

AVION GOLD CORPORATION
(formerly Avion Resources Corp.)

Interim Consolidated Financial Statements
For the three and seven months ended
June 30, 2009

-- unaudited --

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Consolidated Balance Sheets

(Stated in Canadian Dollars)

As at

	June 30, 2009 <i>unaudited</i>	November 30, 2008 <i>audited</i>
ASSETS		
Current		
Cash and cash equivalents	\$ 7,836,574	\$ 3,495,249
Amounts receivable	465,226	182,118
Fuel duty recoverable (Note 7)	3,421,760	3,671,022
Prepaid expenses (Notes 8 and 18)	4,599,013	950,216
Inventory (Note 6)	7,907,983	3,720,574
	24,230,556	12,019,179
Investments (Note 5)	1,967,576	140,001
Fuel duty recoverable (Note 7)	2,417,272	2,896,542
Properties, plant and equipment (Note 9)	31,188,129	25,475,557
	\$ 59,803,533	\$ 40,531,279
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Notes 10 and 18)	\$ 9,765,634	\$ 2,922,378
Shareholder loan (Note 11)	612,013	573,292
Short term loans (Note 12)	-	8,241,790
	10,377,647	11,737,460
Asset retirement obligations (Note 13)	4,380,084	4,407,695
	14,757,731	16,145,155
SHAREHOLDERS' EQUITY		
Capital stock (Note 14)	51,628,718	31,703,292
Warrants (Note 15)	6,346,763	5,990,737
Contributed surplus (Note 17)	5,375,814	2,792,830
Deficit	(18,305,493)	(16,100,735)
	45,045,802	24,386,124
	\$ 59,803,533	\$ 40,531,279

Commitments and contingencies (Notes 2 and 21)

APPROVED ON BEHALF OF THE BOARD:

"John Begeman", Director

"Stan Bharti", Director

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Consolidated Statements of Operations, Comprehensive Loss and Deficit

(Stated in Canadian Dollars)

unaudited

	Three months ended June 30, 2009	Three months ended May 31, 2008	Seven months ended June 30, 2009	Six months ended May 31, 2008
OPERATING REVENUES				
Gold sales (Note 1)	\$ 6,754,104	\$ -	\$ 6,754,104	\$ -
Silver sales (Note 1)	18,002	-	18,002	-
	6,772,106	-	6,772,106	-
OPERATING EXPENSES				
Mining and processing (Note 1)	4,828,327	-	4,828,327	-
Royalties (Note 1)	201,314	-	201,314	-
Amortization and depletion (Note 1)	709,280	-	709,280	-
Corporate and administrative	1,226,237	139,201	1,815,391	228,035
Stock-based compensation (Note 16)	1,017,886	654,055	1,220,300	654,055
	7,983,044	793,256	8,774,612	882,090
LOSS FROM OPERATIONS	(1,210,938)	(793,256)	(2,002,506)	(882,090)
Interest income	1,879	24,583	4,135	28,920
Interest expense and accretion (Notes 11, 12 and 13)	(204,387)	(62,044)	(693,256)	(69,356)
Unrealized gain on investment (Note 5)	133,890	-	133,890	-
General exploration recovery/(expense)	190,485	-	195,926	(4,448)
Foreign exchange gain/(loss)	425,089	(4,898)	157,053	(4,898)
NET LOSS AND COMPREHENSIVE LOSS for the period	\$ (663,982)	\$ (835,615)	\$ (2,204,758)	\$ (931,872)
Deficit, beginning of period	\$ (17,641,511)	\$ (9,351,929)	\$ (16,100,735)	\$ (9,255,672)
Deficit, end of period	\$ (18,305,493)	\$ (10,187,544)	\$ (18,305,493)	\$ (10,187,544)
Net loss per share, basic and diluted	\$ (0.00)	\$ (0.03)	\$ (0.02)	\$ (0.04)
Weighted average number of shares outstanding: basic and diluted	169,355,243	31,197,563	129,912,232	23,283,631

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Consolidated Statements of Cash Flows

(Stated in Canadian Dollars)

unaudited

	Three months ended June 30, 2009	Three months ended May 31, 2008	Seven months ended June 30, 2009	Six months ended May 31, 2008
Cash flows provided by (used in)				
Operating activities				
Net (loss) for the period	\$ (663,982)	\$ (835,615)	\$ (2,204,758)	\$ (931,872)
Changes not affecting cash:				
Stock based compensation (Note 16)	1,017,886	654,055	1,220,300	654,055
Non-cash transaction fee	-	43,250	-	43,250
Amortization and depletion	965,635	-	965,635	-
Accretion expense (Notes 12 and 13)	136,899	-	292,208	-
Foreign exchange	(296,603)	-	(239,586)	-
Unrealized gains on investments held	(133,890)	-	(133,890)	-
Net change in non-cash working capital items	3,530,600	573,980	678,687	430,434
	4,556,545	435,670	578,596	195,867
Financing activities				
Private placements, net of issue costs	-	27,416,494	2,801,205	27,695,240
Exercise of warrants	715,575	14,500	715,575	14,500
Change in subscriptions receivable	-	259,500	-	562,000
(Decrease)/increase in short term loans	(753,700)	994,200	(753,700)	994,200
	(38,125)	28,684,694	2,763,080	29,265,940
Investing activities				
Acquisition of subsidiary, net of cash acquired (Note 4)	8,846,512	(22,742,661)	8,846,512	(22,742,661)
Properties, plant and equipment	(4,582,376)	(288,445)	(6,674,427)	(1,482,272)
Decrease in prepaid expenses	-	-	-	150,000
Decrease in accounts payable related to properties, plant and equipment	(3,167,420)	(296,669)	(1,066,236)	(71,153)
Acquisition of investment	(106,200)	-	(106,200)	-
	990,516	(23,327,775)	999,649	(24,146,086)
Change in cash and cash equivalents	5,508,936	5,792,589	4,341,325	5,315,721
Cash and cash equivalents, beginning of period	2,327,638	449,693	3,495,249	956,861
Cash and cash equivalents, end of period	\$ 7,836,574	\$ 6,242,282	\$ 7,836,574	\$ 6,272,582
Cash and cash equivalents consist of:				
Cash	\$ 3,691,088	\$ 1,742,630	\$ 3,691,088	\$ 1,742,630
Cash equivalents	4,145,486	4,499,652	4,145,486	4,499,652
	\$ 7,836,574	\$ 6,242,282	\$ 7,836,574	\$ 6,242,282
SUPPLEMENTARY INFORMATION:				
Common shares issued for property acquisition	\$ -	\$ -	\$ -	\$ 75,000
Warrants issued for property acquisition	\$ -	\$ -	\$ -	\$ 190,500
Common shares issued for acquisition of subsidiary	\$ 15,263,981	\$ -	\$ 15,263,981	\$ -
Value of warrants granted for acquisition of subsidiary	\$ 12,500	\$ -	\$ 12,500	\$ -
Value of options granted for acquisition of subsidiary	\$ 1,263,390	\$ -	\$ 1,263,390	\$ -
Common shares issued for acquisition of investment	\$ 1,587,485	\$ -	\$ 1,587,485	\$ -
Compensation options classified as cost of issue	\$ -	\$ 782,502	\$ -	\$ 782,502
Interest paid	\$ 69,185	\$ 11,483	\$ 158,363	\$ 18,794
Income taxes paid	\$ -	\$ -	\$ -	\$ -

-- See Notes to the Unaudited Interim Consolidated Financial Statements --

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and seven months ended June 30, 2009

1. NATURE OF OPERATIONS

These interim consolidated financial statements are unaudited.

Avion Gold Corporation, formerly Avion Resources Corp., ("Avion" or the "Company") declared commercial production on May 1, 2009. Prior to this date, the Company was a development stage entity, as defined by the Canadian Institute of Chartered Accountants (the "CICA") Accounting Guideline 11. The Statement of Operations includes Operating revenues, Mining and processing expenses, Royalties, and Amortization and depletion for the two months of commercial production during 2009. Other expense categories reflect charges for the full respective period.

The Company has changed its year-end to December 31 from November 30 effective this financial year. As a result, the Company is reporting a seven month period ending June 30, 2009. The comparative period report is for the three and six months ended May 31, 2008.

During 2008, the Company acquired an 80% interest in the Tabakoto and Segala gold projects, the "Mali Projects". The remaining 20% interest belongs to the Government of Mali. The Tabakoto project was previously a producing gold mine and has mining infrastructure and processing facilities in place. It was placed on care and maintenance by the former owners. The Company has been working to better define and expand the historical resource estimates, improve the plant's operational and economic efficiencies, and re-start production at the Tabakoto mine. The Company commenced commercial production at these projects during the current quarter.

The disclosure in these interim consolidated financial statements may not conform in all respects to generally accepted accounting principles in Canada for annual financial statements, and should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended November 30, 2008.

In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. Operating results for the three and seven months ended June 30, 2009 are not indicative of the results that may be expected for the thirteen month transition year ending December 31, 2009.

2. CONTINUING OPERATIONS

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

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

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and seven months ended June 30, 2009

3. SIGNIFICANT ACCOUNTING POLICIES

Except as disclosed below, these unaudited interim consolidated financial statements are prepared using the same accounting policies and methods of application as those disclosed in Note 3 to the Company's Annual Financial Statements for the period ended November 30, 2008.

New accounting policies

Revenue recognition

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

Inventory

Inventory consists of finished goods, in-process precious metals, stockpiled ore, and spare parts and supplies. Inventory is valued at the lower of average production costs or net realizable value. Production costs include the costs of raw materials, direct labour, mine-site overhead expenses, and depreciation and depletion of mining interests. Net realizable value is calculated as the estimated price at the time of sale based on prevailing and long-term metal prices less estimated future production costs to convert the inventories into saleable form.

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

Mining properties, plant and equipment

Mining properties, plant and equipment are carried at cost, net of pre-production revenues and recoveries, until they are brought into production, at which time they are generally depleted on a unit of production method based on measured and indicated resources. Certain vehicles and other equipment included in mining properties, plant and equipment have been amortized on a straight line basis over a three or five year period. If mining properties, plant and equipment is subsequently determined to be significantly impaired in value, the carrying values are written down to their net realizable value. Other general exploration expenses are charged to operations as incurred. Where the mining property is abandoned, the accumulated acquisition and deferred costs relating to that mining property are written off to operations.

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

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and seven months ended June 30, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred stripping costs

Certain mining costs, principally those that relate to the stripping of waste and which relate to the future economically recoverable ore to be mined, have been capitalised. These costs are deferred or taken to the production cost as the case may be, so that each tonne of ore mined bears the average cost of waste removal per tonne of ore, as determined by the waste to ore ratio derived from the current pit plan. The waste to ore ratio is regularly assessed by management to ensure the carrying value and the rate of deferral is appropriate. The Company has adopted the recommendations of the CICA with respect to stripping charges, EIC-160 Stripping Costs Incurred in the Production Phase of a Mining Operation ("EIC-160"). These recommendations require the costs associated with the removal of overburden and other mine waste materials that are incurred in the production phase of mining operations to be charged to income in the year in which they are incurred, except when the costs represent a betterment to the mineral property. Costs represent a betterment when the stripping activity provides access to reserves that would not have been accessible in the absence of the stripping activity. When costs are deferred in relation to betterment, the costs are amortized over the reserves accessed by the stripping activity using the units of production method. As at June 30, 2009 the balance of deferred stripping costs of approximately \$4.75 million was included in properties, plant and equipment. In accordance with EIC-160, the carrying value of the deferred stripping costs will be amortized over the life of the related mining assets on a unit of production basis.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reported period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized to 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.

New accounting pronouncements

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets," which replaces Section 3062, "Goodwill and Other Intangible Assets." This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets and is effective for the Company commencing January 1, 2009. This standard is effective for years beginning on or after January 1, 2009. The Company is currently in the process of evaluating the impact of this standard.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company is continually evaluating its counterparties and their credit risks.

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and seven months ended June 30, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mining Exploration Costs

On March 27, 2009, the Emerging Issues Committee ("EIC") issued EIC-174. In this EIC the Committee reached a consensus that an enterprise that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The EIC should be applied to financial statements issued after March 27, 2009. The Company has adopted EIC-174.

Future Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

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

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. The Company is in the process of evaluating the requirements of the new standards. 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.

4. ACQUISITION OF SUBSIDIARY

In May 2009, the Company completed the acquisition of Dynamite Resources Inc. ("Dynamite") by way of a plan of arrangement. The Company acquired all of the issued and outstanding common shares of Dynamite at an exchange ratio of 0.75 common shares of the Company for each common share of Dynamite. As a result, the Company issued 85,151,250 common shares to the former shareholders of Dynamite. Any Dynamite warrants and options outstanding at the date of the acquisition were converted to warrants and options of the Company at the same ratio. Consequently, 75,226,250 warrants were issued on conversion at exercise prices ranging from \$0.57 to \$1.33 with expiry dates ranging from June 14, 2009 to August 17, 2009. Of these warrants, 15,875,000 have expired at June 30, 2009. Also, 6,506,250 options were issued on conversion at exercise prices ranging from \$0.33 to \$1.07 and expiry dates ranging from October 1, 2009 to February 5, 2013.

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and seven months ended June 30, 2009

4. ACQUISITION OF SUBSIDIARY (continued)

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

Cash	\$	9,191,631
Accounts receivable		78,854
Prepaid expenses		45,622
Notes receivable		8,504,208
Accounts payable		(935,326)
	\$	<u>16,884,989</u>

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

Issuance of common shares	\$	15,263,981
Issuance of converted warrants and options		1,275,890
Acquisition costs		345,118
	\$	<u>16,884,989</u>

Upon completion of the acquisition, the Company appointed Mr. Lewis MacKenzie and Mr. Gerald McCarvill, former directors of Dynamite, to the Board of Directors of the Company.

5. INVESTMENTS

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

	Classification	June 30, 2009		November 30, 2008	
		No. held	Value	No. held	Value
Long term					
Midlands Minerals Corporation	Held-for-trading	9,098,500	\$ 1,827,575	-	\$ -
Yellowhead Mining Inc	Held-for-trading	100,000	\$ 140,000	100,000	\$ 140,000
Global Immune Technologies Inc.	Held-for-trading	2,000,000	\$ 1	2,000,000	\$ 1
			<u>\$ 1,967,576</u>		<u>\$ 140,001</u>

During the quarter ended June 30, 2009, the Company acquired 8,581,000 common shares of Midlands Minerals Corporation ("Midlands") through the issuance of 4,290,500 common shares of the Company. The quoted market fair value of these shares at the time of acquisition was \$1,587,485. As well, the Company purchased an additional 517,500 common shares of Midlands for a price of \$0.19 per share. The Company paid \$7,875 in filing fees and commissions with respect to the acquisition of these shares. At June 30, 2009, the quoted market value of these shares was \$0.20 per share, and consequently an unrealized gain of \$133,890 was recorded to the statement of operations. The Company owns less than 20% of the total outstanding shares of Midlands, and does not hold significant influence.

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and seven months ended June 30, 2009

5. INVESTMENTS

The Company received 100,000 common shares of Yellowhead Mining Inc. ("Yellowhead") with a value of \$1.40 per share as part proceeds from the sale of its 100% interest in the Harper Creek claims. If after Yellowhead has become listed on a stock market, and the fair market value of the shares held by the Company are below \$140,000, then Yellowhead will pay to the Company the difference in cash. Consequently, the fair value of this investment is estimated to be \$140,000. Yellowhead has not yet become listed on a stock market.

The Company owns 2,000,000 restricted common shares of Global Immune Technologies Inc. (formerly Secureview Systems Inc.). The Company wrote down the investment to a value of \$1. Management estimates that the fair market value of this investment approximates its carrying value.

6. INVENTORY

		June 30, 2009		November 30, 2008
Spare parts and supplies	\$	4,273,601	\$	3,720,524
In-process precious metals		2,710,566		-
Stockpile ore		923,816		-
	\$	7,907,983	\$	3,720,524

All inventory is carried at the lower of cost and estimated net realizable value. As at June 30, 2009 and November 30, 2008, all inventory is recorded at cost.

7. FUEL DUTY RECOVERABLE

The fuel duty recoverable is recoverable from the Government of Mali. It is currently being recovered by way of offset against royalties and any taxes that would otherwise be payable to the Government of Mali, including payroll taxes. There is no formal offset agreement with the Government of Mali, however, the Government has not rejected any offsets to date. During the seven month period, the Company applied approximately \$987,000 in royalties and other taxes payable against this receivable. The balance of the receivable at June 30, 2009 is 2,402,433,485 CFA (CDN\$5,839,032). Of this amount, \$3,421,760 is classified as current.

8. PREPAID EXPENSES

		June 30, 2009		November 30, 2008
Mining supplier advances	\$	4,461,688	\$	816,917
Administrative advances (Note 18)		195,113		-
Prepaid insurance		25,388		18,519
Other advances		134,482		221,955
Unapplied government remittance		(217,658)		(107,175)
	\$	4,599,013	\$	950,216

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and seven months ended June 30, 2009

9. PROPERTIES, PLANT AND EQUIPMENT

	2009			2008
	Cost	Accumulated Amortization	Accumulated Depletion	Net
Mining property, plant and equipment	\$ 32,094,855	\$ (319,864)	\$ (595,375)	\$ 31,179,616
Administrative property, plant and equipment	\$ 8,513	\$ -	\$ -	\$ 8,513
	<u>\$ 32,103,368</u>	<u>\$ (319,864)</u>	<u>\$ (595,375)</u>	<u>\$ 31,188,129</u>
				<u>\$ 25,475,557</u>

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2009	November 30, 2008
Mining and milling suppliers and contractors	\$ 6,466,057	\$ 1,675,787
Payroll liabilities	635,417	94,179
Corporate payables	1,331,701	152,412
Royalties payable	407,128	-
Property commitment (Note 12)	-	1,000,000
Other provisions (Note 21)	820,448	-
	<u>\$ 9,660,751</u>	<u>\$ 2,922,378</u>

11. SHAREHOLDER LOAN

The Company, through its Malian subsidiaries, carries a liability payable to the Government of Mali in relation to their 20% ownership of the Mali projects. The balance of this liability at June 30, 2009 is 251,808,896 FCFA (CDN\$612,013), including accrued interest. This loan bears an interest rate at the London Interbank Offered Rate ("LIBOR") for United States Dollars plus 2%, and is calculated and capitalized annually. This loan will be paid with priority over shareholder dividends from the Malian subsidiaries.

12. SHORT TERM LOANS

(a) The Company borrowed US\$1,000,000 from Aberdeen, a related party, in 2008 to post a break fee associated with the acquisition of the Mali Projects. This loan originally matured on September 30, 2008, incurring a 10% per annum interest rate, and was secured against the assets of the Company. The Company renewed this debenture on September 30, 2008 with a new maturity date of September 30, 2009. Interest of 10% was compounded monthly and payable semi-annually. The principal was to increase 30% for each \$100 incremental increase in the price of gold above US\$900, based on the twelve month average of closing prices of the London PM fixings. As compensation for the renewal, the Company agreed to issue to Aberdeen 2,000,000 warrants, each exercisable into one common share of the Company at a price of \$0.20 expiring one year from the date of issue. These warrants were issued during 2009, however their estimated fair value of \$96,282 was accrued during 2008. The value of the warrants was recorded against the debenture to be accreted over the term of the debenture. As well, the Company made a cash payment to Aberdeen of US\$25,000 (CDN\$32,345) during March 2009 in connection with the extension of this debenture. This debenture was settled in May 2009, and accrued interest of \$11,674 was paid in full.

The Company also entered into a debenture agreement during 2008 with Aberdeen for \$750,000 related to an amount due in connection to a property agreement. This debenture agreement was to mature on September 30, 2009, and carried a 10% per annum interest rate. This debenture plus accrued interest of \$26,330 was paid in full in May 2009.

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and seven months ended June 30, 2009

12. SHORT TERM LOANS (continued)

A payment that was due to Aberdeen on December 31, 2008 related to a property agreement was settled in May 2009 with a payment of \$800,000 plus accrued interest of \$28,213. A recovery of \$200,000 is recorded as general exploration recovery expense in the statement of operations.

Aberdeen owns more than 10% of the issued and outstanding shares of the Company. The Company and Aberdeen share common directors and officers.

(b) In October 2008, the Company entered into an agreement to sell 50% of its 80% interest in the Segala project to Dynamite. In consideration, Dynamite paid US\$5,000,000 (CDN\$6,200,000), which, until closing of the transaction, was provided to Avion as a short-term loan. This short-term loan was eliminated when the Company acquired all of the outstanding common shares of Dynamite in May 2009.

13. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations were acquired through the purchase of the Mali projects, and include costs accrued based on the current best estimate of mine reclamation and closure activities that will be required upon completion of mining activities. These activities include costs for earthworks, including land recontouring and revegetation, water treatment and demolition. The Company's provision for future site closure and reclamation costs is based on known legal requirements. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments. The asset retirement obligation calculation used a credit adjusted risk-free discount rate applicable to Mali of 6.5% and an inflation factor of 3.0%. Although the ultimate amount to be incurred is uncertain, based on development, legal requirements and estimated costs as at June 30, 2009, the total undiscounted liability for asset retirement obligations is estimated to be approximately US\$4,900,000. The cash expenditures are expected to occur over a period of time extending several years into the future.

	June 30, 2009	November 30, 2008
Balance, beginning of period	\$ 4,407,695	\$ -
Acquisition of Mali projects, and asset retirement obligations attributed to this project	-	4,263,690
Accretion expense	211,975	144,005
Foreign exchange	(239,586)	-
Balance, end of period	\$ 4,380,084	\$ 4,407,695

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Notes to the Unaudited Interim Consolidated Financial Statements

For the three and seven months ended June 30, 2009

14. CAPITAL STOCK

a) Authorized - unlimited number of common shares

b) Issued

Common shares	Number of Shares	Amount
Balance, November 30, 2007	14,164,558	\$ 9,448,760
Private placement	1,111,111	300,000
Private placement	60,100,000	30,050,000
Issue of warrants - warrant valuation	-	(4,977,606)
Exercise of warrants	50,000	14,500
Exercise of warrants -- value allocation	-	3,650
Shares issued for property acquisition	339,285	101,250
Cost of issue	-	(3,237,262)
Adjustment	55	
Balance, November 30, 2008	75,765,009	\$ 31,703,292
Private placement	37,500,000	3,000,000
Issue of warrants - warrant valuation	-	(561,000)
Exercise of warrants	6,850,750	694,575
Exercise of warrants -- value allocation	-	204,974
Exercise of stock options	100,000	21,000
Exercise of stock options -- value allocation	-	16,877
Shares issued for acquisition of subsidiary (Note 4)	85,151,250	15,263,981
Shares issued for acquisition of investment (Note 5)	4,290,500	1,587,485
Cost of issue	-	(302,466)
Balance, June 30, 2009	209,657,509	\$ 51,628,718

In January 2009, the Company completed a private placement financing of 37,500,000 units priced at \$0.08 per unit for gross proceeds of \$3,000,000. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole purchase warrant is exercisable at a price of \$0.10 per share until July 12, 2010. The fair value of these warrants was estimated at \$561,000 using the Black Scholes option pricing model with the following assumptions: expected dividend yield – 0%; expected volatility – 138%; risk-free interest rate – 1.0%; expected life – 18 months. Financing costs related to this private placement amounted to \$198,795. As well, the Company granted 2,235,000 broker options to Delano Capital Corp. (Note 18) which are exercisable into the same number of common shares at an exercise price of \$0.08 per share until January 12, 2010. The fair value of these broker options was estimated at \$103,671 using the Black Scholes option pricing model with the following assumptions: expected dividend yield – 0%; expected volatility – 160%; risk-free interest rate – 1.0%; expected life – 1 year. This value was recorded as a cost of issue.

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15. WARRANTS

	June 30, 2009		November 30, 2008	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of period	42,611,107	\$ 0.55	10,512,571	\$ 0.30
Granted	20,750,000	0.11	32,911,111	0.63
Acquisition warrants	75,226,250	1.19	-	-
Exercised	(6,850,750)	0.10	(50,000)	0.29
Expired	(15,875,000)	0.68	(762,575)	0.51
Balance, end of period	115,861,607	\$ 0.90	42,611,107	\$ 0.55

A summary of the outstanding warrants as at June 30, 2009 are as follows:

Expiry Date	Exercise Price (\$)	Warrants Outstanding	Estimated Grant Date Fair Value (\$)
July 31, 2009 *	0.48	1,500,000	190,500
August 17, 2009 *	1.33	59,351,250	-
September 20, 2009	0.20	2,000,000	96,282
October 12, 2009	0.29	9,899,996	724,854
December 19, 2009	0.36	1,111,111	89,918
July 12, 2010	0.10	11,949,250	357,522
May 8, 2011	0.65	30,050,000	4,887,687
		115,861,607	6,346,763

The 2,000,000 warrants at an exercise price of \$0.20, which were committed to be issued during 2008, were issued during this seven month period, the value of which was included in the warrant balance during the prior year (Note 13).

In April 2009, pursuant to the terms of the original subscription agreements to these warrants, the Company extended the term of 30,050,000 common share purchase warrants that were issued in May 2008. These warrants are exercisable into the same number of common shares at an exercise price of \$0.65. 3

* These warrants expired unexercised subsequent to June 30, 2009.

Subsequent to June 30, 2009, 937,500 warrants were exercised for gross proceeds of \$93,750.

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16. STOCK COMPENSATION

a) Stock option plan

	June 30, 2009		November 30, 2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	10,076,000	\$ 0.51	-	\$ -
Granted	4,440,000	0.28	6,570,000	0.43
Granted, broker options	2,235,000	0.08	3,606,000	0.65
Acquired options	6,506,250	0.89	-	-
Exercised	(100,000)	-	-	-
Expired	-	-	(100,000)	0.50
Balance, end of period	23,157,250	\$ 0.53	10,076,000	\$ 0.51

A summary of the outstanding options as at June 30, 2009 are as follows:

Expiry Date	Exercise Price (\$)	Options Outstanding	Options Exercisable	Vested Portion of Estimated Grant Date Fair Value (\$)
October 1, 2009	0.60	187,500	187,500	4,688
October 1, 2009	0.73	187,500	187,500	2,625
October 1, 2009	0.87	187,500	187,500	1,688
January 12, 2010	0.08	2,235,000	2,235,000	103,671
May 8, 2010	0.65	3,606,000	3,606,000	582,502
February 9, 2011	0.45	37,500	37,500	7,050
July 12, 2011	0.39	517,500	517,500	111,263
March 9, 2012	0.33	56,250	56,250	13,050
March 15, 2012	0.41	75,000	75,000	16,425
March 22, 2012	0.73	1,020,000	1,020,000	190,740
April 9, 2012	1.01	75,000	75,000	12,675
June 20, 2012	0.92	187,500	187,500	39,938
October 3, 2012	1.07	3,750,000	3,750,000	806,250
November 13, 2012	0.57	75,000	75,000	18,150
January 10, 2013	0.50	1,350,000	1,350,000	456,300
February 5, 2013	0.38	150,000	150,000	38,850
May 27, 2013	0.51	2,850,000	2,100,000	1,098,540
May 27, 2013	0.65	200,000	125,000	72,626
June 6, 2013	0.51	310,000	193,750	114,825
June 27, 2013	0.51	100,000	62,500	36,760
July 30, 2013	0.40	10,000	10,000	3,210
September 19, 2013	0.20	1,550,000	1,550,000	248,728
February 10, 2014	0.20	750,000	187,500	79,963
April 6, 2014	0.29	3,590,000	3,590,000	879,550
May 14, 2014	0.33	100,000	100,000	27,900
		23,157,250	21,616,000	4,967,967

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Notes to the Unaudited Interim Consolidated Financial Statements

For the three and seven months ended June 30, 2009

16. STOCK COMPENSATION (continued)

The Company granted 4,440,000 (May 31, 2008: 4,500,000) stock options to directors, officers and consultants of the Company during the seven months ended June 30, 2009. Of these options granted, 750,000 options vest 1/8th every quarter over a two year period, while the remainder vest immediately. An amount of \$1,220,300 was recorded in stock based compensation expense for the seven months ended June 30, 2009 related to these and other options that vested over the period (May 31, 2008: \$654,055). As well, as part of the acquisition of Dynamite (Note 4), the Company converted outstanding Dynamite options into 6,506,250 stock options of the Company with exercise prices ranging from \$0.33 to \$1.07 expiring between October 1, 2009 and February 5, 2013. An amount of \$1,263,390 was recorded as part of the acquisition equation with respect to these options.

The estimated fair value of stock options issued during the period was estimated using the Black-Scholes option pricing model under the following weighted average assumptions:

	Q2-2009	Q2-2008
expected dividend yield	0%	0%
expected volatility	127.21%	111.35%
risk-free interest rate	2.49%	3.67%
expected life	5 months to 5 years	5 years

Subsequent to June 30, 2009, 210,000 stock options were granted at an exercise price of \$0.315 expiring 5 years from the date of grant. As well, 103,750 stock options were forfeited.

b) Share compensation plan

During the period ended June 30, 2009, the Company established a share compensation plan, such that, should the Company list its common shares on the Toronto Stock Exchange ("TSX"), subject to acceptance of such application by the TSX, up to 2,500,000 common shares of the Company can be issued to directors, officers and employees of the Company. This share compensation plan will be in addition to the Company's existing stock option plan. Common shares cannot be issued under the plan if the total number of common shares issued under the share compensation plan since its inception, together with the number of options outstanding under the stock option plan at the time of the proposed share issue will represent more than 10% of the issued and outstanding shares of the Company at that time. The number of common shares to be issued to any one director, officer or employee shall not exceed 500,000 common shares. The share compensation plan was approved at the Company's Annual General Meeting which was held during the quarter ended June 30, 2009. No shares have been granted pursuant to the share compensation plan as at June 30, 2009.

17. CONTRIBUTED SURPLUS

	June 30, 2009	November 30, 2008
Balance, beginning of period	\$ 2,792,830	\$ 829,900
Stock options granted and/or vested during the year		
Directors, officers and employees	914,242	1,247,058
Consultants	306,058	111,620
Value of options granted for acquisition of subsidiary	1,263,390	-
Value of compensation options granted during the year	103,671	582,502
Allocation of value of options exercised	(16,877)	
Value of expired warrants	12,500	21,750
Balance, end of period	\$ 5,375,814	\$ 2,792,830

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18. RELATED PARTY TRANSACTIONS

The Company was charged \$35,000 during the seven months ended June 30, 2009 (May 31 2008: \$nil) for administrative fees charged by a company controlled by a director of the Company.

The Company shares its premises with other companies that have common directors and officers, and the Company reimburses the related companies for their proportional share of the expenses. Included in accounts payable and accrued liabilities at June 30, 2009 is \$nil (May 31, 2008: \$45,796) owing to such companies. The Company has advanced \$195,113 at June 30, 2009 to cover these expenses (May 31, 2008: \$nil). These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

Aberdeen owns more than 10% of the issued and outstanding shares of the Company. As well, the Company and Aberdeen share common directors and officers. The Company entered into an agreement to purchase properties in Ethiopia from Aberdeen, as well as a debenture agreement with Aberdeen. See also Note 11.

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 the second quarter of 2009. See Note 4. 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 for the Company.

An officer of the Company is also an officer of Delano Capital Corp. (Note 14).

During 2008, the Company paid \$1,000,000 to a company controlled by a director of the Company as a bonus for services provided to the Company.

19. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The capital structure of the Company consists of capital stock, warrants and stock options. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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

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

There were no significant changes in the Company's approach to capital management during the seven ended June 30, 2009.

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Notes to the Unaudited Interim Consolidated Financial Statements

For the three and seven months ended June 30, 2009

20. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to amounts receivable and the fuel duty recoverable. The Company has no significant concentration of credit risk arising from operations other than that related to the fuel duty recoverable. Financial instruments included in amounts receivable consist of Goods and Services Tax due from the Government of Canada, Value Added Tax from foreign governments, employee advances and reimbursable costs, and gold sales receivables. Fuel duty receivable is due from the Government of Mali, recoverable by way of offset against certain royalties and any taxes otherwise payable to the Government of Mali. 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 June 30, 2009, the Company had a cash and cash equivalents balance of \$7,836,574 (November 30, 2008 - \$3,495,249) to settle current liabilities of \$10,377,647 (November 30, 2008 - \$11,737,460). Approximately \$8,000,000 of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

(a) Interest rate risk

The Company has cash and cash equivalent balances at June 30, 2009. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign currency risk

The Company's reporting currency is the Canadian 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 US dollars. Management does not hedge its foreign exchange risk.

(c) Price risk

The Company is exposed to price risk with respect to gold and silver prices. The Company closely monitors these metal prices to determine the appropriate course of action to be taken by the Company. The Company currently does not hedge for price risk.

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Notes to the Unaudited Interim Consolidated Financial Statements

For the three and seven months ended June 30, 2009

20. FINANCIAL RISK FACTORS (continued)

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 receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, and short term loans are classified as other financial liabilities, which are measured at amortized cost. The Company's investment in Midlands Minerals Corporation is classified as held-for-trading and measured at fair value. The Company's investment in a private mineral exploration company is measured at cost as the investment does not have a quoted market price in an active market.

As at June 30, 2009, the carrying and fair value amounts of the Company's financial instruments are approximately the same, and there were no changes that occurred that attributed to credit risk.

Sensitivity analysis

As a result of the Company's activities in Mali, the Company is exposed to foreign exchange risk. The Company's functional currency is the Canadian Dollar. The Company is exposed to currency risk on settlements of purchases that were denominated in currencies other than the functional currency. The currency exposures are primarily to the United States Dollar (USD), Euro (EURO), West African CFA Franc (FCFA) and the South African Rand (ZAR).

The Company commenced commercial gold production on May 1, 2009. As a result, fluctuations in the price of gold, and to a lesser degree, the price of silver, could affect the results of operations. The Company currently does not hedge its gold sales.

21. COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to \$3 million be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Additional minimum management contract commitments remaining under these contracts are approximately \$870,000.

The Company is contracted to purchase fuel as required, however if the contract was terminated, the Company would be obligated to pay the net book value of the facilities, valued at approximately US\$1,350,000 at June 30, 2009.

The Company has received a tax assessment from the Malian government for FCFA 1,303,558,366 (approximately \$3,260,000) covering periods prior to the acquisition of the Mali Projects by the Company which are under representations made by the vendor of the Mali Projects. The Company believes that this assessment is without merit and will not result in any significant expense to the Company.

The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company cannot reasonably predict the likelihood or outcome of these actions. The Company does not believe that adverse decisions in any other pending or threatened proceedings related to any matter, or any amount which may be required to be paid by reason there of, will have a material effect on the financial condition or future results of operations. As at June 30, 2009, accounts payable and accrued liabilities include provisions related to such matters totaling \$820,448.

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22. SEGMENTED INFORMATION

	Current Assets	Mineral Properties	Other Long Term Assets	TOTAL ASSETS
<u>June 30, 2009</u>				
Canada	6,821,237	-	1,967,576	8,788,813
Mali	17,409,319	31,188,129	2,417,272	51,014,720
	<u>24,230,556</u>	<u>31,188,129</u>	<u>4,384,848</u>	<u>59,803,533</u>
 <u>November 30, 2008</u>				
Canada	2,816,264	-	140,001	2,956,265
Mali	9,202,915	25,475,557	2,896,542	37,575,014
	<u>12,019,179</u>	<u>25,475,557</u>	<u>3,036,543</u>	<u>40,531,279</u>

23. LINE OF CREDIT

The Company entered into a banking arrangement whereby 1,524,000,000 FCFA (CDN\$3,574,581) were made available as a line of credit for use by the Company to finance operations and continued development. The terms of this financing arrangement expire December 30, 2009. Interest is payable on amounts drawn down at an interest rate of 10% per annum. A commission of 1%, or 15,240,000 FCFA (CDN\$36,775) was charged in relation to the line of credit being made available to the Company. Any amounts drawn down will be secured by various pieces of mining equipment primarily being the diesel powered generators. As at June 30, 2009, the Company has not drawn from the line of credit.