

# **AVION RESOURCES CORP.**

(A Development Stage Company)

Interim Consolidated Financial Statements  
For the six months ended  
May 31, 2008

*UNAUDITED*

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# AVION RESOURCES CORP.

(A Development Stage Company)

## Consolidated Balance Sheets

(Stated in Canadian Dollars)

As at:	May 31, 2008 <i>(unaudited)</i>	November 30, 2007 <i>(audited)</i>
<b>ASSETS</b>		
Current		
Cash and cash equivalents (Note 7)	\$ 6,242,282	\$ 956,861
Subscription receivable	-	562,000
Amounts receivable (Note 7)	238,572	34,564
Prepaid expenses (Note 7)	777,521	-
Inventory (Note 7)	3,844,164	-
	11,102,539	1,553,425
Deposits and advances	-	150,000
Reclamation bond	3,000	3,000
Investments (Note 6)	140,001	140,001
Equipment	32,490	-
Long term receivable (Notes 7 and 8)	6,895,039	-
Mineral properties (Notes 7 and 9)	19,475,968	234,177
	\$ 37,649,037	\$ 2,080,603
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities (Notes 7 and 17)	\$ 2,897,486	\$ 327,615
Short term debenture (Note 10)	994,200	-
	3,891,686	327,615
Asset retirement obligations (Notes 7 and 11)	4,263,690	-
	8,155,376	327,615
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 12)	9,735,638	9,448,760
Subscription receipts (Note 13)	26,629,092	-
Warrants (Note 14)	1,050,018	730,000
Contributed surplus (Note 16)	2,266,457	829,900
Deficit	(10,187,544)	(9,255,672)
	29,493,661	1,752,988
	\$ 37,649,037	\$ 2,080,603

Commitments and contingencies (Notes 1, 2, 9 and 18)  
Subsequent events (Note 20)

APPROVED ON BEHALF OF THE BOARD:

"Rene Bharti", Director

"Stan Bharti", Director

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# AVION RESOURCES CORP.

(A Development Stage Company)

## Consolidated Statements of Operations and Deficit

(Stated in Canadian Dollars)

(unaudited - prepared by management)

For the three and six months ended May 31, 2008

	Three months ended		Six months ended	
	May 31,		May 31,	
	2008	2007	2008	2007
Expenses				
Consulting and management fees (Note 15)	\$ 692,058	\$ 17,700	\$ 727,244	\$ 28,200
Travel	16,432	769	36,842	769
Office and general	18,431	606	34,177	1,389
Shareholder communications	30,415	2,945	31,969	2,945
Professional fees	25,896	12,744	31,209	14,663
Transfer agent & filing fees	10,024	4,364	20,649	9,315
(Loss) for the period before the following:	(793,256)	(39,128)	(882,090)	(57,281)
Interest earned	24,583	42	28,920	232
Interest expense (Note 10)	(62,044)	-	(69,356)	-
General exploration expenses	-	-	(4,448)	-
Recovery of expenditures	-	16,811	-	16,811
Foreign exchange (loss)	(4,898)	-	(4,898)	-
Net (loss) before income taxes	(835,615)	(22,275)	(931,872)	(40,238)
Future income tax recovery (Note 12(ii))	-	71,564	-	71,564
Net (loss)/income for the period	\$ (835,615)	\$ 49,289	\$ (931,872)	\$ 31,326
Deficit, beginning of period	\$ (9,351,929)	\$ (8,437,517)	\$ (9,255,672)	\$ (8,419,554)
Deficit, end of period	\$ (10,187,544)	\$ (8,388,228)	\$ (10,187,544)	\$ (8,388,228)
Basic and diluted net (loss)/income per share	\$ (0.03)	\$ 0.00	\$ (0.04)	\$ 0.00
Weighted average number of shares outstanding	31,197,563	12,493,687	23,283,631	12,493,687

# AVION RESOURCES CORP.

(A Development Stage Company)

## Consolidated Statement of Cash Flows

(Stated in Canadian Dollars)

(unaudited - prepared by management)

For the three and six months ended May 31, 2008

	Three months ended May 31,		Six months ended May 31,	
	2008	2007	2008	2007
Cash flows provided by (used in)				
Operating activities				
Net (loss)/income for the period	\$ (835,615)	\$ 49,289	\$ (931,872)	\$ 31,326
Changes not affecting cash:				
Stock based compensation (Note 15)	654,055	-	654,055	-
Non cash transaction fee (Note 10)	43,250	-	43,250	-
Future income tax recovery (Note 12(ii))	-	(71,564)	-	(71,564)
Net change in non-cash working capital items	573,980	15,996	430,434	(757)
	435,670	(6,279)	195,867	(40,995)
Financing activities				
Private placements, net of issue costs	27,416,494	-	27,695,240	-
Exercise of warrants and options	14,500	-	14,500	-
Change in subscriptions receivable	259,500	-	562,000	-
Short term debenture	994,200	-	994,200	-
	28,684,694	-	29,265,940	-
Investing activities				
Acquisition of subsidiary, net of cash acquired	(22,742,661)	-	(22,742,661)	-
Exploration property expenditures	(254,835)	(5,000)	(1,478,962)	(7,543)
(Increase) decrease in prepaid exploration	-	-	150,000	-
Increase (decrease) in accounts payable related to exploration properties	(296,669)	-	(71,153)	-
Equipment purchases	(33,610)	-	(33,610)	-
	(23,327,775)	(5,000)	(24,176,386)	(7,543)
Change in cash and cash equivalents	5,792,589	(11,279)	5,285,421	(48,538)
Cash and cash equivalents, beginning of period	449,693	12,072	956,861	49,331
Cash and cash equivalents, end of period	\$ 6,242,282	\$ 793	\$ 6,242,282	\$ 793
Cash and cash equivalents consist of:				
Cash	\$ 1,742,630	\$ 793	\$ 1,742,630	\$ 793
Cash equivalents	4,499,652	-	4,499,652	-
	\$ 6,242,282	\$ 793	\$ 6,242,282	\$ 793
<b>SUPPLEMENTARY INFORMATION:</b>				
Common shares issued for property acquisition	\$ -	\$ -	\$ 75,000	\$ -
Warrants issued for property acquisition	\$ -	\$ -	\$ 190,500	\$ -
Compensation options classified as cost of issue	\$ 782,502	\$ -	\$ 782,502	\$ -
Amortization charged to mineral properties	\$ 1,120	\$ -	\$ 1,120	\$ -
Interest paid	\$ 11,483	\$ -	\$ 18,794	\$ -
Interest received	\$ 28,373	\$ 42	\$ 28,373	\$ 232
Income taxes paid	\$ -	\$ -	\$ -	\$ -

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# **AVION RESOURCES CORP.**

(A Development Stage Company)

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

For the six months ended May 31, 2008

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

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

Avion Resources Corp. ("Avion" or the "Company") is a development stage company as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline II and is primarily engaged in the acquisition, exploration and development of mineral properties located in Africa. All common shares, options and warrants and per share amounts have been restated to give retroactive effect to the 3:1 consolidation that took place on June 21, 2007.

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

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material writedowns of the carrying values.

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 exploration 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 requirements.

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.

In the opinion of management, all adjustments considered necessary for fair presentation have been included in these consolidated financial statements. Operating results for the six months ended May 31, 2008 are not indicative of the results that may be expected for the full year ending November 30, 2008.

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# AVION RESOURCES CORP.

(A Development Stage Company)

## Notes to the Consolidated Financial Statements

For the six months ended May 31, 2008

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### 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.

The Company's ability to meet its obligations and maintain operations is contingent upon additional financing arrangements and the support of its creditors.

Funding for operations is obtained primarily through public and private share offerings. Future operations are dependent upon the Company's ability to finance expenditure requirements and upon the achievement of profitable operations. These consolidated financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations.

### 3. SIGNIFICANT ACCOUNTING POLICIES

Except as disclosed below, these 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 Audited Annual Financial Statements for the period ended November 30, 2007.

#### Additional accounting policies:

#### (i) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its newly-acquired, 100% owned subsidiary which ultimately owns an 80% interest in the Mali Projects (Note 7).

#### (ii) Foreign Currency Translation

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.

#### (iii) Cash and cash equivalents

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

#### (iv) Inventory

The Company adopted CICA Handbook Section 3031 "Inventories". This standard replaces the previous inventories standard and requires inventory to be measured at the lower of cost and net realizable value and includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. Further, it requires the reversal of previous write-downs to net realizable value when the economic circumstances have changed to support an increased inventory value. The adoption of this standard has had no material impact on the Company's consolidated financial statements.

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# AVION RESOURCES CORP.

(A Development Stage Company)

## Notes to the Consolidated Financial Statements

For the six months ended May 31, 2008

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (v) Property, Plant and Equipment

Equipment is recorded at cost. Amortization is provided on a straight line basis over the following number of years:

Field equipment	5 years
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#### New accounting pronouncements:

On December 1, 2006, the CICA issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862), and Financial Instruments – Presentation (Handbook Section 3863). These new standards became effective for the Company on December 1, 2007.

#### (i) Capital Disclosures

Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in note 4 to these interim consolidated financial statements.

#### (ii) Financial Instruments - Disclosures and Presentation

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook section in note 5 to these interim consolidated financial statements.

### 4. 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 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 properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. 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 changes in the Company's approach to capital management during the three and six months ended May 31, 2008.

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# AVION RESOURCES CORP.

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## Notes to the Consolidated Financial Statements

For the six months ended May 31, 2008

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### 5. 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 receivables included in other assets. The Company has no significant concentration of credit risk arising from operations. Financial instruments included in assets consist of Goods and Services Tax due from the Federal Government of Canada, employee advances and reimbursable costs, and a fuel duty receivable which due from the Government of Mali, recoverable by way of offset against royalties and any taxes otherwise payable to the Government of Mali. Management believes that the credit risk concentration with respect to these financial instruments is remote.

#### 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 May 31, 2008, the Company had a cash balance of \$6,242,282 and subscriptions receivable of \$nil (November 30, 2007 - \$956,861 and \$562,000) to settle current liabilities of \$3,891,686 (November 30, 2007 - \$327,615). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms, save for a short term debenture of US\$1,000,000 (CDN\$994,200) due on September 30, 2008.

#### Market risk

##### (a) Interest rate risk

The Company has cash balances and interest-bearing debt at May 31, 2008. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company's interest bearing debt has a fixed interest rate of 10% and is short term. The Company considers interest rate risk to be minimal as investments and interest bearing debt are short term, the interest rate on the short term debt is fixed, and future financing will be primarily secured from private placements.

##### (b) Foreign currency risk

The Company's functional currency is the Canadian dollar. The Company funds certain operations, exploration and administrative expenses in Africa on a cash-call basis using the Ethiopian Birr currency, and with its newly acquired Malian subsidiaries, the Euro, converted from its Canadian dollar bank accounts. The Company's Malian subsidiaries operate in CFA Francs for which Malian banks offer a floating rate of exchange with the Euro. Management does not hedge its foreign exchange risk.

##### (c) Price risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

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# AVION RESOURCES CORP.

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## Notes to the Consolidated Financial Statements

For the six months ended May 31, 2008

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### 5. FINANCIAL RISK FACTORS (continued)

#### Sensitivity analysis

The Company has designated its cash 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, accrued liabilities and short term debt are classified as other financial liabilities, which are measured at amortized cost. 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 May 31, 2008, the carrying and fair value amounts of the Company's financial instruments are the same, and there were no changes that occurred that attributed to credit risk.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period.

The Company's investment in a private company is anticipated to be listed on a recognized stock exchange within the next twelve months. Sensitivity to a plus or minus 100% change in the company's expected share price would affect income (loss) by \$140,000.

As a result of the Company's activities in Ethiopia and 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 (XOF and the South African Rand (ZAR). Risk of loss as a result of foreign exchange fluctuations is minimal at this stage in the Company's operations as all liabilities in other non-functional currencies are minimal.

Price risk is remote since the Company is not a producing entity at this time and does not rely on the selling of commodities for the generation of operational cashflow. A dramatic decrease in the value of certain commodity prices could negatively impact the Company's ability to raise additional financing .

### 6. INVESTMENTS

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

	May 31, 2008 \$	November 30, 2007 \$
Global Immune Technologies, Inc. - (2,000,000 shares)	1	1
Yellowhead Mining Inc. (100,000 shares)	140,000	140,000
	140,001	140,001

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

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

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# AVION RESOURCES CORP.

(A Development Stage Company)

## Notes to the Consolidated Financial Statements

For the six months ended May 31, 2008

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### 7. ACQUISITION OF THE MALI PROJECTS

In May 2008, the Company closed a share purchase agreement for the acquisition of an 80% interest in the Tabakoto and Segala gold projects located in Mali, West Africa, the "Mali Projects". The remaining 20% interest is owned by the Government of Mali. The Tabakoto project was previously a producing gold mine and has all mining infrastructure and processing facilities in place. As consideration, the Company paid US\$20,000,000 (CDN\$20,114,000) for the purchase of an 80% interest. The vendor will also retain a 1% net smelter return royalty and loan interest. The Company will have the option to buy out the net smelter return royalty for US\$2,000,000 during the five years following the date of closing.

In addition to the consideration to be paid under the Agreement, Avion has agreed to pay a US\$1,000,000 (CDN\$994,200) finder's fee to an arm's length third party and grant this private company a 2% net smelter royalty on the Mali Projects, subject to receipt of regulatory approval. Avion has an option to buy out this net smelter royalty at a price of US\$4,000,000 during the five years following the date of Closing.

The Company also paid a \$1,000,000 advisory fee to a company controlled by a director of the company.

The following table summarizes the total cost of the acquisition of the Mali Projects:

Cash paid	20,114,000
Advisory and finders fees	2,294,200
Filing and regulatory fees	1,000
Legal, audit and transfer agent fees	199,638
Consulting fees and expenses	184,252
	<u>22,793,090</u>

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The Company is in the process of obtaining third-party valuations of certain assets, thus the allocation of the purchase price is subject to adjustment.

Assets acquired at May 20, 2008	
Cash	50,429
Amounts receivable	81,595
Prepaid expenses	635,404
Inventory	3,844,164
Long term receivable	6,895,039
Mine and exploration assets	17,496,209
Accounts payable	(1,946,060)
Asset retirement obligations	(4,263,690)
	<u>22,793,090</u>

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

As a result of the signification losses and exploration expenses incurred prior to acquisition, the Government's minority interest was reduced to \$nil, the Company's subsidiary absorbing the disproportionate share of the minority interest losses. Amounts due to the Government will only become payable if the Tabakoto operation generates sufficient profits to recover the impairment charge.

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# AVION RESOURCES CORP.

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## Notes to the Consolidated Financial Statements

For the six months ended May 31, 2008

### 8. LONG TERM RECEIVABLE

The long term receivable acquired through the purchase of the Malian subsidiaries represents a fuel duty receivable due from the Government of Mali and is recoverable by way of offset against royalties or any taxes that would otherwise be payable to the Government of Mali, including payroll taxes. The receivable is classified as long term due to the uncertainty of when the mine may recommence operations.

### 9. MINERAL PROPERTIES

DESCRIPTION	Canada	Ethiopia	Mali	Other	TOTAL
<u>Acquisition costs</u>					
Balance, November 30, 2007	3,500	2,974	-	-	6,474
Acquisition and property costs	405,683	652,558	17,496,209	1,600	18,556,050
Balance, May 31, 2008	409,183	655,532	17,496,209	1,600	18,562,524
<u>Exploration expenditures</u>					
Balance, November 30, 2007	98,249	93,923	-	35,531	227,703
Drilling	129,256	-	-	-	129,256
Assaying	2,088	22,272	-	-	24,360
Geology and Geophysics	5,000	176	-	-	5,176
Consulting fees	54,459	294,449	-	833	349,741
Travel and transportation	9,900	112,587	-	3,480	125,967
Field and office support	3,203	46,567	-	351	50,121
Amortization	-	1,120	-	-	1,120
Balance, May 31, 2008	302,155	571,094	-	40,195	913,444
<b>TOTAL MINERAL PROPERTIES</b>					
May 31, 2008	711,338	1,226,626	17,496,209	41,795	19,475,968

#### Dundonald Property, Ontario, Canada

In November 2007, the Company entered into negotiations to earn a 75% interest in the Dundonald property in Timmins, Ontario. The agreement was finalized in January 2008. In order to acquire this interest, the Company assumed an interest in an existing agreement for a cash payment of \$250,000 (not paid at May 31, 2008) and awarding a 2% NSR in favour of the assigning company. The 2% NSR is to be paid solely from the Company's interest in the property. The agreement assumed requires the following option payments and exploration expenditures be made:

#### Option payments:

- Make a cash payment of \$75,000 and issue 214,285 common shares with a deemed value of \$75,000 upon regulatory approval of the agreement (paid and issued);
- Make a cash payment of \$250,000 and issue common shares with a market value of \$250,000 on or before the first anniversary of receiving regulatory approval; and
- Make a cash payment of \$500,000 and issue common shares with a market value of \$500,000 on or before each of the second, third and fourth anniversaries of receiving regulatory approval.

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# AVION RESOURCES CORP.

(A Development Stage Company)

## Notes to the Consolidated Financial Statements

For the six months ended May 31, 2008

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### 9. MINERAL PROPERTIES (continued)

Exploration expenditures:

- \$500,000 in expenditures prior to the first anniversary of receipt of regulatory approval; and
- an additional \$4,000,000 in expenditures prior to the fourth anniversary of receipt of regulatory approval.

The agreement assumed also provides the optioning party with a back in right to retain a 51% interest in the property, as well as an option to sell its remaining 25% interest to the Company for \$5,000,000, under certain conditions.

#### Ethiopia, Africa

In November 2007, the Company entered into negotiations with Aberdeen International Inc. ("Aberdeen") to acquire Aberdeen's rights, titles, interest and obligations, including a 2% NSR obligation, pursuant to an agreement between Aberdeen and Ethio-Gibe Canada Mining PLC ("Ethio-Gibe"). In order to acquire these rights and interest, the Company will make the following payments to Aberdeen, in either cash or shares of the Company as mutually agreed upon:

- \$250,000 upon receipt of regulatory approval (paid);
- an additional \$750,000 on or before June 30, 2008; and
- an additional \$1,000,000 on or before December 31, 2008

As well, the Company has granted to Aberdeen a 1.5% Royalty and issued Aberdeen 1,500,000 share purchase warrants exercisable at \$0.48 for 18 months. The fair value of these warrants was estimated at \$190,500 using the Black Scholes option pricing model with the following assumptions: expected dividend yield – 0%; expected volatility – 99%; risk-free interest rate – 3.2%; expected life – 18 months. Aberdeen holds more than 10% of the issued and outstanding shares of the company and certain directors and/or officers of the Company are also directors and/or officers of Aberdeen.

The agreement with Ethio-Gibe provides an option to obtain 100% of the exclusive rights granted by the Ministry of Mineral Energy of Ethiopia to Ethio-Gibe on certain Gold-Copper-Zinc exploration concessions in Ethiopia, subject to a 2% net smelter return royalty ("NSR") to be held by Ethio-Gibe. The agreement provided Aberdeen with an option to purchase 50% of the NSR for \$1,000,000 in cash or in shares of the Company.

Under the terms of the agreement, the following consideration is to be provided to Ethio-Gibe:

- payment of \$200,000 in cash and issuance of 500,000 shares of the Company on or before April 25, 2007; (paid and issued)
- payment of \$250,000 and issuance of 250,000 shares of the Company on or before each of December 31, 2007 (paid and issued), December 31, 2008 and December 31, 2009;
- payment of \$500,000 on each of December 31, 2010 and December 31, 2011, payable in cash or shares of the Company at the Company's option; and
- expend a minimum of \$2,000,000 on property exploration by December 31, 2011.

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# AVION RESOURCES CORP.

(A Development Stage Company)

## Notes to the Consolidated Financial Statements

For the six months ended May 31, 2008

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### 10. SHORT TERM DEBENTURE

Pursuant to the agreement to acquire the Mali Projects (Note 7), the Company agreed to a US\$1,000,000 break fee if the transaction did not close before May 2008. To post the break fee, the Company borrowed US\$1,000,000 from Aberdeen International Inc., a company that has common directors and officers. This loan matures on September 30, 2008, will incur a 10% per annum interest rate, and shall be secured against the assets of the Company. As consideration for the loan, the Company has issued 250,000 share purchase warrants to Aberdeen, where each warrant will entitle Aberdeen to acquire one common share of the Company at a price of \$0.38 for a period of 18 months from the date of issue. The fair value of these warrants was estimated at \$43,250 using the Black Scholes option pricing model with the following assumptions: expected dividend yield – 0%; expected volatility – 96%; risk-free interest rate – 2.9%; expected life – 18 months. This was charged to the Statement of Operations as an interest expense. Approximately \$18,700 in interest has been paid to May 31, 2008 against this loan.

### 11. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations were acquired through the purchase of the Tabakoto project, and include costs accrued based on the current best estimate of mine reclamation and closure activities that will be required at the Tabakoto site upon completion of mining activity. 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 May 31, 2008, the total undiscounted liability for asset retirement obligations is estimated to be approximately \$4,700,000. The cash expenditures are expected to occur over a period of time extending several years into the future.

	Six months ended May 31, 2008	Twelve months ended November 30, 2007
Balance, beginning of period	\$ -	\$ -
Acquisition of Tabakoto project, and asset retirement obligations attributed to this project	4,263,690	-
Accretion of interest	-	-
Balance, end of period	\$ 4,263,690	\$ -

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# AVION RESOURCES CORP.

(A Development Stage Company)

## Notes to the Consolidated Financial Statements

For the six months ended May 31, 2008

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### 12. CAPITAL STOCK

a) Authorized - unlimited number of common shares

b) Issued

Common shares	Number of Shares		Amount
Balance, November 30, 2006	4,164,562	\$	8,779,090
Private placement – non-flow through	9,999,996		2,199,999
Issue of warrants - warrant valuation	-		(730,000)
Flow through share tax effect (ii)	-		(71,564)
Cost of issue	-		(728,765)
Balance, November 30, 2007	14,164,558	\$	9,448,760
Private placement – non-flow through (i)	1,111,111		300,000
Issue of warrants - warrant valuation	-		(89,918)
Exercise of warrants	50,000		14,500
Exercise of warrants -- value allocation			3,650
Shares issued for property acquisition (Note 9)	214,285		75,000
Cost of issue	-		(16,354)
<b>Balance, May 31, 2008</b>	<b>15,539,954</b>	<b>\$</b>	<b>9,735,638</b>

- (i) In December 2007, the Company completed a private placement financing of 1,111,111 units priced at \$0.27 per unit for gross proceeds of \$300,000. Each unit is comprised of one common share and one common share purchase warrant. Each purchase warrant will be exercisable at a price of \$0.36 per share until December 19, 2009. The fair value of these warrants was estimated at \$89,918 using the Black Scholes option pricing model with the following assumptions: expected dividend yield – 0%; expected volatility – 128%; risk-free interest rate – 3.8%; expected life – 2 years.
- (ii) During 2006, the Company entered into flow-through share subscription agreements whereby it was committed to incur a total of \$198,788 if qualifying Canadian Exploration Expenditures on or before December 31, 2007. These flow through shares were renounced on March 1, 2007 which generated a future income tax recovery of \$71,564, credited against capital stock. The Company met its expenditure requirements during the prior fiscal year.

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# AVION RESOURCES CORP.

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For the six months ended May 31, 2008

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### 13. SUBSCRIPTION RECEIPTS

In April 2008, the Company announced a private placement financing whereby a syndicate of underwriters agreed to purchase 60,100,000 Subscription Receipts at a price of \$0.50 per Subscription Receipt for aggregate gross proceeds of \$30,050,000 in connection with the Company's planned acquisition of the Mali Projects. Each Subscription Receipt will entitle the holder to acquire, for no additional consideration, one unit of the Company at the Escrow Release Time. Each unit will consist of one common share and one half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one common share of the Company at a price of \$0.65 per share for a period of 24 months after the Closing Date. The Company agrees to use its best efforts to extend the term of the warrants for an additional 12 months by i) graduating to "Tier 1" status on the TSX Venture Exchange, and ii) obtaining all necessary approvals to do so.

A commission of 6%, or \$1,803,000, was charged by the underwriters related to this private placement financing. The underwriters were also granted 3,606,000 compensation options whereby one option is exercisable into one common share of the Company at a price of \$0.65 until an expiry date of May 8, 2010. The value of these compensation options was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield – 0%; expected volatility – 93%; risk-free interest rate – 2.8%; expected life – 2 years. A value of \$782,502 was recorded against contributed surplus. As well, the company incurred an additional \$819,000 in share issue costs.

The Company completed the acquisition of the Mali Projects on May 20, and each Subscription Receipt will automatically convert into the underlying securities on the earlier of i) the third business day after the date of issuance of a receipt from the Ontario Securities Commission for the Final Prospectus, and ii) 4:30 pm EST on the date that is four months and one day after the Closing date. The Company filed a final short form prospectus on July 15, 2008 and the Subscription Receipts converted to common shares and warrants on July 21, 2008.

### 14. WARRANTS

	May 31, 2008		November 30, 2007	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of period	10,512,571	\$ 0.30	1,047,152	\$ 0.90
Granted	2,861,111	0.42	9,999,996	0.29
Exercised	(50,000)	0.29	-	-
Expired or cancelled	-	-	(534,577)	1.23
Balance, end of period	13,323,682	\$ 0.33	10,512,571	\$ 0.30

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# AVION RESOURCES CORP.

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## Notes to the Consolidated Financial Statements

For the six months ended May 31, 2008

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### 14. WARRANTS (continued)

A summary of the outstanding warrants as of May 31, 2008 are as follows:

Expiry Date	Exercise Price (\$)	Warrants Outstanding	Value (\$)
June 20, 2008	0.63	202,020	-
July 25, 2008	0.53	310,555	-
October 12, 2009	0.29	9,949,996	726,350
December 19, 2009	0.36	1,111,111	89,918
July 31, 2009	0.48	1,500,000	190,500
November 20, 2009	0.38	250,000	43,250
		<u>13,323,682</u>	<u>1,050,018</u>

### 15. STOCK OPTIONS

In January 2008, 1,450,000 stock options were granted in connection with a private placement in October 2007. The fair value of these stock options of \$490,100, recorded in 2007 as a cost of issue of the private placement, was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend yield - 0%; expected life - 5 years; expected volatility – 82%; a risk-free interest rate - 3.8%.

In May 2008, the Company granted 2,850,000 stock options to directors, officers and consultants of the Company at an exercise price of \$0.51 expiring on May 27, 2013. Of these options, 850,000 vest immediately while the remaining vest quarterly over 2 years with the first vesting period being the date of grant. As well, 200,000 stock options were granted to a consultant of the Company at an exercise price of \$0.65 expiring on May 27, 2013. These options vest quarterly over a 2 year period. As a result, a total of \$654,055 in stock based compensation expense was charged to Consulting and management fees related to the fair value of those vested options. The fair value was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend yield - 0%; expected life - 5 years; expected volatility – 111%; a risk-free interest rate - 3.3%.

	May 31, 2008		November 30, 2007	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of period	-	\$ -	40,556	\$ 1.35
Granted	4,500,000	0.51	-	-
Granted, broker options	3,606,000	0.65	-	-
Exercised	-	-	-	-
Expired or cancelled	-	-	(40,556)	1.35
Balance, end of period	8,106,000	\$ 0.57	-	\$ -

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# AVION RESOURCES CORP.

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## Notes to the Consolidated Financial Statements

For the six months ended May 31, 2008

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### 15. STOCK OPTIONS (continued)

A summary of the outstanding options as of May 31, 2008 are as follows:

Expiry Date	Exercise Price (\$)	Options Outstanding	Value (\$)
May 8, 2010	0.65	3,606,000	782,502
January 10, 2013	0.50	1,450,000	490,100
May 27, 2013	0.51	2,850,000	627,080
May 27, 2013	0.65	200,000	26,975
		<u>8,106,000</u>	<u>1,926,657</u>

### 16. CONTRIBUTED SURPLUS

	May 31, 2008	November 30, 2007
Balance, beginning of period	\$ 829,900	\$ 339,800
Stock options granted and/or vested during the period	654,055	490,100
Value of compensation options granted during the period	782,502	
Balance, end of period	<u>\$ 2,266,457</u>	<u>\$ 829,900</u>

### 17. RELATED PARTY TRANSACTIONS

The Company was charged \$523,333 for the six months ended May 31, 2008 (2007: \$20,500) for administrative fees, consulting fees and bonuses by directors or by companies controlled by directors of the Company.

The Company shares its premises with other companies that have common directors and officers, and the Company reimburses the related companies for their proportional share of the expenses. Included in accounts payable and accrued liabilities at May 31, 2008 is \$45,796 (2007: \$nil) owing to such companies.

The Company was charged \$1,000,000 in advisory fees related to the acquisition of the Mali Projects by a company controlled by a director of the Company (Note 7).

The Company and Aberdeen International Inc. share common directors and officers. See also Notes 8 and 10.

A total of 3,560,000 options were granted to directors and officers of the Company during the six months ended May 31, 2008.

All of the above transactions are in the normal course of operations and are measured at the exchange amount established and agreed to by the related parties.

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# AVION RESOURCES CORP.

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## Notes to the Consolidated Financial Statements

For the six months ended May 31, 2008

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### 18. COMMITMENTS

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to \$175,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Additional minimum management contract commitments remaining under these contracts are approximately \$179,000 due within one year.

Through the Company's newly acquired subsidiary in Mali, the Company is committed to certain contractual obligations. The Company is committed to acquire electrical equipment with payments of approximately US\$1,300,000 due by the end of 2008. The Company is contracted to purchase fuel as required, however if the contract was terminated, the Company would be obligated to pay the net book value of the facilities, valued at approximately US\$1,350,000 at May 31, 2008. Additionally, the Company is obligated to pay termination fees of US\$485,000 on other existing contracts.

### 19. SEGMENTED INFORMATION

	Current Assets	Exploration Property, Plant and Equipment and Deferred Exploration Expenditures	Other Long Term Assets	TOTAL ASSETS
<u>May 31, 2008</u>				
Canada	6,464,723	711,338	143,001	7,319,062
Africa	4,637,816	18,764,630	6,927,529	30,329,975
				-
	11,102,539	19,475,968	7,070,530	37,649,037
<u>November 30, 2007</u>				
Canada	1,553,425	101,749	293,001	1,948,175
Africa	-	132,428	-	132,428
				-
	1,553,425	234,177	293,001	2,080,603

### 20. SUBSEQUENT EVENTS

On June 6, 2008, the Company granted 310,000 stock options to directors and consultants of the Company at an exercise price of \$0.51 expiring on June 6, 2013.

On July 15, 2008, the Company filed the Final Prospectus related to the May 2008 private placement, and on July 21, 2008, each Subscription Receipt was automatically converted to one common share and one-half of one purchase warrant of the Company for no additional consideration, as described in Note 13.