



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

***for the three and twelve months ended  
December 31, 2010 and  
the three and thirteen months ended  
December 31, 2009***

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **For the Three and Twelve Months Ended December 31, 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 March 21, 2011. This MD&A provides a detailed analysis of the Company's business and compares its financial results with those of the previous period and should be read in conjunction with the audited consolidated financial statements and notes thereto for the twelve months ended December 31, 2010. The consolidated 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 for the fiscal year ended 2009. As a result, the twelve months ended December 31, 2010 are being compared to the thirteen months ended December 31, 2009.

References to the first, second, third and fourth quarters of 2010 or Q1-2010, Q2-2010, Q3-2010 and Q4-2010, and the first, second, third and fourth quarters of 2009 or Q1-2009, Q2-2009, Q3-2009 and Q4-2009, refer to the three months ended March 31, June 30, September 30 and December 31, 2010, and the four months ended March 31 and three months ended June 30, September 30 and December 31, 2009 respectively.

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 March 21, 2011.

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

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

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

Except for statements of historical fact relating to Avion, certain information contained herein constitutes "forward-looking information" under Canadian securities legislation. Forward-looking information includes, but is not limited to, statements with respect to the development potential of the Company's properties; future mineral prices; the estimation of mineral reserves and mineral resources; conclusions of economic evaluations, the realization of mineral reserve and resource estimates; the timing and amount of estimated future production; costs of production; capital expenditures; success of exploration activities; permitting time lines and permitting, mining or processing issues; currency exchange rates; government regulation of mining operations; and environmental risks. Generally, forward looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking information is based on the opinions and estimates of management as of the date

such statements are made. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: unexpected events and delays during permitting, construction, expansion and start-up; variations in mineral grade and recovery rates; delay or failure to receive government approvals; timing and availability of external financing on acceptable terms; actual results of current exploration activities; changes in project parameters as plans continue to be refined; future mineral prices; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry, as well as those factors discussed herein under the heading `Risks`. Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

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

Avion's common shares are listed on the Toronto Stock Exchange ('TSX') under the symbol "AVR".

Avion is a Canadian gold mining company with a current focus in West Africa. Avion acquired an approximate 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 (Kenieba Property) 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. As consideration, the Company paid CDN\$500,000 (\$490,754) in cash, and issued 7,608,696 common shares of the Company. A total of 1,902,704 common shares were being held in escrow (25% of the total share consideration) pending receipt of a government approval for the transfer of the Comifa concession. Subsequent to December 31, 2010, the Comifa concession was transferred and the shares held in escrow were released. See the Mineral Properties section of this report for further details. 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.

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 Q4-2010, the Company signed a definitive agreement and issued 10,300,000 common shares to Avocet which were held in escrow until just subsequent to Q4-2010, when the acquisition was completed. 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 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 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%.

The Company's December 31, 2010 audited 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 December 31, 2010 consolidated financial statements. For a full description of the Company's risks, please refer to the Risks and Uncertainties section of this report.

## **Q4-2010 HIGHLIGHTS**

During the three-month period ending December 31, 2010, the following significant activities occurred:

- The Company graduated to the TSX from the TSX-V in December 2010
- Avion produced 26,091 ounces of gold during the quarter after final refinery adjustments.
- Avion processed 187,800 tonnes of ore at an average grade of 4.46 g/t Au.
- The average mill recovery for the quarter was 97.3%.
- 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.
- On October 7, 2010, Avion announced the closing of the definitive agreement with Avocet for the acquisition of the Houndé property in Burkina Faso. Avion followed this press release with an announcement on October 26, 2010, in which Avion presented the maiden resource estimate for the Vindaloo Zone of 883,000 tonnes Indicated Mineral Resources at 2.23 g/t Au totaling 63,000 ounces and 5,725,000 tonnes Inferred Mineral Resources at 2.97 g/t Au totaling 547,000 ounces. Further drill results announced on November 30<sup>th</sup> announced a further extension of the Vindaloo zone by 200 metres and a best intercept of Vindaloo Gold Zone of <7 over <7 metres, with an additional intersection of 3.14 g/t Au over 39.8 metres.
- Additional good exploration drill results were announced on October 19, November 11 and December 16, 2010 for the Dioulafoundou and Tabakoto areas.
- Avion closed the acquisition of the Kofi Nord concession on December 29, 2010, which contains Indicated mineral resources of approximately 3.24 million tonnes grading 2.55 g/t Au totaling 293,000 ounces and Inferred mineral resources of approximately 5.26 million tonnes grading 2.18 g/t Au totaling 368,000 ounces (Dec. 11, 2007 AXMIN news release, Roberts, 2008 43-101 compliant report).
- On December 30, 2010, Avion announced updated mineral resources for the Tabakoto Project (including Tabakoto, Ségala and Kenieba properties) that are summarized as follows:
  - Tabakoto Project Indicated open pit mineral resources comprise 992,000 tonnes grading 4.27 g/t Au for 136,300 ounces;
  - Tabakoto Project Inferred open pit mineral resources comprise 2,954,000 tonnes grading 3.57 g/t Au for 339,100 ounces;
  - Tabakoto Project Measured and Indicated underground mineral resources comprise 5,014,000 tonnes grading 5.23 g/t Au for 842,700 ounces;
  - Tabakoto Project Inferred underground mineral resources comprise 6,063,000 tonnes grading 4.55 g/t Au for 887,000 ounces.

## **MINERAL PROPERTIES**

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

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

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

### **Exploration Review**

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

As of December 30, 2010, Avion had completed 288 core holes totaling 46,409 metres and 150 reverse circulation holes totaling 10,429 metres local geological mapping, magnetic surveys, soil sampling and trenching.

This drill program was focused in three areas as follows:

- Dioulafoundou
- Djambaye II
- Tabakoto Pit

As of December 31, 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 extended the DNW and DNW2 zones both along strike and to depth. The drilling was instrumental in allowing conversion of a portion of the Inferred resources to Indicated, and outlining new Inferred resources.

In December, Avion announced an updated Open Pit Indicated mineral resource for Dioulafoundou of 597,900 tonnes grading 4.99 g/t Au and additional Open Pit Inferred mineral resources of 257,100 tonnes grading 6.35 g/t Au. Underground Indicated mineral resources comprise 49,000 tonnes grading 4.64 g/t Au and Underground Inferred mineral resources comprise 395,800 tonnes grading 5.41 g/t Au.

#### 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).

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.

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

#### Tabakoto Pit area drilling

Avion completed 72 core and reverse circulation holes totaling 17,417.5 metres in the Tabakoto Pit area during 2010. This drilling focused on both northeast and northwest trending cross-structures that host the bulk of the grade in the pit. The goal of the drilling was to test the major cross-structures to 300 metres below surface and at the same time increase the Company's confidence level in both the grades of the cross structures and their predictability at depth. The drill program accomplished both goals. Drilling continues to test the cross structures with the current focus on increasing 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. Each 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 has completed grade control drilling of the near surface portions of the two zones with a goal to develop 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 2010 year end resource update. 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

#### 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 National Instrument 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 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 paid Great Quest CDN\$500,000 in cash and issued 7,608,696 Avion common shares. A total of 25% of the shares were being held in escrow pending reception of the Arrêté for the Comifa Concession; Avion received the Arrêté for the Comifa concession in January 2011, following which the shares were released to Great Quest. 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 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 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.

#### Kofi Property, Mali

Avion announced that it had closed the acquisition of the Kofi Nord, Kofi Dabora, Walia (ACGRI) and Dianissi Concessions, which form part of the Kofi Property, from AXMIN Inc. ("AXMIN") on December 29, 2010.

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

The Kofi property is a large, 333 sq. km (after renewals) property package situated, at its nearest point, within approximately 5 kilometres to the northwest of Avion's Tabakoto Project. The Kofi property wraps around the north side of Randgold's Loulo Mine concessions (Historic Measured and Indicated resources of 62.69 million tonnes grading 4.55 g/t Au). Four of the nine known mineralized zones on the Kofi property are located along two linear mineralization trends that are defined by the alignment of deposits within the nearby Randgold Property. These two trends, which intersect on the Kofi property, are associated with a magnetic feature that extends for fifteen kilometers on the Kofi Property. Avion believes that this magnetic feature represents a high quality exploration target.

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

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

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

Significant results include the following:

- 6.05 g/t Au over 27.0 metres
- 3.83 g/t Au over 52.0 metres
- 6.05 g/t Au over 21.0 metres
- 7.34 g/t Au over 7.9 metres
- 4.86 g/t Au over 14.1 metres
- 9.14 g/t Au over 14.7 metres
- 4.96 g/t Au over 15.9 metres
- 3.19 g/t Au over 16.2 metres
- 50.99 g/t Au over 4.5 metres
- 8.26 g/t Au over 9.1 metres
- 13.44 g/t Au over 11.2 metres
- 6.05 g/t Au over 11.2 metres

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

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

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

Additional drilling is planned in 2011.

#### 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 totaling 2,159,700 million ounces of gold, Measured and Indicated mineral resources of 1,126,000 ounces of gold and Inferred resources totaling 2,678,000 million ounces of gold). The property is centred approximately 250 km southwest of Ouagadougou, the capital of Burkina Faso.

Avion has intersected gold mineralization in each of 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 1,000 metre strike length of the zone, which is still open along strike and to depth. A summary of significant intercepts is as follows:

- 7.96 g/t Au over 7.5 metres
- 9.77 g/t Au over 6.9 metres
- 2.08 g/t Au over 22.9 metres
- 4.01g/t Au over 9.7 metres
- 1.79 g/t Au over 68.4 metres
- 1.84 g/t Au over 28.5 metres
- 2.92 g/t Au over 39.3 metres

- 3.06 g/t Au over 10.4 metres
- 2.72 g/t Au over 18.7 metres
- 2.56 g/t Au over 29.0 metres
- 3.14 g/t Au over 39.8 metres
- 1.45 g/t Au over 36.0 metres
- 2.97 g/t Au over 18.0 metres
- 1.47 g/t Au over 56.9 metres

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

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

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

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

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

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

#### Bouere Zone

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

#### Madras Zone

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

### Kueredougou Zone

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

### Diosso South Zone

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

### Douhoun Zone

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

### Grand Espoir Zone

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

Avion has completed 46 core holes totaling approximately 7,620 metres with thirty-four of the holes completed on the northern concession block, and twelve holes completed in the southern concession block. The 2011 drill program is on-going.

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.

## Current Mineral Resources

### Tabakoto Project

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

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

<b>ZONE</b>	<b>CATEGORY</b>	<b>TONNES</b>	<b>GRADE</b>	<b>OUNCES</b>	<b>TYPE</b>
<b>Tabakoto NE1, 2 etc zones</b>	measured	26,855	5.275	4,554	UG
	indicated	1,047,027	5.574	187,633	UG
	inferred	496,389	5.194	82,891	UG
<b>Tabakoto NW Zones</b>	indicated	8,030	8.005	2,067	OP
	inferred	199,580	4.388	28,156	OP
	Indicated	174,972	6.941	39,046	UG
	inferred	1,165,479	5.671	212,498	UG
<b>Tabakoto South /Dabo Zones</b>	indicated	120,354	4.218	16,321	OP
	inferred	193,553	4.830	30,056	OP
	Indicated	271,231	7.696	67,111	UG
	inferred	696,978	5.283	118,383	UG
<b>Djambaye II</b>	inferred	1,858,354	3.217	192,207	OP
	inferred	1,191,481	3.289	125,992	UG
<b>Ségala Main</b>	measured	2,946	4.41	418	UG
	indicated	2,547,956	5.29	433,022	UG
	inferred	1,442,242	4.35	201,474	UG
<b>Ségala NW</b>	measured	4,010	4.429	571	UG
	indicated	884,974	3.614	98,180	UG
	inferred	257,451	3.396	28,109	UG
<b>Dioulafoundou</b>	indicated	597,885	4.988	95,882	OP
	inferred	257,126	6.348	52,478	OP
	indicated	48,977	4.644	7,313	UG
	inferred	394,769	5.414	68,715	UG
<b>Dar Salam</b>	indicated	266,140	2.57	21,990	OP
	inferred	445,076	2.532	36,232	OP
	indicated	44,616	3.37	4,834	UG
	inferred	418,305	3.638	48,927	UG

- (1) The Inferred resources are in addition to the Measured and Indicated resources.
- (2) The mineral resources have been classified in accordance with requirements of NI 43-101 and the CIM standards. Resource estimates based on a gold price of USD\$1000 per ounce and a 96% recovery.
- (3) Eugene Puritch, P.Eng. and Antoine Yassa, P.Geo. from P&E Mining Consultants Inc., Qualified Persons under NI 43-101 who are independent of the Company and are responsible for the mineral resource estimates

presented on December 30, 2010. They have reviewed the scientific and technical information in this document relating to those estimates.

- (4) Mineral resources that are not mineral reserves do not have demonstrated economic viability.

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

#### Open Pit Mineral Resources

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

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

#### Underground Mineral Resources

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

#### Kofi Project

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

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

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

### Houndé Project

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

(i)

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

## QA/QC Procedures

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

### **Mining Operation Review**

#### **2010 Fourth Quarter production results**

Avion produced 26,091 ounces of gold during Q4-2010, which is a 22% improvement over the 21,307 ounces produced in Q4-2009. The Tabakoto plant processed 187,800 tonnes of ore at an average grade of 4.46 g/t Au and the average mill recovery for Q4-2010 was 97.3%. This compares to Q4-2009 production of 179,100 tonnes of ore at an average grade of 3.83 g/t Au and a mill recovery of 96.7%.

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

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

### **RESULTS OF OPERATIONS**

#### For the three months ended December 31, 2010

The Company reported net income of \$18,623,126 (\$0.05 per share, basic and diluted) for the three months ended December 31, 2010 compared to net income of \$3,974,977 (\$0.02 per share, basic and diluted) for the three months ended December 31, 2009. Other comprehensive income for Q4-2010 amounted to \$4,204,330 (Q4-2009: \$7,124,277), which represents the foreign exchange difference determined using the current rate method to translate the financial statements to US\$.

During Q4-2010, the Company sold 27,908 ounces of gold and generated \$38,249,405 in gold sales revenue. In Q4-2009, 13,376 ounces of gold was sold generating \$14,176,875 in gold sales revenue. Mining and processing expenses were \$14,913,311 (Q4-2009: \$7,877,637), which includes \$2,132,132 (Q4-2009: \$216,792) in amortized deferred stripping costs, and the Company recorded amortization and depletion of \$1,133,988 (Q4-2009: \$1,796,049). The Company is amortizing deferred property, plant and equipment related to the Mali projects on a unit of production basis from the current mine plan. The Company was subject to an aggregate NSR of 7% on metal sales during a portion of Q4-2010. In November 2010, the Company bought out a 1% royalty for \$2,000,000. This amount has been deferred and will be amortized over the life of the mine. Royalties

expense totaled \$2,019,134 (Q4-2009: \$1,072,801) for the ounces of gold sold during Q4-2010 up until the buy-out.

The Company realized a cash cost per ounce produced of \$443 per ounce for Q4-2010 compared to \$483 for Q4-2009. Please see "Non-GAAP Measures" below.

Corporate and administrative expenses for the quarter ended December 31, 2010 totalled \$1,303,697 compared to \$1,423,672 for Q4-2009. The Company paid out lower bonus amounts during Q4-2010 compared to Q4-2009. This however was partially offset by fees paid by the Company to list on the TSX. 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 Q4-2010 was \$497,824 (Q4-2009: \$80,921) related to the estimated fair value of stock options that were granted and vested during Q4-2010. A total of 565,000 stock options were granted during Q4-2010 compared to nil during Q4-2009. Stock based compensation was estimated using the Black-Scholes option pricing model as at the date of grant.

During Q4-2010, 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 (Q4-2009: \$30,812). As well, the Company incurred lower interest expense in Q4-2010 compared to Q4-2009 accruing on the Government of Mali loans as a result of lower LIBOR rates.

The Company recognized an unrealized gain of \$379,252 during Q4-2010 (Q4-2009: an unrealized gain of \$1,289,046) related to their held-for-trading investments based on the fair market value of these investments as at December 31, 2010.

The Company also incurred a foreign exchange translation loss of \$34,610 during the Q4-2010 compared to a gain of \$961,557 during Q4-2009. 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 twelve months ended December 31, 2010

The Company reported net income of \$31,457,426 (\$0.09 per share, basic and diluted) for the twelve months ended December 31, 2010 compared to \$2,597,185 (\$0.01 per share, basic and diluted) for the thirteen months ended December 31, 2009. Other comprehensive income for the twelve month period in 2010 amounted to \$6,397,036 (2009: \$6,474,716), which represents the foreign exchange difference determined using the current rate method to translate the financial statements to US\$.

During the twelve months ended December 31, 2010, the Company sold 92,630 ounces of gold and generated \$115,306,132 in gold sales revenue. The Company commenced commercial production in May 2009, and in the thirteen months ended December 31, 2009, 34,347 ounces of gold was sold generating \$33,647,850 in gold sales revenue. Mining and processing expenses were \$53,486,908 (2009: \$21,295,256), which includes \$2,866,703 (2009: \$493,240) in amortized deferred stripping costs, and the Company recorded amortization and depletion of \$7,759,959 (2009: \$3,344,403). The Company is amortizing deferred property, plant and equipment related to the Mali projects on a unit of production basis from the current mine plan. The Company was subject to an aggregate NSR of 7% on metal sales during most of the year ended December 31, 2010. In November 2010, the Company bought out a 1% royalty for \$2,000,000. This amount has been deferred and will be amortized over the life of the mine. Royalties expense totaled \$7,273,258 (2009: \$2,864,842) for the ounces of gold sold during 2010.

The Company realized a cash cost per ounce produced of \$574 per ounce for 2010 compared to \$523 for 2009. Please see "Non-GAAP Measures" below.

Corporate and administrative expenses for the twelve months ended December 31, 2010 totalled \$4,092,667 compared to \$3,525,051 for the thirteen months ended December 31, 2009. The significant increases include higher legal and audit costs, higher promotional costs and higher filing costs resulting from the Company's listings on both the US over-the-counter market OTCQX International as well as the TSX. 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 \$6,865,189 (2009: \$1,227,261) related to the estimated fair value of stock options that were granted and/or vested during the twelve month period. A total of 14,510,000 stock options were granted to directors, officers, employees and consultants of the Company during 2010 compared to 4,650,000 stock options granted in 2009. Stock based compensation was estimated using the Black-Scholes option pricing model.

During the twelve months ended December 31, 2010, the Company incurred a non-cash accretion expense of \$455,000 related to the Company's asset retirement obligations acquired through the acquisition of the Mali projects (2009: \$398,875). As well, the Company incurred interest expense accruing on the Government of Mali loans during 2010. During 2009, the Company incurred interest expense on short term loans payable to Aberdeen International Inc.

The Company recognized an unrealized loss of \$910,319 during 2010 (2009: an unrealized gain of \$1,248,066) related to their held-for-trading investments based on the fair market value of these investments as at December 31, 2010.

The Company also incurred a foreign exchange translation loss of \$3,244,411 during the twelve months ended December 31, 2010 compared to a gain of \$668,621 during the thirteen months ended December 31, 2009. The FCFA weakened substantially compared to the US\$ during 2010 and a large proportion of the Company's monetary assets are denominated in FCFA.

## SUMMARY OF QUARTERLY RESULTS

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

(in '000's except per share amounts)		Revenue	Income	Income	Long Term
		\$	(Loss)	(Loss) per	Financial
			\$	share	Liabilities
				\$	\$
Q4-2010	December 31, 2010	38,252	18,623	0.05	6,454
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				

The Company commenced commercial production during Q2-2009 resulting in revenue from operations being recognized. Q3-2009 reflects a full quarter of commercial production revenues. The Company did not have income from operations prior to Q1-2009. During Q1-2009, the Company recognized pre-production revenues which were recorded as deferred expenditures.

During Q1-2009, 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 received an average gold price of \$1,233 per ounce on their gold sales. During Q4-2010, the Company recognized higher revenues as a result of increased ounces sold, as well as a higher average gold price of \$1,370 per ounce on gold sales.

The Company's long term debt consists of asset retirement obligations related to the Mali projects acquired at the end of May, 2008. Management had reassessed the asset retirement obligation during 2009 and had recorded an increase during 2009. In Q4-2010, the Company increased the amount of the estimate of the asset retirement obligation, but also changed the estimated time to reclamation to the year 2022. Therefore, the value of the asset retirement obligation decreased. During Q3-2010, the Company acquired assets through a capital lease arrangement, thereby marginally increasing long-term liabilities. The Company continued to acquire assets through capital lease arrangements during Q4-2010 increase their 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 December 31, 2010, the Company had \$38,610,362 in cash and cash equivalents, and working capital of \$50,292,204.

The Company raised \$25,592,397 net of issue costs during the twelve months ended December 31, 2010 from a public offering issuing 48,070,000 common shares of the Company at a price of CDN\$0.60. Issue costs totalled \$2,503,618 which included the value of 2,884,200 broker warrants of \$466,932. During 2009, the Company raised \$22,304,809 net of issue costs through the issuance of 37,500,000 units of the Company priced at \$0.08 per unit as well as 57,500,000 common shares of the Company priced at \$0.40 per share. Issue costs totalled \$2,495,212 including the value of broker options of \$591,444.

During the year ended December 31, 2010, the Company raised \$12,660,600 from the exercise of warrants and options compared to \$3,877,941 during the thirteen months ended December 31, 2009.

## **CASH FLOWS**

### For the quarter ended December 31, 2010

During Q4-2010, operating activities provided \$24,211,321 in cash flows compared to using \$2,143,275 during Q4-2009. Operations, net of corporate administrative expenses, generated approximately \$26,000,000 in cash while the net change in working capital used approximately \$1,850,000 during Q4-2010. During Q4-2009, operations generated approximately \$6,700,000 while the net change in working capital used \$4,600,000 for the comparative quarter.

Cash from investing activities used \$22,085,361 during Q4-2010 compared to \$16,723,645 during Q4-2009. Expenditures on properties, plant and equipment used \$19,364,981 during Q4-2010 compared to \$6,732,576 during Q4-2009. The change in working capital related to properties, plant and equipment used \$2,720,380 for Q4-2010 compared to the use of \$2,513,674 for Q4-2009. During Q4-2010, funds were directed to extensive underground development as well as exploration projects.

Financing activities provided \$9,165,189 during Q4-2010 compared to \$22,076,553 during Q4-2009. The exercise of warrants and options generated \$9,147,856 in cash for Q4-2010 compared to \$2,202,123 during Q4-2009. Also, during Q4-2009, the Company raised \$19,943,429 in net proceeds from a public offering. The Company paid \$132,315 against capital lease obligations during Q4-2010, compared to \$nil during Q4-2009.

The effect of the change in foreign exchange rates on cash was (\$884,757) during Q4-2010 compared to (\$375,369) during Q4-2009.

### For the twelve months ended December 31, 2010

During the twelve months ended December 31, 2010, operating activities provided \$46,340,768 in cash flows compared to \$3,034,444 during the thirteen months ended December 31, 2009. Operations, net of corporate administrative expenses, generated approximately \$55,700,000 in cash while the net change in working capital used approximately \$9,300,000 during 2010. During the thirteen months ended December 31, 2009, operations generated approximately \$9,300,000 while the net change in working capital used \$6,300,000.

Cash from investing activities used \$65,210,085 during 2010 compared to \$17,945,762 during the thirteen months ended December 31, 2009. Expenditures on properties, plant and equipment used \$64,024,444 during 2010 compared to \$20,648,305 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 used \$780,278 for 2010 compared to the use of \$4,461,595 for 2009. The Company acquired investments using \$405,363 during the twelve months ended December 31, 2010 compared to \$91,374 during the thirteen months ended December 31, 2009.

Financing activities provided \$38,043,723 during 2010 compared to \$33,010,271 during 2009. A public offering generated \$25,592,397 net of issue costs in 2010 compared to two financings generating \$22,304,809 net of issue costs during 2009. The exercise of warrants and options generated \$12,660,600 in cash for 2010 compared to \$3,877,941 during 2009. Short-term loans used \$28,607 during 2010, which represents interest and foreign exchange on the shareholder loans. During the thirteen months ended December 31, 2009, short-term loans used \$582,386 from the retirement of debt. The Company made payments of \$180,667 against capital lease obligations during 2010 compared to \$nil during 2009. As well, during 2009, the Company realized \$7,409,907 in cash through the acquisition of Dynamite.

The effect of the change in foreign exchange rates on cash was (\$1,105,900) during 2010 compared to (\$375,369) during 2009.

## NON-GAAP MEASURES

Avion believes that investors use certain indicators to assess gold mining companies. The indicators are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared with GAAP. "Cash flow from operating activities before changes in non-cash working capital" is a non-GAAP performance measure which could provide an indication of the Company's ability to generate cash flows from operations, and is calculated by adding back the change in non-cash working capital to "Cash provided by (used for) operating activities as presented on the Company's consolidated statements of cash flows." "Cash cost per ounce produced" is a non-GAAP performance measure which could provide an indication of the mining and processing efficiency and effectiveness at the Mine. It is determined by dividing the relevant mining and processing costs excluding royalties by the ounces produced in the period. There may be some variation in the method of computation of "cash cost per ounce produced" as determined by the Company compared with other mining companies. In this context, "ounces produced" includes in-process and dore inventory along with ounces of gold sold in the period. "Cash costs per ounce produced" may vary from one period to another due to operating efficiencies, waste to ore ratios, grade of ore processed and gold recovery rates in the period.

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

	Three months ended December 31, 2010	Three months ended December 31, 2009	Twelve months ended December 31, 2010	Thirteen months ended December 31, 2009
Mining and processing expenses	\$14,913,311	\$7,877,637	\$53,486,908	\$21,295,256
By-product silver sales credit	(\$2,600)	(\$25,632)	(\$239,551)	(\$84,643)
Inventory movements and adjustments	(\$3,353,718)	\$2,439,246	(\$2,913,580)	\$5,639,944
<b>Cash operating costs</b>	<b>\$11,556,993</b>	<b>\$10,291,251</b>	<b>\$50,333,777</b>	<b>\$26,850,557</b>
Ounces of gold produced	26,090	21,307	87,661	51,291
Cash cost per ounce produced	\$443	\$483	\$574	\$523
Royalties	\$2,019,134	\$1,072,801	\$7,273,258	\$2,864,842
Total cash cost per ounce produced	\$520	\$533	\$657	\$579
Operating cashflow	\$26,055,680	\$6,738,412	\$55,671,651	\$9,319,378
Operating cashflow per ounce produced (before working capital adjustments)	\$999	\$316	\$635	\$182

## TRANSACTIONS WITH RELATED PARTIES

The Company was charged \$58,300 for administrative fees during the twelve months ended December 31, 2010 (2009: \$57,515) by Forbes & Manhattan, Inc., a corporation for which Mr. Stan Bharti, a director of the Company, is a director and serves as President.

The Company shares its premises with other companies that have common directors and officers, and the Company reimburses the related companies for its proportionate share of the expenses. The Company has advanced \$35,478 as at December 31, 2010 (2009: \$44,677) to cover these expenses, and this amount is recorded in prepaid expenses. As well, the Company is owed \$20,231 (2009: \$46,554) in reimbursable payments, and this amount is recorded in amounts receivable. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

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. 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.

## DIRECTORS AND OFFICERS COMPENSATION

For the three and twelve months ended December 31, 2010, the Company was charged \$14,799 and \$344,941 by directors or by companies controlled by directors of the Company for consulting fees or salaries, and bonuses (Q4-2009: \$425,346; 2009: \$546,833). The Company was charged \$498,736 and \$1,630,478 in consulting fees and bonuses for the three and twelve months ended December 31, 2010 (Q4-2009: \$558,154; 2009: \$1,506,743) by officers of the Company.

## SHARE DATA

The authorized capital of the Company consists of an unlimited number of common shares of which 388,862,604 were issued and outstanding as of March 21, 2011.

Pursuant to the Company's Fixed Stock Option Plan, the number of common shares reserved for issuance under the Plan in aggregate is 35,048,024. As of March 21, 2011, 27,442,500 options are outstanding at exercise prices ranging from CDN\$0.20 to CDN\$1.70 expiring between July 12, 2011 and March 1, 2016.

The following table sets out all the outstanding share purchase warrants and broker warrants in Avion as at March 21, 2011:

Expiry Date	Exercise Price (CDN\$)	Warrants Outstanding
May 8, 2011	0.65	15,050,001
May 10, 2011	0.60	979,339
November 2, 2011	0.60	1,000,000
		17,029,340

Avion has no performance shares or escrow shares.

## 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.

## **RISKS AND UNCERTAINTIES**

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

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

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

## **COMMITMENTS**

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

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

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

The Company 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.

## SIGNIFICANT ACCOUNTING POLICIES

The annual consolidated financial statements are prepared using the same accounting policies and methods of application as those disclosed in note 4 to the Company's Audited Annual Consolidated Financial Statements for the year ended December 31, 2010.

### 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. Sections 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 February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed January 1, 2011, as the date International Financial Reporting Standards ("IFRS") will replace current Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises. As a result, the Company will report under IFRS starting with the interim period ending March 31, 2011, with restatement for comparative purposes of amounts reported under Canadian GAAP.

### IFRS PROJECT UPDATE

The Company's IFRS conversion plan consists of three phases: Scoping and Diagnostic; Detailed Evaluation; and Implementation and Review. The Scoping and Diagnostic phase included the completion of a high-level impact assessment to identify key areas that may be affected by the conversion and the development of a detailed implementation plan. The Detailed Evaluation phase included a detailed analysis of the IFRS – Canadian GAAP differences and accounting policy choices under IFRS, and the initial assessment of the non-financial reporting related impacts. The Scoping phase has been completed.

The Diagnostic and Detailed Evaluation and Implementation and Review phases are in progress and will be completed in the first quarter of 2011.

Based on the work completed to date, the transition to IFRS did not result in significant impacts to the Company's business activities or its covenants, capital requirements or compensation arrangements. The transition did not result in significant changes to key controls during or after the transition to IFRS. Changes to financial reporting processes and data systems were required as a result of changes in accounting policies, and internal control and disclosure control documentation is being updated accordingly. The initial training of finance personnel is ongoing.

The International Accounting Standards Board responsible for the development and publication of IFRS has a significant number of projects underway, many of which could impact the differences between Canadian GAAP and IFRS applicable to the Company. Changes in IFRS could result in additional adjustments and/or changes to the adjustments currently being recognized in the IFRS opening balance sheet. Accordingly, the Company continues to monitor and evaluate changes in IFRS, and to update the conversion plan as required.

The Company has identified several areas where potential differences between Canadian GAAP and IFRS could result in changes to the amounts reported by the Company in its financial statements. While the quantification of these potential changes has not yet been finalized, the areas where the changes are most anticipated include:

#### Asset Retirement Obligations

Under IFRS, a liability must be recognized at the time when the entity becomes legally or constructively obliged to rehabilitate a disturbance resulting from mining activities, while under Canadian GAAP, a liability is only recognized when the entity is legally bound. Discount rates used should reflect the risks specific to the decommissioning provision. Unlike IFRS, under Canadian GAAP discount rates for asset retirement obligations are based on the entity's credit-adjusted risk-free rate. IFRS requires re-measurement of the liability at each reporting date whereas Canadian GAAP requires re-measurement of the liability in the event of changes in the amount or timing of cash flows required to settle the obligation. Over and above this, IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, requires the re-measurement of the provision for reclamation and rehabilitation if there is a change in the current market-based discount rate. However under Canadian GAAP HB 3110 *Asset Retirement Obligations*, the provision for reclamation and rehabilitation is not adjusted for changes in the discount rate.

#### Property, Plant and Equipment

IFRIC 1, *Changes in Decommissioning, Restoration and Similar Liabilities*, contains guidance on accounting for changes in decommissioning, restoration and similar liabilities due to timing in the revision of estimated outflows and revisions to the risk-free discount rate. Where changes occur, these changes are required to be capitalized as part of the cost of the underlying assets and depreciated prospectively over the remaining life of the asset to which they relate.

IFRS requires identifying and measuring the cost of significant individual components of assets which have different useful lives than the core asset. Significant components are then separately depreciated based on their individual useful lives.

Canadian GAAP permitted the capitalization of pre-commercial production revenues and expenses, whereas IFRS does not, and such amounts would be recorded on the statement of operations.

#### Share-based payments

While there is convergence between IFRS and Canadian GAAP in that share-based payments are recognized as an expense, there are a number of measurement differences. Under Canadian GAAP, the Company records forfeitures on unvested stock options as they occur. Unlike Canadian GAAP, IFRS requires that the rate of forfeiture be estimated every reporting period and an adjustment be made to stock based compensation expense. Canadian GAAP also allows the vesting of employee stock options to be recognized to operations on a straight-line basis whereas IFRS requires the use of a graded vesting model.

#### Income Taxes

IFRS requires a deferred tax asset or liability to be recognized for exchange gains and losses related to nonmonetary assets and liabilities that are re-measured into the functional currency using the historical exchange rates. Under Canadian GAAP, a deferred tax asset or liability is not recognized for a temporary difference arising from the difference between the historical exchange rate and the current exchange rate translations of the cost of non-monetary assets and liabilities of integrated foreign operations.

Furthermore, Canadian GAAP requires that the current and long-term portions of future income tax assets, and future income tax liabilities, be shown separately on the financial statements, whereas IFRS does not.

## Exploration Expenditures

IFRS 6 applies to exploration and evaluation expenditures incurred by an entity in connection with the exploration and evaluation of mineral resources. An entity may choose to defer on the balance sheet nearly all exploration and evaluation expenditures or recognize all such expenditures in operations as incurred. IFRS currently allows an entity to retain its existing accounting policies related to the exploration and evaluation of mineral properties, subject to some restrictions.

## Impairment of Assets

IAS 36, *Impairment of Assets* ("IAS 36") uses a one-step approach for testing and measuring asset impairments, with asset carrying values being compared to the higher of their value in use and fair value less costs to sell. Value in use is defined as being equal to the present value of future cash flows expected to be derived from the asset in its current state. In the absence of an active market, fair value less costs to sell may also be determined using discounted cash flows. The use of discounted cash flows under IFRS to test and measure asset impairment differs from Canadian GAAP where undiscounted future cash flows are initially used to compare against the asset's carrying value to determine if impairment exists. This may result in more frequent adjustments in the carrying value of assets under IFRS. However, under IAS 36, previous impairment losses may be reversed where circumstances change such that the impairment has been reduced. This also differs from Canadian GAAP, which prohibits the reversal of previously recognized impairment losses.

## Foreign Currency Translation

IFRS requires the assessment of functional currency by entity. The indicators of functional currency are similar to Canadian GAAP. However, IFRS provides a hierarchy within those indicators, meaning certain factors that are considered under the Canadian GAAP assessment may not be relevant under IFRS. This could result in a change to the functional currency which, under certain circumstances, can lead to translation differences.

## IFRS 1, First-Time Adoption of IFRS

IFRS 1 provides the framework for the first-time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS retrospectively. Certain optional exemptions and mandatory exceptions to retrospective application are provided for under IFRS 1. Prior to reporting the first IFRS compliant financial statements for the quarter ending March 31, 2011, the Company may decide to apply certain exemptions contained in IFRS 1.

### i) Business combinations

IFRS 1 provides an option to not restate business combinations that occurred prior to the transition date or to only restate business combinations that occurred after a designated date prior to the transition date.

### ii) Fair value as deemed cost

IFRS 1 allows an entity to initially measure an item of property, plant and equipment upon transition to IFRS at fair value on the transition date or at an event-driven fair value (i.e. a fair value determined through a business combination or initial public offering). This elective exemption can be applied on an individual asset basis.

### iii) Cumulative translation account ("CTA")

IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from prior to the date of transition to IFRS.

### iv) Decommissioning liabilities

Under IFRS 1, an entity can elect to not apply the provisions of IFRIC 1 - Changes in Existing Decommission, Restoration and Similar Liabilities, as they relate to changes in such liabilities before the date of transition to IFRS.

When applying this exemption, an entity determines its decommissioning liabilities at the transition date, discounts the liabilities back to the dates when they first arose using management's best estimate of the historical risk-

adjusted discount rates, and depreciates these amounts forward to the transition date to determine the amount to be included in the depreciated cost of the assets.

v) Share-based payment

IFRS 1 encourages, but does not require a first time adopter to apply IFRS 2 – Share-based Payment (“IFRS 2”) to equity instruments that were granted on or before November 7, 2002, or were granted after November 7, 2002 but vested before the Company’s IFRS transition date. Accordingly, an entity may elect not to retrospectively apply IFRS 2 to these equity instruments.

vi) Borrowing costs

IFRS 1 permits an entity to apply the transitional provisions of IAS 23 - Borrowing Costs (“IAS 23”) as an alternative to full retrospective application. Under these provisions, the Company may elect to only apply IAS 23 to qualifying assets for which the commencement date for capitalization is on or after the date of transition (or an elected earlier date).

## **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.

## **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.

##### (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)

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).

The following table illustrates the classification of the Company's financial instruments within the fair-value hierarchy as at December 31, 2010:

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			
	Level 1	Level 2	Level 3
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.

#### Foreign exchange risk

A 10% change in the Canadian Dollar December 31, 2010 exchange rate on financial assets and liabilities 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 December 31, 2010 exchange rate on financial assets and liabilities as at December 31, 2010 compared to the FCFA, with all other variables held constant, would impact the Company's net earnings by approximately \$22,200,000. Comprehensive earnings would be impacted by approximately \$21,500,000.

#### 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.

### **CRITICAL ACCOUNTING ESTIMATES**

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

### **OFF BALANCE SHEET ITEMS**

The Company does not have any off balance sheet items.

### **OUTLOOK**

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

Avion has set an objective of achieving a production rate of 200,000 ounces of gold per year from its Tabakoto/Ségala operations. The ability of Avion to increase production to 200,000 ounces of gold per year has not been the subject of a feasibility study and there is no certainty that the proposed expansion will be feasible or economically viable. Avion considers its current estimated mineral resource at the Tabakoto Project of Measured and Indicated mineral resources of 6.01 million tonnes grading 5.07 g/t Au or some 0.98 million ounces of gold, and Inferred mineral resources of 9.02 million tonnes grading 4.21 g/t Au or some 1.23 million ounces of gold, supports this goal (please refer to Avion press release dated December 30, 2010). Avion is on course to spend up to \$4 million on exploration at the Tabakoto Project during 2011, with a mandate to increase the mineral resource base, and convert some of the Inferred mineral resources to Measured and Indicated mineral resources.

Continued exploration at the Houndé property is expected to add to the initial resources published on October 26, 2010 and further define the zones identified during the 2010 drill program.

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

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

Project milestones	2010				2011				2012
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
60,000 metre exploration program	•	•	•	•					
30,000 metre exploration program					•	•	•	•	•
Update plant expansion study	•								
Gravity gold vs leach study	•								
Order plant long lead time equipment			•	•	•				
Tabakoto underground development			•	•	•	•	•	•	
Update mineral resource statement				•					
Issue NI43-101 report					•				
Mine Dioulafoundou and other open pits				•	•	•	•	•	•
Plant expansion construction					•	•	•	•	•
Ségala underground development						•	•	•	•
200,000 oz/year gold production run-rate									◇

## Technical Details

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

Avion has contracted Byrnegut Offshore Pty Ltd ("Byrnegut"), a large international mining contractor based in Perth, Australia, to carry out underground development of the Tabakoto deposit. Portal development at the bottom of the existing Tabakoto open pit commenced on October 6, 2010. As of the end of 2010, approximately 580 metres of development has been completed. The contract also includes underground development of the Ségala deposit, currently planned to commence in Q2, 2011.

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

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

Mill feed plans for 2011 include open pit mining at the Dioulafoundou and Tabakoto South deposits, underground development ore from the Tabakoto deposit, and stockpile reclamation of ore from the Ségala open pit that was mined out in 2010. It is expected that ore derived from the Dioulafoundou pit and Tabakoto underground development will be higher grade than that mined at the Ségala Pit in 2010. Several other ore zones will be available to provide alternative open pit ore sources (Djambaye II and Dar Salam zones) with these being developed as required and as equipment availability permits. Underground development of the Ségala deposit is planned to be well underway during the year. Gold production is estimated at approximately 22,000 ounces during the first quarter, increasing to 27,000 ounces in the fourth quarter as the amount of development ore from Tabakoto underground increases.

Avion has purchased its own open pit mining equipment to decrease its reliance on contractors and in turn expects to lower open pit mining costs and increase equipment availability. The first batch of machines is expected on site by the end of February, 2011, with a full fleet on site by April.

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

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