN\$0.40 (\$0.377) per share for gross proceeds of \$21,679,706. Cash financing costs related to this offering amounted to \$1,736,277, which included a 6% commission to the underwriters of the financing. As well, the Company granted 3,450,000 broker options to the underwriters which are exercisable into the same number of common shares at an exercise price of CDN\$0.40 per share until December 10, 2010. The fair value of these broker options was estimated at \$504,054 using the Black Scholes option pricing model with the following assumptions: expected dividend yield – 0%; expected volatility – 90%; risk-free interest rate – 1.2%; expected life – 1 year. This value was recorded as a cost of issue.

iii) In January 2009, the Company completed a private placement financing of 37,500,000 units priced at CDN\$0.08 (\$0.067) per unit for gross proceeds of \$2,528,871. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole purchase warrant is exercisable at a price of CDN\$0.10 per share until July 12, 2010. The fair value of these warrants was estimated at \$472,899 using the Black Scholes option pricing model with the following assumptions: expected dividend yield – 0%; expected volatility – 138%; risk-free interest rate – 1.0%; expected life – 18 months. Cash financing costs related to this private placement amounted to \$167,491. As well, the Company granted 2,235,000 broker options to Delano Capital Corp. (Note 20) which were exercisable into the same number of common shares at an exercise price of CDN\$0.08 per share until January 12, 2010. The fair value of these broker options was estimated at \$87,390 using the Black Scholes option pricing model with the following assumptions: expected dividend yield – 0%; expected volatility – 160%; risk-free interest rate – 1.0%; expected life – 1 year. This value was recorded as a cost of issue.

### 15. WARRANTS AND BROKER WARRANTS

	2010			2009		
	Number of warrants	Weighted average exercise price (CDN\$)	Value	Number of warrants	Weighted average exercise price (CDN\$)	Value
Balance, beginning of period	40,020,400	\$ 0.51	\$ 5,064,584	42,611,107	\$ 0.55	\$ 5,975,200
Granted	-	-	-	21,750,000	0.13	612,095
Acquisition warrants	-	-	-	75,226,250	1.19	10,569
Broker warrants granted	2,884,200	0.60	466,932	-	-	-
Exercised	(21,202,428)	0.38	(2,037,434)	(19,571,358)	0.20	(977,249)
Expired	-	-	-	(79,995,599)	1.15	(556,031)
Balance, end of period	21,702,172	\$ 0.64	\$ 3,494,082	40,020,400	\$ 0.51	\$ 5,064,584

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# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009  
(Stated in United States dollars – Note 3)

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### 15. WARRANTS AND BROKER WARRANTS (continued)

A summary of the outstanding warrants and broker warrants as at December 31, 2010 are as follows:

Expiry Date	Exercise Price (CDN\$)	Warrants Outstanding	Estimated Grant Date Fair Value
May 8, 2011	0.65	18,920,001	\$ 3,066,365
May 10, 2011	0.60	1,782,171	288,521
November 2, 2011	0.60	1,000,000	139,196
		21,702,172	\$ 3,494,082

### 16. STOCK COMPENSATION

#### a) Stock option plan

The Company has adopted of a Fixed Stock Option Plan (the "Plan"), replacing the rolling plan previously adopted. The number of common shares reserved for issuance under the Plan is 35,048,024.

	2010		2009	
	Number of options	Weighted average exercise price (CDN\$)	Number of options	Weighted average exercise price (CDN\$)
Balance, beginning of period	16,671,250	\$ 0.56	6,470,000	\$ 0.43
Granted	14,510,000	0.64	4,650,000	0.28
Acquired options	-	-	6,506,250	0.89
Exercised	(4,500,000)	0.43	(195,000)	0.25
Expired	(262,500)	0.35	(760,000)	0.65
Balance, end of period	26,418,750	\$ 0.63	16,671,250	\$ 0.56

# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009  
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### 16. STOCK COMPENSATION (continued)

A summary of the outstanding options as at December 31, 2010 are as follows:

Expiry Date	Exercise Price (CDN\$)	Options Outstanding	Options Exercisable	Vested Portion of Estimated Grant Date Fair Value
July 12, 2011	0.39	300,000	300,000	\$ 54,536
March 9, 2012	0.33	56,250	56,250	11,034
March 22, 2012	0.73	900,000	900,000	140,526
April 9, 2012	1.01	75,000	75,000	10,717
June 20, 2012	0.92	187,500	187,500	33,768
October 3, 2012	1.07	3,525,000	3,525,000	640,801
January 10, 2013	0.50	1,140,000	1,140,000	396,265
May 27, 2013	0.51	2,800,000	2,800,000	1,079,318
June 6, 2013	0.51	310,000	310,000	115,229
June 27, 2013	0.51	100,000	100,000	37,307
September 19, 2013	0.20	1,175,000	1,175,000	176,630
April 6, 2014	0.29	2,325,000	2,325,000	504,028
May 4, 2014	0.33	100,000	100,000	24,687
July 31, 2014	0.32	115,000	115,000	27,474
January 6, 2015	0.73	100,000	50,000	54,112
February 23, 2015	0.60	200,000	100,000	83,354
March 12, 2015	0.67	3,625,000	3,625,000	2,019,649
March 29, 2015	0.70	375,000	375,000	212,251
May 13, 2015	0.68	50,000	50,000	26,457
June 1, 2015	0.60	170,000	107,500	70,856
June 7, 2015	0.60	8,225,000	8,162,500	3,381,288
November 19, 2015	1.02	565,000	565,000	470,880
		26,418,750	26,143,750	\$ 9,571,167

The Company granted 14,510,000 stock options to directors, officers and consultants of the Company during 2010 (2009: 4,650,000). Of these options granted, 500,000 (2009: 750,000) options vest 1/8<sup>th</sup> every quarter over a two year period, while the remainder vest immediately. An amount of \$6,865,189 was recorded as stock based compensation expense during 2010 related to these and other options that vested over the period (2009: \$1,227,261). The weighted average grant date fair value of the options granted during 2010 was \$0.54 (2009: \$0.21). The estimated fair value of stock options issued during the period was estimated using the Black-Scholes option pricing model under the following weighted average assumptions:

	2010	2009
expected dividend yield	0%	0%
expected volatility	123.70%	127.06%
risk-free interest rate	2.64%	2.52%
expected life	5 years	5 months to 5 years

# AVION GOLD CORPORATION

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### 17. BROKER OPTIONS

	2010		2009	
	Number of options	Weighted average exercise price (CDN\$)	Number of options	Weighted average exercise price (CDN\$)
Balance, beginning of period	7,056,000	\$ 0.53	3,606,000	\$ 0.51
Granted, broker options	-	-	5,685,000	0.27
Exercised	(5,646,781)	0.50	(2,235,000)	0.09
Expired	(1,409,219)	0.65	-	-
Balance, end of period	-	\$ -	7,056,000	\$ 0.53

### 18. CONTRIBUTED SURPLUS

	2010	2009
Balance, beginning of period	\$ 5,958,358	\$ 2,651,689
Stock options granted and/or vested during the peirod		
Directors, officers and employees	5,553,408	956,411
Consultants	1,311,781	270,850
Value of options granted for acquisition of subsidiary	-	1,068,225
Value of compensation options granted during the period	-	591,444
Allocation of value of options and broker options exercised	(2,078,393)	(136,292)
Value of expired warrants	-	556,031
Balance, end of period	\$ 10,745,154	\$ 5,958,358

### 19. RELATED PARTY TRANSACTIONS

The Company was charged \$58,300 during 2010 (2009: \$57,515) for administrative fees charged by Forbes & Manhattan, Inc, a corporation for which Mr. Stan Bharti, a director of the Company, 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 \$35,478 as at December 31, 2010 (December 31, 2009: \$44,677) to cover these expenses, and this amount is recorded in prepaid expenses. As well, the Company is owed \$20,231 (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.

The Company and Dynamite shared a common director and a common officer. The Company acquired all of the issued and outstanding shares of Dynamite during 2009. See Note 25. Of the existing Dynamite stock options outstanding at the time of acquisition, 2,662,600 Dynamite options were converted to options of the Company at a ratio of 1 Dynamite option for 0.75 options of the Company for the common director and officer. Also 487,500 options were converted belonging to former Dynamite directors who have now been appointed to the Board of Directors of the Company.

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# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009

*(Stated in United States dollars – Note 3)*

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### 20. 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 2010 and 2009.

### 21. 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 2010 and 2009.

#### 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 December 31, 2010, the Company had a cash and cash equivalents balance of \$38,610,362 (December 31, 2009 - \$20,541,856) to settle current liabilities of \$16,690,893 (December 31, 2009 - \$9,831,171). Approximately \$12,989,000 of the Company's financial liabilities have 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 December 31, 2010. 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.

# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009  
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### 21. FINANCIAL RISK FACTORS (continued)

#### (b) 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.

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

#### i) Transaction exposure

The Company's operations sell commodities and 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 Canadian dollar:

Balances as at December 31, 2010	USD\$	CFA	Euros	Australian dollar
Cash and cash equivalents	\$14,598,372	\$ 3,163,071	\$ -	\$ -
Amounts receivable	-	1,192,238	-	-
Fuel duty recoverable	-	5,626,336	-	-
Investments	-	-	-	-
Accounts payable and accrued liabilities	(472,089)	(12,830,844)	(101,801)	-
Shareholder loan	-	(521,282)	-	-
Long term liabilities	-	-	-	-
Capital lease obligations	(3,276,810)	-	-	-
Asset retirement obligations	(3,767,000)	-	-	-
Net balance sheet exposure	\$ 7,082,473	\$ (3,370,481)	\$ (101,801)	\$ -

Balances as at December 31, 2009	USD\$	CFA	Euros	Australian dollar
Cash and cash equivalents	\$ 333,254	\$ 757,879	\$ -	\$ -
Amounts receivable	-	974,726	-	-
Fuel duty recoverable	-	4,742,989	-	-
Investments	-	-	-	-
Accounts payable and accrued liabilities	(157,888)	(6,919,365)	-	(64,116)
Shareholder loan	-	(549,889)	-	-
Long term liabilities	-	-	-	-
Capital lease obligations	-	-	-	-
Asset retirement obligations	(5,053,000)	-	-	-
Net balance sheet exposure	\$ (4,877,634)	\$ (993,660)	\$ -	\$ (64,116)

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# AVION GOLD CORPORATION

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For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009

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### 21. FINANCIAL RISK FACTORS (continued)

#### iii) Translation exposure

The Company's operations translate their operating results from the host currency to Canadian dollars, the functional currency, and subsequently to the reporting currency, US dollars. Therefore, exchange rate movements in the United States dollar, Canadian dollar, Euro and FCFA 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.

#### 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 lease obligations are classified as other financial liabilities, which are measured at amortized cost. The Company's investments in securities of public companies are 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 Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

For the twelve months ended December 31, 2010 and the thirteen months ended December 31, 2009  
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### 21. FINANCIAL RISK FACTORS (continued)

The following table illustrates the classification of the Company's financial instruments within the fair-value hierarchy:

December 31, 2010	Level 1	Level 2	Level 3
Cash and equivalents:			
Cash	\$ 19,361,908	\$ -	\$ -
Equivalents	\$ -	\$ 19,248,454	\$ -
Investments	\$ 2,716,857	\$ -	\$ -
December 31, 2009			
Cash and equivalents:			
Cash	\$ 2,628,840	\$ -	\$ -
Equivalents	\$ -	\$ 17,913,016	\$ -
Investments	\$ 2,956,090	\$ -	\$ 133,447

At December 31, 2009, the Company's investment in Yellowhead was classified as Level 3. However, as the shares now trade on the Toronto Stock Exchange Venture, these have been reclassified as Level 1 at December 31, 2010.

As at December 31, 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 exchange rate as at December 31, 2010 compared to the US Dollar, with all other variables held constant, would impact the Company's net earnings by approximately \$2,800,000. Comprehensive earnings would be impacted by \$17,900,000.

A 10% change in the Canadian Dollar exchange rate as at December 31, 2010 compared to the FCFA, with all other variables held constant, would impact the Company's net earnings by approximately \$337,000. Comprehensive earnings would be impacted by approximately \$337,000.

##### Price risk

A 10% change in the average gold price during 2010 with all other variables constant, would have resulted in an impact to earnings of approximately \$11,525,000.

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# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

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### 22. COMMITMENTS AND CONTINGENCIES

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 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 December 31, 2010, accounts payable and accrued liabilities include provisions related to such matters totaling \$562,948.

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.

# AVION GOLD CORPORATION

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### 23. INCOME TAXES

#### a) Provision for income taxes

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 31% (2009 – 33%) were:

	2010 \$	2009 \$
Income before income taxes	31,457,426	2,597,185
Expected income tax (recovery) at statutory rates	9,752,000	857,000
Adjustments resulting from:		
Share issue costs	(532,000)	(595,000)
Expiring non-capital losses	-	47,000
Changes in tax rates	-	2,341,000
Differences in tax rates	3,057,000	(2,955,000)
Stock-based compensation	1,716,000	405,000
Purchase of subsidiaries	-	(8,590,000)
Other	1,437,000	(1,039,000)
Change in valuation allowance	(15,430,000)	9,529,000
Future income taxes	-	-

#### b) Future income tax balances

The tax effect of temporary differences that give rise to future income tax assets and liabilities in Canada at December 31, 2010 and 2009 are as follows:

	2010 \$	2009 \$
Future income tax assets (liabilities)		
Non-capital loss carryforwards	7,815,000	4,739,000
Capital loss carryforwards	(57,000)	4,024,000
Properties, plant and equipment	(11,748,373)	14,777,000
Finance costs	962,000	1,157,000
Other	(77,000)	764,000
Valuation allowance	(10,031,000)	(25,461,000)
Future income tax liability	(13,136,373)	-

The future income tax liability relates to property, plant and equipment in Mali (\$10,183,373) and in Burkina Faso (\$2,953,000).

c) The Company has approximately \$31,258,000 of non-capital losses in Canada as at December 31, 2010 which under certain circumstances can be used to reduce the taxable income of future years. The non-capital losses expire as follows:

<u>Expiry Date</u>	<u>Amount (\$)</u>
2013	206,000
2014	149,000
2025	172,000
2026	929,000
2027	1,849,000
2028	5,052,000
2029	10,778,000
2030	12,123,000
	<u>31,258,000</u>

# AVION GOLD CORPORATION

## Notes to the Audited Annual Consolidated Financial Statements

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### 24. SEGMENTED INFORMATION

	Current Assets	Properties, Plant and Equipment	Other Long Term Assets	TOTAL ASSETS
<u>December 31, 2010</u>				
Canada	36,387,086	-	3,508,010	39,895,096
Mali	41,693,822	124,945,987	2,955,809	169,595,618
Burkina Faso	-	-	-	-
	<u>78,080,908</u>	<u>124,945,987</u>	<u>6,463,819</u>	<u>209,490,714</u>
<u>December 31, 2009</u>				
Canada	20,129,837	-	3,089,537	23,219,374
Mali	22,359,918	36,562,898	5,613,404	64,536,220
	<u>42,489,755</u>	<u>36,562,898</u>	<u>8,702,941</u>	<u>87,755,594</u>

### 25. ACQUISITION OF SUBSIDIARY

In May 2009, the Company completed the acquisition of Dynamite Resources Inc. (“Dynamite”) by way of a plan of arrangement. The Company acquired all of the issued and outstanding common shares of Dynamite at an exchange ratio of 0.75 common shares of the Company for each common share of Dynamite. As a result, the Company issued 85,151,250 common shares to the former shareholders of Dynamite. Any Dynamite warrants and options outstanding at the date of the acquisition were converted to warrants and options of the Company at the same ratio. Consequently, 75,226,250 warrants were issued on conversion at exercise prices ranging from CDN\$0.57 to CDN\$1.33 (\$0.52 and \$1.22) with expiry dates ranging from June 14, 2009 to August 17, 2009. These warrants have expired at December 31, 2009. Also, 6,506,250 options were issued on conversion at exercise prices ranging from CDN\$0.33 to CDN\$1.07 (\$0.30 and \$0.99) and expiry dates ranging from October 1, 2009 to February 5, 2013.

The acquisition was valued based on the estimated fair values of the net assets acquired. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Cash	\$ 7,771,734
Accounts receivable	66,674
Prepaid expenses	38,574
Notes receivable	7,359,608
Accounts payable	(656,402)
	<u>\$ 14,580,188</u>

The following table summarizes the allocation of the total cost of the acquisition of Dynamite:

Issuance of common shares	\$ 13,139,567
Issuance of converted warrants	10,569
Issuance of converted options	1,068,225
Acquisition costs	361,827
	<u>\$ 14,580,188</u>

The allocation of the total cost of the acquisition of Dynamite was based on the quoted market value of the Company’s shares and the estimated fair value of the warrants and options, based on the Black-Scholes valuation model, at the date of acquisition.

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# **AVION GOLD CORPORATION**

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Dynamite and the Company had a common director and officer.

### **26. SUBSEQUENT EVENTS**

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.

Subsequent to December 31, 2010, 366,250 stock options and 4,672,832 warrants were exercised for gross proceeds of \$3,208,612. As well, 1,390,000 stock options have been granted with a weighted average exercise price of \$1.63.