

AVION GOLD CORPORATION
(formerly Avion Resources Corp.)

Interim Consolidated Financial Statements
For the three and ten months ended
September 30, 2009

-- unaudited --

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Consolidated Balance Sheets

(Stated in US Dollars - Note 3)

Unaudited

As at

	September 30, 2009	November 30, 2008
ASSETS		
Current		
Cash and cash equivalents	\$ 5,943,647	\$ 2,818,272
Amounts receivable (Note 19)	1,266,426	146,844
Fuel duty recoverable (Note 8)	2,960,000	2,960,000
Prepaid expenses (Notes 9 and 19)	5,381,304	766,173
Inventory (Note 7)	6,603,543	2,999,955
	22,154,920	9,691,245
Investments (Note 6)	1,644,005	112,885
Fuel duty recoverable (Note 8)	1,919,280	2,335,525
Properties, plant and equipment (Note 10)	29,372,940	20,541,325
	\$ 55,091,145	\$ 32,680,981
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Notes 11 and 19)	\$ 7,505,433	\$ 2,356,357
Shareholder loan (Note 12)	551,400	462,254
Short term loans (Note 13)	-	6,645,479
	8,056,833	9,464,091
Asset retirement obligations (Note 14)	3,864,000	3,553,991
	11,920,833	13,018,082
SHAREHOLDERS' EQUITY		
Capital stock (Note 15)	47,734,527	29,517,331
Warrants (Note 16)	5,613,876	5,975,200
Contributed surplus (Note 18)	5,308,400	2,651,689
Deficit	(14,858,773)	(13,480,981)
Accumulated other comprehensive (loss) (Note 3)	(627,718)	(5,000,341)
	43,170,312	19,662,899
	\$ 55,091,145	\$ 32,680,981

Commitments and contingencies (Notes 2 and 22)

APPROVED ON BEHALF OF THE BOARD:

"John Begeman", Director

"Stan Bharti", Director

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Consolidated Statements of Operations, Comprehensive Income/(Loss) and Deficit

(Stated in US Dollars - Note 3)

unaudited

	Three months ended September 30, 2009	Three months ended August 31, 2008	Ten months ended September 30, 2009	Nine months ended August 31, 2008
OPERATING REVENUES				
Gold sales (Note 1)	\$ 13,889,255	\$ -	\$ 19,470,975	\$ -
Silver sales (Note 1)	44,134	-	59,011	-
	13,933,389	-	19,529,986	-
OPERATING EXPENSES				
Mining and processing (Note 1)	9,765,102	-	13,417,619	-
Royalties (Note 1)	1,287,968	-	1,792,041	-
Amortization and depletion (Note 1)	962,192	-	1,548,354	-
Corporate and administrative	601,105	333,917	2,101,379	560,779
Stock-based compensation (Note 17)	137,861	245,541	1,146,340	896,232
	12,754,228	579,458	20,005,733	1,457,011
INCOME/(LOSS) FROM OPERATIONS	1,179,161	(579,458)	(475,747)	(1,457,011)
Interest income	2,353	30,239	5,770	59,011
Interest expense and accretion (Notes 12, 13 and 14)	(167,334)	(65,405)	(740,254)	(134,404)
Unrealized loss on investment (Note 6)	(151,629)	-	(40,980)	-
General exploration recovery/(expense)	4,438	32	166,355	(4,393)
Write off of mineral properties	-	(463,286)	-	(463,286)
Foreign exchange gain/(loss)	(422,728)	(40,762)	(292,936)	(45,634)
NET INCOME/(LOSS) for the period	444,261	(1,118,639)	(1,377,792)	(2,045,718)
OTHER COMPREHENSIVE INCOME/(LOSS) for the period (Note 3)	2,602,078	(1,749,410)	(627,718)	(1,726,678)
NET INCOME/(LOSS) AND OTHER COMPREHENSIVE INCOME/(LOSS) for the period	\$ 3,046,339	\$ (2,868,049)	\$ (2,005,510)	\$ (3,772,396)
Deficit, beginning of period	\$ (15,303,034)	\$ (8,123,375)	\$ (13,480,981)	\$ (7,196,296)
Deficit, end of period	\$ (14,858,773)	\$ (9,242,015)	\$ (14,858,773)	\$ (9,242,015)
Net income/(loss) per share, basic and diluted	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.05)
Weighted average number of shares outstanding:				
basic	210,716,297	75,639,954	154,393,008	40,799,201
diluted	223,472,209	75,639,954	154,393,008	40,799,201

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

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Consolidated Statements of Cash Flows

(Stated in US Dollars - Note 3)

unaudited

	Three months ended September 30, 2009	Three months ended August 31, 2009	Ten months ended September 30, 2009	Nine months ended August 31, 2009
Cash flows provided by (used in)				
Operating activities				
Net income (loss) for the period	\$ 444,262	\$ (1,118,639)	\$ (1,377,792)	\$ (2,045,718)
Changes not affecting cash:				
Stock based compensation (Note 17)	137,861	232,803	1,146,340	865,591
Non-cash transaction fee	-	(21,353)	-	21,833
Amortization and depletion	1,035,451	-	1,833,470	-
Accretion expense (Notes 13 and 14)	118,995	71,821	368,050	71,821
Write off of mineral properties	-	463,286	-	463,286
Foreign exchange	61,216	36,880	569,918	308,590
Unrealized gains on investments held	151,629	-	40,980	-
Net change in non-cash working capital items	(1,033,002)	(941,965)	(1,689,796)	(509,249)
	916,412	(1,277,167)	891,170	(823,845)
Financing activities				
Private placements, net of issue costs	-	-	2,361,380	27,595,243
Exercise of warrants and options	1,047,625	-	1,675,818	14,305
Change in subscriptions receivable	-	-	-	561,551
Increase/(decrease) in loans	21,977	10,684	(580,875)	1,010,684
	1,069,602	10,684	3,456,323	29,181,783
Investing activities				
Acquisition of subsidiary, net of cash acquired (Note 5)	-	-	7,477,395	(22,875,338)
Properties, plant and equipment	(1,141,221)	(4,659,651)	(6,660,218)	(6,164,444)
Decrease in prepaid expenses	-	-	-	149,880
Decrease/increase in accounts payable related to properties, plant and equipment	(1,680,190)	261,386	(1,947,921)	189,818
Acquisition of investment	-	-	(91,374)	-
	(2,821,411)	(4,398,265)	(1,222,117)	(28,700,083)
Change in cash and cash equivalents	(835,396)	(5,664,748)	3,125,375	(342,145)
Cash and cash equivalents, beginning of period	6,779,043	6,278,699	2,818,272	956,096
Cash and cash equivalents, end of period	\$ 5,943,647	\$ 613,951	\$ 5,943,647	\$ 613,951
Cash and cash equivalents consist of:				
Cash	\$ 1,798,161	\$ 613,951	\$ 1,798,161	\$ 613,951
Cash equivalents	4,145,486	-	4,145,486	-
	\$ 5,943,647	\$ 613,951	\$ 5,943,647	\$ 613,951
SUPPLEMENTARY INFORMATION:				
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	\$ -	\$ -	\$ -	\$ 580,418
Common shares issued for property acquisition	\$ -	\$ -	\$ -	\$ 75,517
Warrants issued for property acquisition	\$ -	\$ -	\$ -	\$ 191,079
Amortization charged to mineral properties	\$ -	\$ 1,092	\$ -	\$ 2,109
Interest paid	\$ 158,363	\$ 12,441	\$ 158,363	\$ 26,081

-- 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 ten months ended September 30, 2009

1. NATURE OF OPERATIONS

These interim consolidated financial statements are unaudited and are not reviewed by the Company's auditors.

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 five 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 ten month period ending September 30, 2009. The comparative period report is for the three and nine months ended August 31, 2008.

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 ten months ended September 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 ten months ended September 30, 2009

3. CHANGE IN REPORTING CURRENCY

Effective September 30, 2009, the Company changed its reporting currency from Canadian dollars (CDN\$) to United States dollars (US\$ or \$), as the Company anticipates that the majority of its future income stream will be denominated in US\$. The Company has made this change in accordance with Canadian GAAP by following the recommendations of Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants (CICA) Abstract EIC-130 "Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency".

Following the recommendations of EIC-130, financial statements for all periods presented have been translated using the current rate method. Under this method, consolidated revenues, expenses, and cash flow statement items have been translated using weighted-average exchange rates for the applicable periods. Consolidated assets and liabilities have been translated using the exchange rates in effect on the balance sheet dates, while shareholders' equity has been translated using the exchange rates in effect on the date of each transaction. Resulting exchange differences are reported in a separate component of other comprehensive income. All comparative financial information has been translated and restated as if the US\$ had been used as the Company's reporting currency. As a result of the change in reporting currency, the Company has recorded accumulated other comprehensive (loss) on the balance sheet at September 30, 2009 of \$(627,718) (2008 - \$(5,000,341)).

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

4. 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

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and ten months ended September 30, 2009

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 September 30, 2009 the balance of deferred stripping costs of approximately \$3.0 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.

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and ten months ended September 30, 2009

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Translation

The Company's functional currency is the Canadian dollar. The Company's foreign subsidiaries are considered to be integrated foreign operations. Accordingly, transactions and account balances originally stated in currencies other than the Canadian dollar are translated using the temporal method whereby monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates; and revenue and expenses are translated at the exchange rate in effect on the dates that they occur. Effective September 30, 2009 the Company changed its reporting currency to United States dollars, as described in note 3.

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.

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.

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and ten months ended September 30, 2009

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. 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.

5. ACQUISITION OF SUBSIDIARY

In May 2009, the Company completed the acquisition of Dynamite Resources Inc. ("Dynamite") by way of a plan of arrangement. The Company acquired all of the issued and outstanding common shares of Dynamite at an exchange ratio of 0.75 common shares of the Company for each common share of Dynamite. As a result, the Company issued 85,151,250 common shares to the former shareholders of Dynamite. Any Dynamite warrants and options outstanding at the date of the acquisition were converted to warrants and options of the Company at the same ratio. Consequently, 75,226,250 warrants were issued on conversion at exercise prices ranging from CDN\$0.57 to CDN\$1.33 (US\$0.52 and \$1.22) with expiry dates ranging from June 14, 2009 to August 17, 2009. These warrants have expired at September 30, 2009. Also, 6,506,250 options were issued on conversion at exercise prices ranging from CDN\$0.33 to CDN\$1.07 (US\$0.30 and US\$0.99) and expiry dates ranging from October 1, 2009 to February 5, 2013.

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

Cash	\$	7,771,735
Accounts receivable		66,673
Prepaid expenses		38,574
Notes receivable		7,190,503
Accounts payable		(790,840)
	\$	<u>14,276,646</u>

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

Issuance of common shares	\$	12,906,046
Issuance of converted warrants and options		1,078,794
Acquisition costs		291,805
	\$	<u>14,276,646</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.

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and ten months ended September 30, 2009

6. INVESTMENTS

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

	<u>Classification</u>	September 30,		November 30,	
		2009		2008	
		No. held	Value	No. held	Value
Long term					
Midlands Minerals Corporation	Held-for-trading	9,098,500	\$ 1,515,099	-	\$ -
Yellowhead Mining Inc	Held-for-trading	100,000	\$ 128,905	100,000	\$ 112,884
Global Immune Technologies Inc.	Held-for-trading	2,000,000	\$ 1	2,000,000	\$ 1
			\$ 1,644,005		\$ 112,885

During the ten months ended September 30, 2009, the Company acquired a total of 9,098,500 common shares of Midlands Minerals Corporation ("Midlands"). Of these shares acquired, 8,581,000 were acquired through the issuance of 4,290,500 common shares of the Company. The quoted fair market value of these shares at the time of acquisition was CDN\$1,587,000 (US\$1,379,000). As well, the Company purchased an additional 517,500 common shares of Midlands for a price of CDN\$0.19 (US\$0.16) per share. The Company paid CDN\$7,875 (US\$6,755) in filing fees and commissions with respect to the acquisition of these shares. At September 30, 2009, the quoted market value of these shares was CDN\$0.18 (US\$0.166) per share, and consequently an unrealized loss of \$40,980 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.

The Company received 100,000 common shares of Yellowhead Mining Inc. ("Yellowhead") with a value of CDN\$1.40 (US\$1.29) 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 CDN\$140,000 (US\$128,905), then Yellowhead will pay to the Company the difference in cash. Consequently, the fair value of this investment is estimated to be \$128,905 as at September 30, 2009. 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.

7. INVENTORY

	September 30,		November 30,	
	2009		2008	
Spare parts and supplies	\$	5,396,388	\$	2,999,955
In-process precious metals		1,161,105		-
Stockpiled ore		46,050		-
	\$	6,603,543	\$	2,999,955

During the three and ten months ended September 30, 2009, the Company recognized \$10,727,294 and \$14,965,973 respectively of inventories as an expense (Q3 2008: \$nil; August 31, 2008: \$nil). There were no inventory write-downs during the periods.

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

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and ten months ended September 30, 2009

8. 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 ten month period, the Company applied approximately \$1,250,000 in royalties and other taxes payable against this receivable. The balance of the receivable at September 30, 2009 is 2,402,433,485 CFA (US\$4,879,280). Of this amount, \$2,960,000 is classified as current.

9. PREPAID EXPENSES

	September 30, 2009	November 30, 2008
Mining supplier advances	\$ 5,028,593	\$ 658,692
Administrative advances (Note 20)	158,800	-
Prepaid insurance	39,533	14,932
Other advances	352,936	178,966
Unapplied government remittance	(198,558)	(86,417)
	<u>\$ 5,381,304</u>	<u>\$ 766,173</u>

10. PROPERTIES, PLANT AND EQUIPMENT

	2009			2008
	Cost	Accumulated Amortization	Accumulated Depletion	Net
Mining property, plant and equipment	\$ 30,988,728	\$ (282,390)	\$ (1,387,447)	\$ 29,318,892
Administrative property, plant and equipment	\$ 64,588	\$ (10,540)	\$ -	\$ 54,048
	<u>\$ 31,053,316</u>	<u>\$ (292,929)</u>	<u>\$ (1,387,447)</u>	<u>\$ 29,372,940</u>

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2009	November 30, 2008
Mining and milling suppliers and contractors	\$ 5,933,901	\$ 1,351,212
Payroll liabilities	445,092	75,938
Corporate payables	382,404	122,892
Royalties payable	426,048	-
Property commitment (Note 13)	-	806,315
Other provisions (Note 22)	317,987	-
	<u>\$ 7,505,432</u>	<u>\$ 2,356,357</u>

AVION GOLD CORPORATION (formerly Avion Resources Corp.)

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and ten months ended September 30, 2009

12. 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 September 30, 2009 is 251,808,896 FCFA (\$551,400), including accrued interest. This loan bears an interest rate at the London Interbank Offered Rate ("LIBOR") for United States Dollars plus 2%, and is calculated annually. This loan will be paid with priority over shareholder dividends from the Malian subsidiaries.

13. SHORT TERM LOANS

(a) The Company borrowed \$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 \$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 CDN\$0.20 expiring one year from the date of issue. These warrants were issued during 2009, however their estimated fair value of \$77,634 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 \$25,000 during March 2009 in connection with the extension of this debenture. This debenture was settled in May 2009, and accrued interest of \$10,227 was paid in full.

The Company also entered into a debenture agreement during 2008 with Aberdeen for CDN\$750,000 (US\$634,153) 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 \$22,263 was paid in full in May 2009.

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 CDN\$800,000 (US\$676,430) plus accrued interest of \$23,855. A recovery of \$175,217 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 \$5,000,000, 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.

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14. 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 September 30, 2009, the total undiscounted liability for asset retirement obligations is estimated to be approximately \$4,900,000. The cash expenditures are expected to occur over a period of time extending several years into the future.

	September 30, 2009	November 30, 2008
Balance, beginning of period	\$ 3,553,991	\$ -
Acquisition of Mali projects, and asset retirement obligations attributed to this project	-	3,437,877
Accretion expense	302,386	116,113
Foreign exchange	7,623	-
Balance, end of period	\$ 3,864,000	\$ 3,553,991

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15. CAPITAL STOCK

a) Authorized - unlimited number of common shares

b) Issued

Common shares	Number of Shares	Amount
Balance, November 30, 2007	14,164,558	\$ 7,343,714
Private placement	1,111,111	297,947
Private placement	60,100,000	29,942,506
Issue of warrants - warrant valuation	-	(4,959,506)
Exercise of warrants	50,000	14,305
Exercise of warrants -- value allocation	-	3,754
Shares issued for property acquisition	339,285	100,240
Cost of issue	-	(3,225,629)
Adjustment	55	
Balance, November 30, 2008	75,765,009	\$ 29,517,331
Private placement	37,500,000	2,528,871
Issue of warrants - warrant valuation	-	(472,899)
Exercise of warrants	11,972,795	1,657,668
Exercise of warrants -- value allocation	-	440,557
Exercise of stock options	100,000	18,150
Exercise of stock options -- value allocation	-	14,343
Shares issued for acquisition of subsidiary (Note 5)	85,151,250	12,906,046
Shares issued for acquisition of investment (Note 6)	4,290,500	1,379,342
Cost of issue	-	(254,882)
Balance, September 30, 2009	214,779,554	\$ 47,734,527

In January 2009, the Company completed a private placement financing of 37,500,000 units priced at CDN\$0.08 (US\$0.067) per unit for gross proceeds of \$2,528,871. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole purchase warrant is exercisable at a price of CDN\$0.10 per share until July 12, 2010. The fair value of these warrants was estimated at \$472,899 using the Black Scholes option pricing model with the following assumptions: expected dividend yield – 0%; expected volatility – 138%; risk-free interest rate – 1.0%; expected life – 18 months. Financing costs related to this private placement amounted to \$167,491. As well, the Company granted 2,235,000 broker options to Delano Capital Corp. (Note 18) which are exercisable into the same number of common shares at an exercise price of CDN\$0.08 per share until January 12, 2010. The fair value of these broker options was estimated at \$87,391 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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16. WARRANTS

	September 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	(11,972,795)	0.15	(50,000)	0.29
Expired	(77,976,250)	1.17	(762,575)	0.51
Balance, end of period	48,638,312	\$ 0.46	42,611,107	\$ 0.55

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

Expiry Date	Exercise Price (CDN\$)	Warrants Outstanding	Estimated Grant Date Fair Value (\$)
October 12, 2009	0.29	7,715,451	579,226
December 19, 2009	0.36	1,111,111	89,918
July 12, 2010	0.10	11,011,750	277,730
May 8, 2011	0.65	28,800,000	4,667,002
		48,638,312	5,613,876

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

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 CDN\$0.65.

Subsequent to September 30, 2009, 7,046,989 warrants were exercised for gross proceeds of \$1,640,000. As well, 1,982,312 warrants expired on October 12, 2009.

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17. STOCK COMPENSATION

a) Stock option plan

	September 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	4,650,000	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)	0.21	-	-
Expired	(103,750)	0.77	(100,000)	0.50
Balance, end of period	23,263,500	\$ 0.53	10,076,000	\$ 0.51

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

Expiry Date	Exercise Price (CDN\$)	Options Outstanding	Options Exercisable	Vested Portion of Estimated Grant Date Fair Value (\$)
October 1, 2009	0.60	187,500	187,500	3,963
October 1, 2009	0.73	187,500	187,500	2,219
October 1, 2009	0.87	187,500	187,500	1,427
January 12, 2010	0.08	2,235,000	2,235,000	87,390
May 8, 2010	0.65	3,606,000	3,606,000	580,418
July 12, 2011	0.39	517,500	517,500	94,075
March 9, 2012	0.33	56,250	56,250	11,034
March 15, 2012	0.41	75,000	75,000	13,888
March 22, 2012	0.73	1,020,000	1,020,000	161,275
April 9, 2012	1.01	75,000	75,000	10,717
June 20, 2012	0.92	187,500	187,500	33,768
October 3, 2012	1.07	3,693,750	3,693,750	671,477
November 13, 2012	0.57	75,000	75,000	15,346
January 10, 2013	0.50	1,350,000	1,350,000	469,261
February 5, 2013	0.38	150,000	150,000	32,849
May 27, 2013	0.51	2,850,000	2,350,000	1,062,248
May 27, 2013	0.65	200,000	150,000	68,749
June 6, 2013	0.51	310,000	232,500	108,961
June 27, 2013	0.51	100,000	75,000	34,969
July 30, 2013	0.40	10,000	10,000	3,146
September 19, 2013	0.20	1,550,000	1,550,000	233,001
February 10, 2014	0.20	750,000	281,250	79,020
April 6, 2014	0.29	3,580,000	3,580,000	712,985
May 4, 2014	0.33	100,000	100,000	23,525
July 31, 2014	0.32	210,000	210,000	52,186
		23,263,500	22,142,250	4,567,897

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17. STOCK COMPENSATION (continued)

The Company granted 4,650,000 (August 31, 2008: 4,920,000) stock options to directors, officers and consultants of the Company during the ten months ended September 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 \$1,146,340 was recorded in stock based compensation expense for the ten months ended September 30, 2009 related to these and other options that vested over the period (August 31, 2008: \$896,232). As well, as part of the acquisition of Dynamite (Note 5), the Company converted outstanding Dynamite options into 6,506,250 stock options of the Company with exercise prices ranging from CDN\$0.33 to CDN\$1.07 expiring between October 1, 2009 and February 5, 2013. An amount of \$1,068,225 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:

	Q3-2009	Q3-2008
expected dividend yield	0%	0%
expected volatility	127.05%	111.38%
risk-free interest rate	2.52%	3.56%
expected life	5 months to 5 years	5 years

b) Share compensation plan

During the period ended September 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. No shares have been granted pursuant to the share compensation plan as at September 30, 2009.

18. CONTRIBUTED SURPLUS

	September 30, 2009	November 30, 2008
Balance, beginning of period	\$ 2,651,689	\$ 764,877
Stock options granted and/or vested during the year		
Directors, officers and employees	844,324	1,179,030
Consultants	266,879	105,531
Value of options granted for acquisition of subsidiary	1,068,225	-
Value of compensation options granted during the year	87,390	580,418
Allocation of value of options exercised	(14,343)	
Value of expired warrants	404,236	21,833
Balance, end of period	\$ 5,308,400	\$ 2,651,689

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19. RELATED PARTY TRANSACTIONS

The Company was charged \$43,804 during the ten months ended September 30, 2009 (August 31 2008: \$14,592) 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 its proportionate share of the expenses. Included in accounts payable and accrued liabilities at September 30, 2009 is \$nil (August 31, 2008: \$20,787) owing to such companies. The Company has advanced \$158,800 at September 30, 2009 to cover these expenses (August 31, 2008: \$nil), and this amount is recorded in prepaid expense. As well, the Company is owed \$96,055 (August 31, 2008: \$nil) in reimbursable payments, and this amount is recorded in amounts receivable. 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 12.

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 5. 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.

An officer of the Company is also an officer of Delano Capital Corp. (Note 15).

During 2008, the Company paid CDN\$1,000,000 (USD\$1,005,834) to a company controlled by a director of the Company as a bonus for services provided to the Company.

20. CAPITAL MANAGEMENT

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

The Company is in production and has begun to generate cash flows to support the ongoing and longer term strategy focused on 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 ten ended September 30, 2009.

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21. 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 September 30, 2009, the Company had a cash and cash equivalents balance of \$5,943,647 (November 30, 2008 - \$2,818,272) to settle current liabilities of \$8,056,833 (November 30, 2008 - \$9,464,091). Approximately \$7,600,000 of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

(a) Interest rate risk

The Company has cash and cash equivalent balances at September 30, 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 functional currency is the Canadian dollar, and its reporting currency is the United States dollar. The Company funds certain operational expenses in Africa using the CFA Francs ("FCFA") and the Euro currencies. The Company's Malian subsidiaries operate in FCFA which is fixed with the Euro. Gold sales are paid in United States dollars. Management does not hedge its foreign exchange risk.

(c) Price risk

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

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21. 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 September 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.

22. COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to \$2.7 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 \$780,000.

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 \$1,350,000 at September 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. The Company believes that this assessment is without merit and will not result in any significant expense to the Company.

The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company cannot reasonably predict the likelihood or outcome of these actions. The Company does not believe that adverse decisions in any other pending or threatened proceedings related to any matter, or any amount which may be required to be paid by reason thereof, will have a material effect on the financial condition or future results of operations. As at September 30, 2009, accounts payable and accrued liabilities include provisions related to such matters totaling \$318,000.

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23. SEGMENTED INFORMATION

	Current Assets	Mineral Properties	Other Long Term Assets	TOTAL ASSETS
<u>September 30, 2009</u>				
Canada	4,557,802	-	1,644,005	6,201,807
Mali	17,597,118	29,372,940	1,919,280	48,889,338
	<u>22,154,920</u>	<u>29,372,940</u>	<u>3,563,285</u>	<u>55,091,145</u>
 <u>November 30, 2008</u>				
Canada	2,270,796	-	112,885	2,383,681
Mali	7,420,449	20,541,325	2,335,525	30,297,300
	<u>9,691,245</u>	<u>20,541,325</u>	<u>2,448,410</u>	<u>32,680,981</u>

24. LINE OF CREDIT

The Company entered into a banking arrangement whereby 1,524,000,000 FCFA (US\$3,316,000) 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 2%, or 15,240,000 FCFA (US\$33,160) 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 September 30, 2009, the Company has not drawn from the line of credit.