



CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

for the three months ended March 31, 2012
(expressed in United States dollars)

AVION GOLD CORPORATION

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

AVION GOLD CORPORATION

Condensed Interim Consolidated Statements of Financial Position

unaudited

Expressed in United States dollars

	Notes	March 31, 2012	December 31, 2011
ASSETS			
Current assets:			
Cash and cash equivalents		\$ 41,175,790	\$ 21,221,440
Amounts receivable	4	6,420,891	11,350,117
Inventories	7	32,894,795	27,388,060
Prepaid expenses and advances	6	10,434,608	2,013,867
Total current assets		90,926,084	61,973,484
Non-current assets:			
Fuel duty recoverable	5	5,131,909	4,684,197
Exploration and evaluation properties	8	42,499,407	39,304,943
Mine properties, plant and equipment	9	268,820,576	250,530,797
Other financial assets	10	511,676	582,451
TOTAL ASSETS		\$ 407,889,652	\$ 357,075,872
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	11	\$ 46,111,032	\$ 24,508,161
Interest-bearing loans	12	555,291	536,193
Current portion of capital leases	13	1,660,607	1,528,231
Current portion of derivative liabilities	23	8,874,558	-
Current portion of long term debt	15	13,320,858	-
Current portion of provisions	14	1,226,776	1,171,639
Total current liabilities		71,749,122	27,744,224
Non-current liabilities :			
Capital leases	13	2,420,263	2,546,612
Derivative liabilities	23	22,556,421	-
Long-term debt	15	21,360,525	32,732,321
Provisions	14	8,901,500	9,157,000
Total liabilities		126,987,831	72,180,157
Equity:			
Share capital	16	211,640,414	210,226,441
Commitment to issue shares	8	1,355,484	1,436,399
Share-based payments reserves	17	12,003,117	11,214,139
Retained earnings		42,037,552	49,136,424
Equity attributable to owners of the Company		267,036,567	272,013,403
Non-controlling interest	9	13,865,254	12,882,312
Total equity		280,901,821	284,895,715
TOTAL LIABILITIES AND EQUITY		\$ 407,889,652	\$ 357,075,872
Commitments and contingencies	1, 8, 26		
Subsequent events	27		

Approved on behalf of the Directors on May 14, 2012:

"James Coleman"
Director

"John Begeman"
Director

AVION GOLD CORPORATION

Condensed Interim Consolidated Statements of Operations and Comprehensive (Loss)/Income

unaudited

Expressed in United States dollars

	Notes	Three months ended March 31,	
		2012	2011
Operating revenues	18	\$ 33,060,267	\$ 31,787,890
Operating expenses			
Mining and processing		(19,048,663)	(13,017,240)
Royalties		(1,977,310)	(1,473,593)
Depletion and depreciation		(5,055,950)	(1,560,056)
Total operating expenses		(26,081,923)	(16,050,889)
Mine operating earnings		6,978,344	15,737,001
Expenses			
Corporate and administrative costs		(2,309,666)	(1,067,176)
Share-based compensation	17	(1,255,264)	(3,479,773)
Other (losses) and gains	20	(2,990,295)	1,466,179
Finance income		25,303	53,335
Finance costs	21	(206,994)	(144,861)
Change in fair value of derivative liabilities	23	(6,430,979)	-
(Loss)/earnings and comprehensive (loss)/income for the period		(6,189,551)	12,564,705
(Loss)/earnings and comprehensive (loss)/income attributable to:			
Controlling interest		(7,172,493)	10,744,441
Non-controlling interest	9	982,942	1,820,264
		\$ (6,189,551)	\$ 12,564,705
(Loss)/earnings per share			
Basic	22	\$ (0.01)	\$ 0.03
Diluted	22	\$ (0.01)	\$ 0.03
(Loss)/earnings per share, controlling interest			
Basic	22	\$ (0.02)	\$ 0.03
Diluted	22	\$ (0.02)	\$ 0.03
Weighted average number of shares outstanding:			
Basic	22	441,940,659	386,726,785
Diluted	22	452,035,542	412,774,073

AVION GOLD CORPORATION

Condensed Interim Consolidated Statements of Cash Flows

unaudited

Expressed in United States dollars

		Three months ended March 31,	
	Notes	2012	2011
Cash provided by (used in) operating activities:			
Net (loss)/earnings		(6,189,551)	12,564,705
Items not involving cash:			
Stock-based compensation	17	1,255,264	3,479,773
Depreciation, depletion and amortization	9	5,055,949	2,022,113
Unrealized losses on marketable securities	10	83,513	10,916
Mark-to-market adjustments	23	6,430,979	-
Unrealized foreign exchange losses/(gains)		903,657	(631,338)
Non-cash financing and accretion expense	14	93,500	61,750
Working capital adjustments:			
Change in receivables		4,481,514	(5,096,053)
Change in prepaid expenses and other current assets		(8,420,741)	654,185
Change in inventories		(3,846,987)	761,623
Change in payables and provisions		4,394,808	1,569,952
Net cash provided by operating activities		4,241,905	15,397,626
Investing activities			
Investment in exploration and evaluation of assets		(3,194,464)	(2,570,680)
Expenditures on mine properties, plant and equipment		(24,901,334)	(36,649,198)
Working capital adjustments related to investing activities		17,282,297	624,402
Net cash used in the investing activities		(10,813,501)	(38,595,476)
Financing activities			
Sale of derivative instruments		25,000,000	-
Exercise of warrants and options		940,393	3,395,883
Drawdown of credit facility		1,008,107	-
Capital lease payments		(458,801)	(303,309)
Net cash provided by financing activities		26,489,699	3,092,574
Effect of exchange rate changes on cash and cash equivalents		36,247	565,837
Change in cash and cash equivalents		19,954,350	(19,539,439)
Cash and cash equivalents, beginning of the period		21,221,440	38,610,362
Cash and cash equivalents, end of the period		41,175,790	19,070,923
Cash and cash equivalents are comprised of:			
Cash in bank		37,900,859	10,452,757
Cash equivalents		3,274,931	8,618,166
		41,175,790	19,070,923
Supplemental information:			
Common shares issued for acquisition of exploration properties		-	80,915
Common shares committed to be issued for acquisition of exploration properties		-	242,745
Depreciation charged to mine properties, plant and equipment		284,915	133,655
Acquisition of equipment by capital lease		453,141	1,502,276
Interest paid		685,161	-

AVION GOLD CORPORATION

Condensed Interim Consolidated Statements of Changes in Equity

unaudited

Expressed in United States dollars

	Number of shares	Share Capital	Commitment to issue shares	Share-based payments reserve	Retained earnings	Non-controlling interest	Total
Balance, December 31, 2011	440,979,443	210,226,441	1,436,399	11,214,139	49,136,424	12,882,312	284,895,715
Exercise of stock options	1,539,900	940,393	-	-	-	-	940,393
Valuation allocation on exercise of stock options	-	392,665	-	(392,665)	-	-	-
Committed shares issued for the acquisition of exploration properties	56,250	80,915	(80,915)	-	-	-	-
Stock based compensation	-	-	-	1,255,264	-	-	1,255,264
Value of expired warrants or options	-	-	-	(73,621)	73,621	-	-
Net loss for the period	-	-	-	-	(7,172,493)	982,942	(6,189,551)
Balance, March 31, 2012	442,575,593	211,640,414	1,355,484	12,003,117	42,037,552	13,865,254	280,901,821
Balance at December 31, 2010	383,767,272	128,396,329	3,823,709	12,202,692	13,010,108	5,625,296	163,058,134
Exercise of warrants and broker warrants	4,697,832	3,048,845	-	-	-	-	3,048,845
Valuation allocation on exercise of warrants and broker warrants	-	640,797	-	(640,797)	-	-	-
Exercise of stock options	726,250	347,038	-	-	-	-	347,038
Valuation allocation on exercise of stock options	-	248,933	-	(248,933)	-	-	-
Share-based payments for the acquisition of exploration properties	787,500	1,355,485	(1,274,570)	-	-	-	80,915
Commitment to issue shares for the acquisition of exploration properties	-	-	242,745	-	-	-	242,745
Stock based compensation	-	-	-	3,479,773	-	-	3,479,773
Net earnings for the period	-	-	-	-	10,744,441	1,820,264	12,564,705
Balance, March 31, 2011	389,978,854	134,037,427	2,791,884	14,792,735	23,754,549	7,445,560	182,822,155

AVION GOLD CORPORATION
Notes to the Condensed Interim Consolidated Financial Statements
March 31, 2012
(Expressed in United States dollars unless otherwise noted)

1. Nature of operations

Avion Gold Corporation (the "Company"), through its subsidiaries, is a gold producer engaged in the mining, exploration and development of properties located in West Africa. The Company is publicly listed pursuant to the laws of Ontario, Canada. The Company's shares are listed on the Toronto Stock Exchange. The Company's head office is located at 65 Queen St. West, Suite 800, Toronto, Ontario, Canada, M5H 2M5.

The business of exploration, development and mining of minerals involves a high degree of risk and there can be no assurance that current exploration, development and mining plans will result in profitable mining operations. The future of the Company is dependent on its ability to generate sufficient operating cash flow from its gold mining assets to fund its ongoing development expenditures and carry out its exploration programs. The Company's expectation is that it will generate positive earnings and cash flows in future years, thereby making the going concern assumption appropriate. However, due to uncertainties surrounding a number of factors, such as the price of gold, actual operating costs, rates of taxation, or foreign currency exchange rates, it is not possible to predict if the forecasts will prove to be accurate. If the going concern assumption was not appropriate for these condensed interim consolidated financial statements then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used. Such adjustments could be material. The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

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

The Company has temporarily suspended its mill expansion program due to business disruptions associated with the military coup in Mali that began in late March of 2012. Mining and milling operations continue at site with the Company's existing mill. Suspension of the expansion plans is a direct result of some of the Company's contractors demobilizing back to their home bases due to foreign government travel warnings for Mali as well as resultant slowdown of construction supplies moving through customs at Mali's borders. An interim government has been appointed in Mali and is working to re-establish the government ministries. The Company is working with the interim government and the new ministries to return operations and synergies to a normal state.

2. Basis of preparation and statement of compliance

These condensed interim consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and in accordance with the accounting policies described in Note 6, Significant Accounting Policies of the Company's Audited Annual Consolidated Financial Statements for the year ending December 31, 2011. The policies set out in those statements were consistently applied to all the periods presented, unless otherwise noted.

These condensed interim consolidated financial statements were prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

3. Significant accounting judgments, estimates and assumptions

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the condensed interim consolidated financial statements and related notes to the condensed interim consolidated financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

a) Critical Judgments in the Application of Accounting Policies

Information about critical judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

AVION GOLD CORPORATION
Notes to the Condensed Interim Consolidated Financial Statements
March 31, 2012
(Expressed in United States dollars unless otherwise noted)

3. Significant accounting judgments, estimates and assumptions (continued)

Assets' carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Capitalization of exploration and evaluation costs

Management has determined that exploration and evaluation costs incurred during the year for the respective operating mines and other exploration interests have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Note 8 for details of capitalized exploration and evaluation costs.

Determination of economic viability of a project

Management has determined that costs associated with the mine expansion project under construction or developments have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise, existing permits and life of mine plans.

Commencement of commercial/operating level production

During the determination of whether a mine has reached an operating level that is consistent with the use intended by management, costs incurred are capitalized as mine properties, plant and equipment and any consideration from commissioning sales are offset against costs capitalized. The Company defines commencement of commercial production as the date that a mine has achieved a sustainable level of production that provides a basis for a reasonable expectation of profitability along with various qualitative factors including but not limited to the achievement of mechanical completion, whether production levels are sufficient to be at least capable of generating sustainable positive cash flow, the working effectiveness of the site refinery, whether a refining contract for the product is in place and whether the product is of sufficient quantity to be sold, whether there is a sustainable level of production input available including power, water, diesel, etc., and whether the necessary permits are in place to allow continuous operations.

Deferral of stripping costs

In determining whether stripping costs incurred during the production phase of a mining property relate to mineral reserves and mineral resources that will be mined in a future period and therefore should be capitalized, the Company determines whether it is probable that future economic benefit associated with the stripping activity will flow to the Company.

b) Key Sources of Estimation Uncertainty in the Application of Accounting Policies

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are as follows:

Mineral reserve estimates

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

AVION GOLD CORPORATION
Notes to the Condensed Interim Consolidated Financial Statements
March 31, 2012
(Expressed in United States dollars unless otherwise noted)

3. Significant accounting judgments, estimates and assumptions (continued)

Impairment of mine properties, plant and equipment

While assessing whether any indications of impairment exist for mine properties, plant and equipment, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mine properties, plant and equipment. Internal sources of information include the manner in which mine properties, plant and equipment are being used or are expected to be used and indications of economic performance of the assets. Estimates include but are not limited to estimates of the discounted future cash flows expected to be derived from the Company's mine properties, plant and equipment and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources, adverse political situations and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mine properties, plant and equipment.

Asset lives, depletion/depreciation rates for mine properties, plant and equipment

Depreciation, depletion and amortization expenses are allocated based on assumed asset lives and depletion/depreciation/amortization rates. Should the asset life or depletion/depreciation rate differ from the initial estimate, an adjustment would be made in the statement of operations.

Estimation of decommissioning and restoration costs and the timing of expenditure

The cost estimates are updated periodically during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers relevant tax planning opportunities that are within the Company's control, are feasible and within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Inventory valuation

Gold doré, in-process precious metals and stockpile ore are valued at the lower of the average production costs or net realizable value. The assumptions used in the valuation of in-process precious metals and stockpiled ore include estimates of the amount of gold in the stockpiled ore, the amount of gold in the mill circuits and assumption of the gold price expected to be realized when the gold is recovered. If these estimates or assumptions prove to be inaccurate, the Company could be required to write-down the recorded value of its in-process precious metals and stockpile ore, which would reduce the Company's earnings and working capital.

Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Contingencies

Refer to Note 26, Commitments and Contingencies and Note 23, Financial Instruments, Credit Risk.

AVION GOLD CORPORATION
Notes to the Condensed Interim Consolidated Financial Statements
March 31, 2012
(Expressed in United States dollars unless otherwise noted)

4. Amounts receivable

	March 31, 2012	December 31, 2011
Gold sales receivable	\$ -	\$ 9,937,226
Refundable taxes, Mali	4,348,946	784,150
Refundable taxes, Canada	192,262	200,881
Reimbursable expenditures	1,879,683	425,016
Proceeds from exercise of stock options	-	2,844
	\$ 6,420,891	\$ 11,350,117

Receivables disclosed above are classified as loans and receivables and are therefore measured at amortized cost.

5. Fuel duty recoverable

	March 31, 2012	December 31, 2011
Balance, beginning of period	\$ 4,684,197	\$ 5,626,336
Additions	313,056	1,413,844
Recoveries	-	(429,338)
Allowance for impairment of recoverable amounts	-	(2,129,554)
Foreign exchange translation gains	134,656	202,909
Balance, end of period	5,131,909	4,684,197

The fuel duty recoverable is recoverable from the Government of Mali. The balance of the recoverable at March 31, 2012 is \$5,131,909 (2,480,533,681 FCFA) (December 31, 2011: \$4,684,197 (2,329,216,717 FCFA)).

During 2011, management undertook a review of its fuel duty receivables and concluded that filings in the amount of \$2,129,554, completed prior to Avion's acquisition of the Tabakoto project, were insufficient. The Company is in the process of revising and resubmitting the necessary documents, however, the ability of the Company to recover the amount is uncertain, and a full allowance has been recorded.

The fuel duty recoverable has been classified as loans and receivables and is therefore measured at amortized cost. As the timing of recovery of the fuel duty recoverable is uncertain, the entire amount has been classified as long-term at March 31, 2012 and December 31, 2011.

6. Prepaid expenses and advances

	March 31, 2012	December 31, 2011
Mining supplier advances	\$ 9,739,530	\$ 660,478
Administrative advances	66,452	104,261
Prepaid insurance	240,305	337,882
Tax advances	167,556	615,196
Other advances	220,765	296,050
Prepaid expenses and advances	\$ 10,434,608	\$ 2,013,867

AVION GOLD CORPORATION
Notes to the Condensed Interim Consolidated Financial Statements
March 31, 2012
(Expressed in United States dollars unless otherwise noted)

7. Inventories

	March 31, 2012	December 31, 2011
At cost :		
Gold doré	\$ 9,619,665	\$ 3,423,506
In-process precious metals	1,008,831	1,303,146
Stockpiled ore	4,260,018	3,480,317
Spare parts and supplies	18,006,280	19,181,091
	<u>\$ 32,894,794</u>	<u>\$ 27,388,060</u>

The amount of inventories recognized as an expense during the three months ended March 31, 2012 is \$24.1 million and \$14.5 million for the three months ended March 31, 2011.

8. Exploration and evaluation properties

Cost and net book value as at December 31, 2010	\$ 21,816,959
<u>Additions</u>	<u>17,487,984</u>
Cost and net book value as at December 31, 2011	\$ 39,304,943
<u>Additions</u>	<u>3,194,464</u>
<u>Cost and net book value as at March 31, 2012</u>	<u>\$ 42,499,407</u>

Exploration and evaluation properties comprised the following:

- (a) An 80% interest in the Kenieba concessions in Mali. The Company has agreed to make future contingent payments of up to CDN\$2.1 million (approximately \$2.1 million) in the event that it produces more than 400,000 ounces of gold from the Kenieba concessions, payable in increments for each 50,000 ounces of additional production. If production from the concessions exceeds 600,000 ounces, Avion would be required to make up to a further CDN\$1.4 million (approximately \$1.4 million) in payments to complete its obligations under this agreement.
- (b) A 100% interest in the Houndé group of concessions in Burkina Faso. This property is subject to a 2% NSR and certain back-in rights. Should the Company be successful in defining a greater than 3,000,000 ounce gold deposit on the Kari Nord and Kari Sud licenses, a claw-back of a 75% indirect interest in the Kari properties may take place by paying the Company an amount equal to the value of this interest, determined by an independent valuation report. Should the Company define less than a 3,000,000 ounce gold deposit, a claw-back of 25% equity in the Houndé concessions may take place by paying the Company an amount equal to the value of this interest determined from an independent valuation. If the claw-back option in either case is exercised, the NSR over the relative license(s) will be relinquished. If the claw-back option in either case is exercised, a joint venture company will be formed under the terms in the agreement with the majority holder taking on the role of operator.
- (c) The Company entered into a purchase agreement with AXMIN Inc. ("AXMIN") under which the Company acquired AXMIN's interest in the Kofi Group of concessions ("Kofi") in Mali for total consideration of up to CDN\$500,000 and 4,500,000 common shares of the Company. AXMIN's direct interest in the concessions that comprise the Kofi property varies from 81.25% to 100%. Agreements for several of the concessions closed in December 2010 and March 2011 and the following payment schedule was established in relation to the six concessions closed on:

AVION GOLD CORPORATION
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8. Exploration and evaluation properties (continued)

<u>Due Date</u>	<u>Cash (CDN\$)</u>	<u>No. of Shares</u>	<u>Value of shares (CDN\$)</u>	<u>Value of shares (USD\$)</u>
Re: Kofi Nord, Kofi Dabara, Walia (ACGRI) and Dianissi concessions				
December 24, 2010 (closing, paid and issued)	\$81,250	731,250	\$1,294,313	\$1,274,569
March 24, 2011 (paid and issued)	\$81,250	731,250	\$1,294,313	\$1,274,569
December 24, 2011 (paid and issued)	\$81,250	731,250	\$1,294,313	\$1,274,569
June 24, 2012	\$81,250	731,250	\$1,294,313	\$1,274,569
Re: Walia Saakola and Walia West concessions				
March 11, 2011 (closing, paid and issued)	\$6,250	56,250	\$80,438	\$80,915
September 11, 2011 (paid and Issued)	\$6,250	56,250	\$80,438	\$80,915
March 11, 2012 (paid and issued)	\$6,250	56,250	\$80,438	\$80,915
September 11, 2012	\$6,250	56,250	\$80,438	\$80,915
COMMITMENT TO ISSUE SHARES, March 31, 2012				\$1,355,484

The current portion of the cash liability due as at March 31, 2012 totaling CDN\$87,500 (\$87,763) is included in accounts payable.

- d) In 2011, the Company closed the acquisition of a further 12.5% interest in the Kofi Nord and Netekoto-Kenieti concessions from African Goldfields Corporation ("AGC"). As a result of this acquisition, the Company's interest in the Kofi Nord and Netekoto-Kenieti concessions has increased from 81.25% and 87.5% to 93.75% and 100% respectively with the remaining 6.25% of Kofi Nord held by Société Financière d'Exploration d'Or au Mali. Total consideration for this increased interest was CDN\$65,000 (US\$66,478) in cash and 200,000 common shares of the Company which were valued on the date of grant at \$351,599.

9. Mine properties, plant and equipment

Mine properties are comprised primarily of the Tabakoto and Ségala projects, in which the Company holds an 80% interest and the Government of Mali holds a 20% interest. The Company is required to fund 100% of all expenditures related to the exploration and development of these properties and holds preferential rights to recover all funding plus interest from future cash flows prior to the shareholders receiving dividends. The Company is subject to a 6% NSR payable to the Government of Mali on these projects.

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9. Mine properties, plant and equipment

	Mine properties		Plant and equipment			TOTAL
	Assets under construction	Producing mines	Buildings and infrastructure	Plant and equipment	Equipment under finance lease	
Cost as at December 31, 2010	\$ 56,522,160	\$ 6,783,788	\$ 21,781,312	\$ 14,781,391	\$ 6,052,382	\$ 105,921,033
Additions	101,087,822	8,648,358	5,817,964	52,325,003	4,500,941	172,380,088
Transferred from exploration and evaluation assets	(9,306,434)	9,306,434	-	-	-	-
Change in rehabilitation provision	-	-	-	-	-	-
Cost as at December 31, 2011	\$ 148,303,548	\$ 24,738,580	\$ 27,599,276	\$ 67,106,394	\$ 10,553,323	\$ 278,301,121
Additions	8,750,002	610,632	503,148	12,433,116	3,057,577	25,354,475
Transfer to producing mines	(81,888,724)	81,888,724	-	-	-	-
Change in rehabilitation provision	-	(349,000)	-	-	-	(349,000)
Cost as at March 31, 2012	75,164,826	106,888,936	28,102,424	79,539,510	13,610,900	303,306,596
Accumulated depreciation, depletion and impairment as at December 31, 2010	-	(5,020,979)	(425,107)	(4,882,707)	-	(10,328,793)
Charge for the period	-	(12,597,950)	(2,104,520)	(2,047,157)	(691,904)	(17,441,531)
Accumulated depreciation, depletion and impairment as at December 31, 2011	-	(17,618,929)	(2,529,627)	(6,929,864)	(691,904)	(27,770,324)
Charge for the period	-	(4,008,087)	27,964,553	(30,388,602)	(283,560)	(6,715,696)
Accumulated depreciation, depletion and impairment as at March 31, 2012	\$ -	\$ (21,627,016)	\$ 25,434,926	\$ (37,318,466)	\$ (975,464)	\$ (34,486,020)
Net book value as at December 31, 2011	\$ 148,303,548	\$ 7,119,651	\$ 25,069,649	\$ 60,176,530	\$ 9,861,419	\$ 250,530,797
Net book value as at March 31, 2012	\$ 75,164,826	\$ 85,261,920	\$ 53,537,350	\$ 42,221,044	\$ 12,635,436	\$ 268,820,576

As at March 31, 2012, mine properties, plant and equipment included assets acquired under capital leases with a net book value of \$12,635,436 (December 31, 2011: \$9,861,419).

Additions to assets under construction includes long-term deposits and advances of \$7,413,923 (December 31, 2011: \$7,058,772) which includes down payments on equipment and supplies required for the continuation of underground development at Tabakoto and Ségala and the mill expansion.

10. Other financial assets

The Company's other financial assets consist of investments, classified at fair value through profit or loss ("FVTPL"), and are comprised of the following:

	Classification	March 31, 2012		December 31, 2011	
		No. held	Value	No. held	Value
Long term					
Midlands Minerals Corporation	FVTPL	10,278,500	\$ 412,378	10,278,500	\$ 503,997
Yellowhead Mining Inc.	FVTPL	100,000	\$ 99,298	100,000	\$ 78,454
			\$ 511,676		\$ 582,451

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10. Other financial assets (continued)

The Company has recognized an unrealized loss on their FVTPL investments of \$83,513 for the three months ended March 31, 2012 (March 31, 2011: \$10,916).

Of the Midland Minerals Corporation ("Midlands") shares held by the Company, 1,180,000 are units consisting of one common share and one-half of a common share purchase warrant, with each whole warrant exercisable into one common share of Midlands at a price of CDN\$0.50 until February 12, 2012. These warrants expired unexercised.

11. Accounts payable

	March 31, 2012	December 31, 2011
Mining and milling suppliers and contractors (including underground development payables)	\$ 41,179,370	\$ 20,876,709
Mali royalty payable	1,029,076	1,369,456
Payroll and other statutory liabilities	1,946,116	1,376,993
Corporate payables	1,868,707	793,064
Property acquisition commitments (Note 8)	87,763	91,939
	<u>\$ 46,111,032</u>	<u>\$ 24,508,161</u>

12. Interest-bearing loans

The Company, through its Malian subsidiaries, carries a liability payable to the Government of Mali in relation to their 20% ownership of the Malian subsidiaries, being Tambaoura Mining Co. and Ségala Mining Co. These companies merged effective January 1, 2011. The balance of this liability at March 31, 2012 is \$555,291 (268,402,542FCFA) (December 31, 2011: \$536,193 (266,621,732 FCFA)), 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 semi-annually. This loan will be paid with priority over shareholder dividends from the Malian subsidiaries. During the three months ended March 31, 2012, interest expense related to this loan totaled \$11,708 (March 31, 2011: \$2,559).

13. Capital leases

Finance leases relate to mining equipment with lease terms of 2 to 4 years. The Company has the option to purchase the equipment for a nominal amount at the conclusion of the lease agreements. The Company's obligations under capital leases are secured by the lessors' title to the leased assets.

As at March 31, 2012, the capital leases were composed of the following obligations:

2012	1,499,471
2013	1,710,282
2014	1,266,045
2015	<u>70,225</u>
	4,546,023
Less: Amounts representing interest	(465,153)
	<u>\$ 4,080,870</u>
Less: Current portion	\$ 1,660,607
Long-term portion	<u>\$ 2,420,263</u>

The fair value of the capital leases is approximately equal to their carrying amount.

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14. Provisions

	Closure and reclamation	Other	Total
Balance at January 1, 2010	\$ 6,159,000	\$ 562,948	\$ 6,721,948
Additional provisions recognised	2,877,000	690,082	3,567,082
Reductions resulting from re-measurement or settlement without cost	(104,000)	(81,391)	(185,391)
Unwinding of discount and effect of changes in the discount rate	225,000	-	225,000
Balance at December 31, 2011	\$ 9,157,000	\$ 1,171,639	\$ 10,328,639
Additional provisions recognised	-	6,311	6,311
Reductions resulting from re-measurement or settlement without cost	(349,000)	48,826	(300,174)
Unwinding of discount and effect of changes in the discount rate	93,500	-	93,500
Balance at March 31, 2012	\$ 8,901,500	\$ 1,226,776	\$ 10,128,276

Closure and reclamation provision

The Company makes full provision for the future cost of rehabilitating mine sites and related production facilities on a discounted basis on the development of mines or installation of those facilities. The rehabilitation provision represents the present value of rehabilitation costs relating to mine sites. The rehabilitation provision calculation used a risk-free discount rate applicable to Mali of 4.25% and an inflation factor of 2.5%. Although the ultimate amount to be incurred is uncertain, based on development, legal requirements and estimated costs, the total undiscounted liability for asset retirement obligations is estimated to be approximately \$10,000,000 commencing in approximately 2019. These provisions have been created based on a third-party assessment. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mines cease to produce at economically viable rates. This, in turn, will depend upon future gold and copper prices, which are inherently uncertain.

15. Long-term debt

In 2011, the Company completed a credit facility in the amount of 16,150,000,000 FCFA which is being provided by Banque Atlantique Mali S.A., a subsidiary of Atlantic Financial Group ("AFG"). Funds are drawn down and repaid in FCFA's. The credit facility is available for a 3 year term with an annual interest rate of prime minus 3%, currently 7%. This facility is unsecured. Repayments are scheduled to commence in June 2012.

During 2011, the Company also entered into a financing arrangement with Banque Atlantique Mali S.A. to fund the purchase of certain equipment.

An amount of 16,763,420,171 FCFA was drawn down in relation to these credit facilities and is equivalent to \$34,681,383 as of March 31, 2012. Of this balance, \$13,320,858 is classified as a current liability.

The Company has paid a total of \$590,397 in interest on this debt during the three months ended March 31, 2012 (March 31, 2011: \$nil). This interest is being capitalized to mine properties, plant and equipment under development.

16. Share capital

a) As at March 31, 2012 and December 31, 2011, the Company's authorized number of common shares was unlimited without par value.

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16. Share capital (continued)

b)		Number of Shares	Amount
Common shares			
Balance, December 31, 2010		383,767,272	\$ 128,396,329
Public offering		27,830,000	58,910,011
Exercise of warrants and broker warrants		21,157,171	14,082,484
Exercise of warrants -- value allocation		-	2,841,328
Exercise of stock options		6,450,000	4,239,708
Exercise of stock options -- value allocation		-	2,283,052
Property acquisition (Note 8)		1,775,000	3,062,569
Cost of issue		-	(3,589,040)
Balance, December 31, 2011		440,979,443	\$ 210,226,441
Exercise of stock options		1,539,900	940,393
Exercise of stock options -- value allocation		-	392,665
Property acquisition (Note 8)		56,250	80,915
Balance, March 31, 2012		442,575,593	\$ 211,640,414

17. Share-based payments reserves

	No. of options	Weighted Average Exercise Price (CAD\$)	Value of options	No. of warrants	Weighted Average Exercise Price (CAD\$)	Value of warrants	Total Value
December 31, 2010	26,418,750	\$ 0.63	\$ 9,289,888	21,702,172	\$ 0.64	\$ 2,912,804	\$ 12,202,692
Granted	5,555,000	1.66	4,446,627	-	-	-	4,446,627
Exercised	(6,450,000)	0.65	(2,283,052)	(21,157,171)	0.62	(2,841,328)	(5,124,380)
Expired	(527,500)	0.72	(239,324)	(545,001)	0.65	(71,476)	(310,800)
December 31, 2011	24,996,250	\$ 0.85	\$ 11,214,139	-	\$ -	\$ -	\$ 11,214,139
Granted	1,700,000	1.56	1,255,264	-	-	-	1,255,264
Exercised	(1,539,900)	0.61	(392,665)	-	-	-	(392,665)
Expired	(122,500)	1.34	(73,621)	-	-	-	(73,621)
March 31, 2012	25,033,850	\$ 0.91	\$ 12,003,117	-	\$ -	\$ -	\$ 12,003,117

The following share-based payment arrangements were in existence during the current and prior reporting periods:

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17. Share-based payments reserves (continued)

No. outstanding	No. exercisable	Grant date	Expiry date	Exercise price	Vested portion of fair value at grant date	Total fair value	Expected volatility	Expected life (yrs)	Expected Dividend Yield	Risk-free interest rate
150,000	150,000	6-May-09	20-Jun-12	\$ 0.92	\$ 27,014	\$ 27,014	136%	3.13	0%	2.03%
2,538,750	2,538,750	6-May-09	3-Oct-12	\$ 1.07	\$ 461,513	\$ 461,513	135%	3.41	0%	2.03%
940,000	940,000	13-Jan-08	10-Jan-13	\$ 0.50	\$ 256,182	\$ 256,182	92%	5.00	0%	3.61%
1,867,600	1,867,600	27-May-08	27-May-13	\$ 0.51	\$ 617,408	\$ 617,408	111%	5.00	0%	3.30%
300,000	300,000	6-Jun-08	6-Jun-13	\$ 0.51	\$ 98,935	\$ 98,935	111%	5.00	0%	3.20%
575,000	575,000	19-Sep-08	19-Sep-13	\$ 0.20	\$ 74,399	\$ 74,399	111%	5.00	0%	3.00%
1,420,000	1,420,000	6-Apr-09	6-Apr-14	\$ 0.29	\$ 307,837	\$ 307,837	125%	5.00	0%	1.80%
20,000	20,000	31-Jul-09	31-Jul-14	\$ 0.32	\$ 4,778	\$ 4,778	124%	5.00	0%	2.66%
50,000	50,000	6-Jan-10	6-Jan-15	\$ 0.73	\$ 33,347	\$ 33,347	123%	5.00	0%	2.74%
150,000	150,000	23-Feb-10	23-Feb-15	\$ 0.60	\$ 74,524	\$ 74,524	121%	5.00	0%	2.51%
2,670,000	2,670,000	12-Mar-10	12-Mar-15	\$ 0.67	\$ 1,487,576	\$ 1,487,576	124%	5.00	0%	2.83%
145,000	145,000	29-Mar-10	29-Mar-15	\$ 0.70	\$ 82,071	\$ 82,071	125%	5.00	0%	2.90%
75,000	75,000	1-Jun-10	1-Jun-15	\$ 0.60	\$ 37,378	\$ 37,378	122%	5.00	0%	2.61%
7,050,000	7,050,000	7-Jun-10	7-Jun-15	\$ 0.60	\$ 2,907,707	\$ 2,907,707	124%	5.00	0%	2.58%
197,500	197,500	19-Nov-10	19-Nov-15	\$ 1.02	\$ 164,600	\$ 164,600	120%	5.00	0%	2.32%
500,000	500,000	26-Jan-11	26-Jan-16	\$ 1.60	\$ 387,862	\$ 387,862	72%	3.00	0%	2.56%
675,000	541,667	25-Feb-11	25-Feb-16	\$ 1.65	\$ 467,831	\$ 542,700	72%	3.00	0%	2.56%
3,040,000	2,983,750	24-Mar-11	24-Mar-16	\$ 1.71	\$ 2,572,592	\$ 2,559,680	72%	3.00	0%	2.61%
310,000	310,000	12-May-11	12-May-16	\$ 1.35	\$ 213,257	\$ 213,257	72%	3.00	0%	2.60%
660,000	660,000	22-Nov-11	22-Nov-16	\$ 1.66	\$ 506,906	\$ 506,906	72%	3.00	0%	1.36%
600,000	600,000	11-Jan-12	11-Jan-17	\$ 1.64	\$ 434,458	\$ 434,458	72%	3.00	0%	1.26%
1,100,000	1,100,000	12-Jan-12	12-Jan-17	\$ 1.52	\$ 784,942	\$ 784,942	72%	3.00	0%	1.30%
25,033,850	24,844,267				\$ 12,003,117	\$ 12,065,074				

Fair value of share options granted in the year

The weighted average grant date fair value of the share options granted during the three months ended March 31, 2012 is \$0.72 (three months ended March 31, 2011: \$1.19). Options were valued using the Black-Scholes option-pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Expected volatility is based on the historical share price volatility over the past 3 to 5 years. The expected life of the options was calculated based on the history of option exercises and expiries.

18. Operating revenues

	Three months ended	
	2012	2011
Gold	\$ 32,965,385	\$ 31,489,868
Silver	94,882	298,022
	\$ 33,060,267	\$ 31,787,890

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19. Operating segments

Geographical information

The Company operates in Mali and Burkina Faso, with its head office in Canada. Information about the Company's assets by geographical location are detailed below. All of the Company's operating revenues are earned from production in Mali.

	Current assets	Mine properties, plant and equipment	Evaluation and exploration properties	Long-term receivables and other assets	TOTAL ASSETS
	\$	\$	\$	\$	\$
<u>March 31, 2012</u>					
Canada	43,197,204	-	-	511,676	43,708,880
Mali	47,590,104	268,820,576	25,205,034	5,131,909	346,747,623
Burkina Faso	138,776	-	17,294,373	-	17,433,149
	<u>90,926,084</u>	<u>268,820,576</u>	<u>42,499,407</u>	<u>5,643,585</u>	<u>407,889,652</u>
<u>December 31, 2011</u>					
Canada	21,705,524	-	-	582,451	22,287,975
Mali	40,242,423	250,530,797	24,019,324	4,684,197	319,476,741
Burkina Faso	25,537	-	15,285,619	-	15,311,156
	<u>61,973,484</u>	<u>250,530,797</u>	<u>39,304,943</u>	<u>5,266,648</u>	<u>357,075,872</u>

20. Other gains and losses

	Three months ended March 31,	
	2012	2011
Net foreign exchange gain/(loss)	\$ (2,984,000)	\$ 1,477,095
Net (loss) arising on financial assets designated as "FVTPL"	(83,513)	(10,916)
Recovery of expenditures	77,218	-
	<u>\$ (2,990,295)</u>	<u>\$ 1,466,179</u>

21. Finance costs

	March 31,	
	2012	2011
Interest on obligations under finance leases	\$ (94,764)	\$ (80,552)
Accretion expense on rehabilitation provision	(93,500)	(61,750)
Other interest expense	(18,730)	(2,559)
	<u>\$ (206,994)</u>	<u>\$ (144,861)</u>

22. Earnings per share

Total options and warrants that have been excluded from the computation of diluted earnings per share because the exercise prices exceeded the average market value of the common shares for the three months ended March 31, 2012 were nil (March 31, 2011 – 3,905,000).

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23. Financial instruments

Financial assets and financial liabilities as at March 31, 2012 were as follows:

March 31, 2012	Loans and receivables	Assets /(liabilities) at fair value through profit	Total
Cash and cash equivalents	\$ 37,900,859	\$ 3,274,931	\$ 41,175,790
Amounts receivable	1,879,683	-	1,879,683
Other financial assets	-	511,676	511,676
Accounts payable	46,111,032	-	46,111,032
Interest-bearing loans and borrowings-current	13,876,149	-	13,876,149
Interest-bearing loans and borrowings-non-current	21,360,525	-	21,360,525
Other financial liabilities current	1,660,607	8,874,558	10,535,165
Other financial liabilities non-current	2,420,263	22,556,421	24,976,684
Other payables	1,226,776	-	1,226,776

Derivatives:

The Company sold twelve call options that entitle the buyer to purchase 36,396 ounces of gold over 12 consecutive quarters starting on September 1, 2012 and ending on June 1, 2015. Each call option entitles the buyer to purchase 3,033 ounces of gold at a set price. The first four call options are priced at \$700/oz and the eight remaining call options are priced at \$900/oz. The settlement of the options are in cash as there is no exchange of physical gold between the Company and the buyer. In exchange, the Company received cash consideration of \$25,000,000. The following table reflects the fair value of these derivative liabilities as at March 31, 2012 based on forward gold prices as at March 31, 2012:

	Strike Price	No. of Oz	Fair Value
Current	\$ 700	9,099	\$ 8,874,558
Long-term	\$ 900	27,297	\$ 22,556,421
			<u>\$ 31,430,979</u>

The net loss recorded for the three months ended March 31, 2012 was \$6,430,979 (three months ended March 31, 2011: \$nil) related to these derivatives.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no significant changes in the risks, objectives, policies and procedures for managing risk during the three months ended March 31, 2012 and 2011.

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

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23. Financial instruments (continued)

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

March 31, 2012	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents	3,224,931	50,000	-
Investments	511,676	-	-
Derivative liabilities, current and long-term	-	31,430,979	-

Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents, amounts receivable and the fuel duty recoverable. The Company has no significant concentration of credit risk arising from operations other than that related to the fuel duty recoverable. Financial instruments included in amounts receivable consist of sales taxes due from the Government of Canada, Value Added Tax from foreign governments, employee advances and reimbursable costs, and gold sales receivables. Fuel duty recoverable is due from the Government of Mali. 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 March 31, 2012, the Company had a cash and cash equivalents balance of \$41,175,790 (December 31, 2011: \$21,221,440) to settle current liabilities of \$71,749,122 (December 31, 2011: \$27,744,224).

Market risk

(a) Interest rate risk

The Company has cash and cash equivalent balances at March 31, 2012. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by Canadian banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. A significant portion of the Company's interest-bearing debt accrues interest at prime minus 3%.

(b) Currency risk

The Company's functional and reporting currency is the United States dollar. The Company funds certain operational expenses in Africa using the CFA Francs ("FCFA") and the Euro currencies, as well as corporate expenses in Canadian dollars. The Company's Malian subsidiaries operate in FCFA which is fixed with the Euro. The Company also has a debt payable in FCFA.

Gold sales are paid in United States dollars.

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

i) Transaction exposure

The Company's operations incur costs in different currencies. This creates exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. The Company has not hedged its exposure to currency fluctuations.

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23. Financial instruments (continued)

ii) Exposure to currency risk

The Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the United States dollar (all amounts presented in United States dollars):

Balances as at March 31, 2012	CAD\$	FCFA	GBP
Cash and cash equivalents	3,832,110	(1,683,496)	-
Amounts receivable	200,169	6,221,529	-
Fuel duty recoverable	-	5,131,909	-
Investments	511,675	-	-
Accounts payable and accrued liabilities	(1,473,931)	(47,222,273)	(106,359)
Shareholder loan	-	(555,291)	-
Long term liabilities, current and long-term	-	(34,681,384)	-
Capital lease obligations	(745,233)	-	-
Provisions	-	(1,226,776)	-
Net balance sheet exposure	2,324,790	(74,015,782)	(106,359)

iii) Translation exposure

The Company's operations translate their operating results from the local countries' currency to United States dollars, the functional currency. Therefore, exchange rate movements in the United States dollar, Canadian dollar, Euro and FCFA can have a significant impact on the Company's consolidated operating results.

(c) Price risk

The Company's earnings and cash flows are subject to price risk due to fluctuations in the market price of gold and silver. World gold prices have historically fluctuated widely and are affected by numerous factors beyond the Company's control, including:

- The strength of the US economy and the economies of other industrialized and developing nations;
- Global or regional political or economic crises;
- The relative strength of the US dollar and other currencies;
- Expectations with respect to the rate of inflation;
- Interest rates;
- Purchases and sales of gold by central banks and other holders;
- Demand for jewelry containing gold; and
- Investment activity, including speculation in gold as a commodity.

The Company closely monitors these metal prices to determine the appropriate course of action to be taken by the Company. The Company currently does not hedge for price risk.

The Company is also subject to price risk for fluctuations in the cost of energy, principally electricity and purchased petroleum products. The Company's production costs are also affected by prices of commodities it consumes or uses in its operations such as lime, reagents and explosives. The prices of such commodities are influenced by supply and demand trends affecting the mining industry in general and other factors outside the Company's control. The Company has entered into fuel contracts to mitigate this risk.

The Company is also subject to price risk for changes in the market price of its investments.

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23. Financial instruments (continued)

Sensitivity analysis

Foreign exchange risk

- (i) A 10% change in the United States Dollar exchange rate as at March 31, 2012 compared to the Canadian Dollar, with all other variables held constant, would impact the Company's net earnings by approximately \$211,000 based on net assets as at March 31, 2012.
- (ii) A 10% change in the United States Dollar exchange rate as at March 31, 2012 compared to the FCFA, with all other variables held constant, would impact the Company's net earnings by approximately \$6,700,000 based on net assets as at March 31, 2012.

Price risk

A 10% change in the average gold price during the quarter ended March 31, 2012 with all other variables constant, would have resulted in an impact to earnings of approximately \$3,300,000.

Interest rate risk

A 1% change in interest rates in Mali would result in an additional interest cost on debt of approximately \$340,000.

24. 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, stock options and long-term debt. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no significant changes in the Company's approach to capital management during the three months ended March 31, 2012.

25. Related party disclosures

These condensed interim consolidated financial statements include the financial statements of the Company and its subsidiaries and their respective ownership. The significant subsidiaries are listed in the following table:

Avion Africa (Barbados) Limited	100%
Avion Resources (Mali) Ltd., Barbados	100%
Segala Mining Corp. S.A., Mali (80% ownership – merged with Tambaoura Mining Company S.A.)	
Nevsun Mali Exploration Ltd., Mali (100% ownership)	
Avion Mali Limited, Barbados	100%
Avion Gold (Burkina Faso) SARL, Burkina Faso	100%
Burkina Faso Exploration Ltd., Jersey	100%

During the period, the Company entered into the following transactions in the ordinary course of business with related parties that are not subsidiaries of the Company.

	Purchases of goods and services	
	Three months ended March 31,	
	2012	2011
2227929 Ontario Inc.	\$ 114,926	\$ 86,401
Forbes & Manhattan, Inc.	\$ 120,000	\$ 19,433

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25. Related party disclosures (continued)

The Company shares office space with other companies who may have common officers or directors. The costs associated with this space are administered by 2227929 Ontario Inc.

Mr. Stan Bharti, a director of the Company, is the Executive Chairman of Forbes & Manhattan, Inc., a corporation that provides administrative services to the Company. An administration fee of CAD\$40,000 per month is charged by Forbes & Manhattan, Inc. pursuant to a consulting agreement.

The following balances were outstanding at the end of the reporting period:

	Amounts owed by related parties		Amounts owed to related parties	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
2227929 Ontario Inc.	\$ -	\$ 74,239	\$ 6,577	\$ -
Other (various)	7,079	30,307	-	-

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties.

Compensation of key management personnel of the Company

The remuneration of directors and other members of key management personnel during the period were as follows:

	Three months ended March 31,	
	2012	2011
Short-term benefits	\$ 713,372	\$ 324,829
Share-based payments	434,458	2,103,953

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

26. Commitments and contingencies

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to \$6,600,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these condensed interim consolidated financial statements. Additional minimum management contract commitments remaining under these contracts are approximately \$2,200,000.

The Company has contracted to purchase fuel as required, however if the contract was terminated, the Company would be obligated to pay approximately \$500,000 at March 31, 2012. The Company has contracted for mining services at the Tababoto and Segala mine sites. Should the Company terminate the contract without cause, the Company will be liable for any costs incurred to date of termination, reasonable costs for demobilization and any other costs for which the contractor is legally liable as a result of the termination.

During 2011 the Company, through its operating subsidiary in Mali, received a final tax assessment from the Malian government of approximately \$4,200,000 for the fiscal years ended 2005, 2006 and 2007. The Company has paid and accrued for the above noted amounts owed in respect of such final tax assessment due to the Malian government's imminent threats of shutting down the operations. At the end of 2011, the Company was further assessed for an amount of approximately \$5,000,000 (including penalties) pertaining to the fiscal year ended 2008. The 2008 notice of assessment has not been accrued for, as the Company believes its provision for taxes is sufficient to cover this assessment, and in addition, the Company has challenged the 2008 assessment, as well as the earlier assessment, as it believes they are both without merit.

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26. Commitments and contingencies (continued)

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 March 31, 2012, provisions related to such matters totaling approximately \$875,000.

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

27. Subsequent events

Subsequent to March 31, 2012, the Company granted 400,000 stock options to a newly appointed officer of the Company with an exercise price of \$0.90 expiring five years from the date of grant.