Consolidated Financial Statements of
TALON METALS CORP.
For the years ended
December 31, 2009 and 2008

Management's Responsibility for Financial Information

Management has prepared the information and representations in these financial statements. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in Canada, and where appropriate, reflect management's best estimates and judgment.

Talon Metals Corp. maintains adequate systems of internal accounting and administrative controls, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that relevant and reliable financial information is produced. Our independent auditors have the responsibility of auditing the consolidated financial statements and expressing an opinion on them.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee is comprised of three directors. This Committee meets periodically with management and the independent auditors to review accounting, auditing, internal control and financial reporting matters.

s/Stuart Comline, President and CEO

s/Nelson Pfaltzgraff, CFO

Auditors' Report

To the Shareholders of Talon Metals Corp.

We have audited the consolidated balance sheets of Talon Metals Corp. as at December 31, 2009 and 2008 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

s/ Zeifmans LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada
March 19, 2010 (except as to Note 16 which is at March 24, 2010)

TALON METALS CORP.

Consolidated Balance Sheets
Expressed in Canadian Dollars
December 31, 2009

	2009	2008
Assets		
Current assets		
Cash and cash equivalents (note 4)	**$2,807,195**	$4,202,562
Term deposit	**1,500,000**	1,393,784
Investments (note 5)	**528,112**	-
Loan receivable (note 8)	**-**	5,000,000
Accounts receivable and other assets	**43,888**	82,907
	4,879,195	10,679,253
Equipment (note 6)	**72,840**	86,281
Mineral properties and deferred expenditures (note 7)	**9,417,920**	8,168,925
Loan receivable (note 8)	**5,000,000**	-
Investments (note 5)	**-**	1,415,663
	$19,369,955	$20,350,122
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$920,069**	$328,053
Shareholders' equity		
Share capital and warrants (note 9)	**22,320,031**	22,320,031
Contributed surplus (note 9)	**5,263,836**	4,994,057
Deficit	**(9,133,981)**	(7,292,019)
	18,449,886	20,022,069
	$19,369,955	$20,350,122

See accompanying notes to the consolidated financial statements.

TALON METALS CORP.

Consolidated Statements of Operations and Deficit
Expressed in Canadian Dollars
Years ended December 31, 2009 and 2008

	2009	2008
Income		
Interest income	**$12,655**	$270,637
Other income	**-**	124,650
	12,655	395,287
Expenses		
Office and general	**1,043,743**	408,381
Professional fees	**869,535**	483,291
Consulting fees	**515,630**	417,420
Management fees	**270,000**	270,000
Stock based compensation	**269,779**	261,929
Travel	**109,267**	152,056
Interest and bank charges	**53,705**	103,679
Listing and filing expense	**44,982**	56,187
Write down of projects	**23,282**	2,091,053
Amortization of equipment	**20,000**	20,000
Property evaluation	**-**	96,332
Impairment of loan receivable	**-**	1,000,000
	3,219,923	5,360,328
Loss for the year before the following:	**(3,207,268)**	(4,965,041)
Foreign currency translation gain (loss)	**(20,080)**	42,043
Gain on sale of investments	**682,542**	-
Unrealized gain (loss) on investments	**702,844**	(1,910,163)
Net loss for the year	**(1,841,962)**	(6,833,161)
Deficit, beginning of the year	**(7,292,019)**	(458,858)
Deficit, end of the year	**$(9,133,981)**	$(7,292,019)
Basic and diluted loss per share (note 12)	**$(0.07)**	$(0.25)

See accompanying notes to the consolidated financial statements.

TALON METALS CORP.

Consolidated Statements of Cash Flows
Expressed in Canadian Dollars
Years ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Net loss for the year	**$(1,841,962)**	$(6,833,161)
Items not affecting cash:		
Impairment of loan receivable	**-**	1,000,000
Stock based compensation	**269,779**	261,929
Gain on sale of investments	**(682,542)**	-
Write down of projects	**23,282**	2,091,053
Unrealized loss (gain) on investments	**(702,844)**	1,910,163
Amortization of equipment	**20,000**	20,000
	(2,914,287)	(1,550,016)
Changes in non-cash working capital balances:		
Accounts receivable and other assets	**39,019**	(709)
Accounts payable and accrued liabilities	**592,016**	28,105
	(2,283,252)	(1,522,620)
Cash flows from investing activities		
Acquisition of equipment	**(6,559)**	(18,147)
Proceeds on maturity of term deposit	**1,393,784**	-
Purchase of term deposit	**(1,500,000)**	(1,393,784)
Loan receivable	**-**	(6,000,000)
Proceeds on sale of investments	**2,272,937**	-
Mineral properties and deferred expenditures	**(1,272,277)**	(1,462,583)
	887,885	(8,874,514)
Decrease in cash and cash equivalents	**(1,395,367)**	(10,397,134)
Cash and cash equivalents, beginning of the year	**4,202,562**	14,599,696
Cash and cash equivalents, end of the year (note 4)	**$2,807,195**	$4,202,562

See accompanying notes to consolidated financial statements.

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1. Incorporation and Operations

The Company has four subsidiaries incorporated in Brazil, Brazilian Resources Mineracao Ltda. ("BRM"), Brazmin Ltda. ("BRAZ LTDA"), Sergi Mineracao Ltda. ("SERGI") and Bancor Mineracao Ltda ("BANCOR"). The Company, through its subsidiaries BRM and BRAZ LTDA, has acquired rights ranging from a 65% to 100% interest in a number of prospective gold mining projects situated in Brazil. The Company, through its subsidiaries SERGI and BANCOR holds a 75 to 100% interest in various potash projects situated in Brazil.

These consolidated financial statements include the accounts of the Company's subsidiaries. All inter-company balances have been eliminated.

2. Summary of significant accounting policies

a) General -

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). Because a precise determination of assets and liabilities depends on future events, the preparation of financial statements for a period necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expense during the period. Estimates are used when accounting for items and matters such as amortization, asset valuations, impairment assessments, taxes, stock based compensation and contingencies. Actual amounts could differ from these estimates. These consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

b) Cash and cash equivalents –

Cash and cash equivalents include cash and term deposits with original maturities less than three months from the date of acquisition.

c) Equipment –

Equipment is stated at cost and amortized at 20% per annum on a declining balance. One-half of this rate is applied in the year of acquisition.

d) Mineral properties and deferred exploration costs –

Interests in mineral exploration properties are recorded at cost. Exploration expenditures, other than those of a general nature, relating to mineral properties in which an interest is retained are deferred and carried as an asset until the results of the projects are known. If a project is unsuccessful or if exploration has ceased because continuation is not economically feasible, the cost of the property and the related exploration expenditures are written off.

The cost of mineral properties includes the cash consideration and the negotiated value of shares issued on the acquisition of properties. Properties acquired under option agreements, whereby option payments are made at the discretion of the company, are recorded in the

financial statements at the time payments are made. Certain option payments that management has determined are likely to be made, have been accrued in the financial statements. The proceeds from options granted on properties are credited to the cost of the related property.

Once the feasibility of a project has been established, deferred exploration expenses and other costs are segregated as deferred development expenditures. These costs are amortized over the estimated useful life of the related mineral property as commercial production commences. If the net carrying amount of the deferred exploration expenses is not recoverable, these costs are written down to net recoverable amount of the deferred exploration expense.

The amounts shown for mineral properties and deferred exploration costs represents cost to date, and do not necessarily represent present or future values as they are entirely dependent upon the economic recovery of future reserves.

The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

e) Stock based compensation –

The Company uses the accounting standard for stock-based compensation which requires the use of the fair value method for valuing stock option grants. Under this method, compensation cost attributable to all share options granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

f) Long-term investments -

The Company's long-term investments are classified as "held-for-trading" securities and are measured at fair value. Changes in fair value are recognized in net income. Investments in securities having quoted market values and which are publicly traded on a recognized securities exchange are recorded at values based on the current bid prices.

g) Asset retirement obligation –

An asset retirement obligation is a legal obligation associated with the retirement of long-lived assets that the company is required to settle.

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred, when a reasonable estimate of the fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company does not have any significant asset retirement obligations for the years presented.

h) Income taxes –

Income taxes are accounted for using the liability method under which future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment. In assessing future tax assets, the Company considers whether it is more likely than not some portion or all of the future income tax asset will be realized and whether a valuation allowance is required.

i) Foreign currency translation –

The functional currency of the company is Canadian dollars. A portion of the Company's transactions are denominated in United States dollars and Brazilian reals. The Company's foreign subsidiaries are integrated operations and financial statements stated in foreign currencies are translated using the temporal method. Monetary assets and liabilities denominated in United States dollars or Brazilian reals are translated to Canadian dollars at the rate in effect at the balance sheet date. Non-monetary items are translated at historical rates. Revenue and expenses are translated at average rates prevailing in effect during the year. The resulting gain or loss is included in the statement of operations.

j) Basic and diluted earnings (loss) per share –

The Company uses the treasury stock method to determine the dilutive effect of the share purchase warrants and the stock options. Per share amounts have been computed based on the weighted average number of common shares outstanding for the period presented. Diluted earnings (loss) per share is calculated by adjusting outstanding shares to take into account the dilutive effect of stock options and share purchase warrants

k) Share issue costs –

Share issue costs related to equity financing are charged directly to deficit.

l) Revenue recognition –

Revenue comprises interest income and is recognized when earned. The proceeds from options granted on properties are credited to the cost of the related property, but where the proceeds exceed the property’s carrying value, any excess proceeds are credited to income.

3. Adoption of new accounting recommendations

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants' ("CICA") new Handbook Section 3064 "Goodwill and Intangible Assets". This Section replaced Section 3062 "Goodwill and Intangible Assets" and Section 3450 "Research and Development Costs", and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. On adoption of this new Standard, EIC 27 "Revenues and Expenditures during the Pre-operating Period" was withdrawn, and so various pre-production and start-up costs are required to be expensed as incurred. No material adjustments were required upon adoption of this new Standard.

On March 27, 2009, the Emerging Issues Committee issued EIC-174 "Mining Exploration Costs". The EIC provides additional guidance in light of the potential adverse impact of the current economic and financial turmoil on the carrying value of the deferred exploration costs. The EIC is effective for financial statements issued on or after the date of the date of the EIC. This EIC did not have a material impact on the Company's financial statements as it had previously recognized a significant impairment charge with respect to its exploration projects in the prior financial statements.

During 2009, the CICA amended Handbook Section 3862 "Financial Instruments – Disclosures" to require enhanced disclosures about the relative reliability of the data that an entity uses to measure the fair values of its financial instruments. Additional disclosures as required by this amendment include the classification of financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used in estimating fair values – see note 10, *Financial instruments*. These requirements have been incorporated into the consolidated financial statements.

Recent accounting pronouncements

In January 2009, the CICA issued new accounting standards, Handbook Section 1582 "Business Combinations", Handbook Section 1602 "Non-Controlling Interests", and Handbook Section 1601 "Consolidated Financial Statements", which are based on the International Accounting Standards Board's ("IASB") International Financial Reporting Standard 3, "Business Combinations". The new standards replace the existing guidance on business combinations and consolidated financial statements. The objective of the new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards shall not be adjusted upon application of these new standards. Section 1602 should be applied retrospectively except for certain items.

On April 29, 2009, the CICA amended Section 3855, "Financial Instruments – Recognition and Measurement", adding/amending paragraphs regarding the application of effective interest method to previously impaired financial assets and embedded prepayment options. The amendments are effective for interim and annual financial statements relating to fiscal years

beginning on or after January 1, 2011 with early adoption permitted. These amendments are not expected to have a significant impact on the Company's accounting for its financial instruments.

IFRS Convergence
In February 2008, the CICA announced that GAAP for publicly accountable enterprises is to be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Companies are required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from GAAP to IFRS is to be applicable to the Company's reporting for the first quarter of 2011 for which the current and comparative information will be prepared under IFRS. The Company is required to apply all of those IFRS standards which are effective for fiscal year ending December 31, 2011 and apply them to its opening January 1, 2010 balance sheet.

The Company has completed the initial diagnostic phase and will continue to update its disclosures throughout 2010 to reflect specific actions taken to facilitate changeover to IFRS effective January 1, 2011.

4. Cash and cash equivalents

	2009	2008
Cash on hand and balances with banks	$199,718	$333,090
Short term investments	2,607,477	3,869,472
	$2,807,195	$4,202,562

5. Investments

	2009	2008
Brazauro Resources Corporation (“Brazauro”)	$-	$1,283,230
Beadell Resources Limited (“Beadell”)	528,112	132,433
	$528,112	$1,415,663

The Company holds 2,450,000 shares in Beadell. This comprises less than 3% of the total issued share capital of Beadell. These shares have been valued at the closing bid price of the shares as of December 31, 2009. An unrealized gain of $395,679 has been recognized in net loss for the year ended December 31, 2009 (2008: unrealized loss of $1,283,230).

All of the Beadell shares were sold by the Company during the first quarter of 2010 for gross proceeds of approximately $724,000.

All of the Brazauro shares were sold during the 2009 year, and a realized gain of $682,542 and an unrealized gain of $307,165 were recognized in net loss for the year ended December 31, 2009.

6. Equipment

	2009	2008
Cost	$141,000	$134,441
Accumulated amortization	68,160	48,160
Net book value	$72,840	$86,281

7. Mineral properties and deferred expenditures

The properties on which the Company's subsidiaries carry out exploration and development activities are located in Brazil. The mineral properties and deferred exploration expenditures are comprised as follows:

Name of Project	**2009**	**2008**
Sergipe Potash Project	$751,687	$-
São Jorge Gold Project	6,129,137	5,938,470
Água Branca Gold Project	1,313,768	1,222,798
Campo Grande Gold Project	512,491	501,500
Other Gold Projects	710,837	506,157
	$9,417,920	$8,168,925

a. Sergipe Potash Projects

This project comprises ten onshore and two offshore potash prospects in the Sergipe and Algoas States of Brazil. Exploration licenses are held for a total area of 91,948 hectares (227,207 acres) and applications for licenses are pending for a further 22,392 hectares (55,332 acres).

On May 22, 2009 the Company concluded an agreement with Kmine Holdings Ltd (“Kmine”). a private company, to acquire a 100% interest in BANCOR. The Company has determined that this transaction does not meet the definition of a business combination in accordance with GAAP. Under the terms of the agreement with Kmine, cash payments of US$20 million, are payable over 10 years, of which US $375,000 was paid on closing of the agreement and is payable again at the commencement of the second year (May 2010). As from the end of the second year, Talon can make payments part in Talon shares (50% of each payment) and part in cash. Talon may withdraw from the agreement at any time and return the licenses. As such, the full amount payable as per above, has not been set up as a liability.

A payment of US$75,000 was made to Ana Palmira in October 2009 for additional Potash prospects. The Company has determined that this transaction does not meet the definition of a business combination in accordance with GAAP. A further US$100,000 is payable on or before each of September 30, 2010, 2011 and 2012. A payment of US$125,000 is due on or before September 30, 2013 and finally, a payment of US$6,000,000 or shares representing 25% of the shares of Sergi Mineracao Ltda, is to be made on or before October 31, 2014. The Company can withdraw from this agreement at any time and return the licenses. As such, the full amount payable as per above, has not been set up as a liability.

On December 7, 2009 the Company concluded an agreement in which it has a right to acquire a 75% interest in a subsidiary of Lara Exploration Ltd. (“Lara”), that holds all 13 of Lara’s potash exploration licences (including five applications for potash exploration licences), which are located in Sergipe State, Brazil. The Company has determined that this transaction does not meet the definition of a business combination in accordance with GAAP. To exercise its option, Talon must make cash payments of US$0.5 million, as well as undertake a US$4 million work program to be managed and funded by Talon. Both the cash payments and work commitments are on an annual basis, spread over four years. The work program includes the drilling of a minimum of five holes over four years. In addition, Talon is required to complete a Resource Report on these licence areas by late 2014.

All of the above commitments are naturally subject to the Company obtaining the necessary financing.

b. São Jorge Gold Project

On July 16, 2004 the Company entered into an agreement whereby BRM acquired a 100% interest in São Jorge exploration license and mineral rights located in Pará State, Brazil, within the Tapajós Gold District, from Centaurus Mineração e Participação Ltda (“Centaurus”). The license has an initial term of three years from the date of publication of the license on March 2, 2003. An application for the extension of the license for a second term of three years was submitted to the Departamento Nacional de Produção Mineral ("DNPM") in December 2005.

On April 22, 2005 the Company entered into an agreement with Jaguar Resources do Brasil Ltda whereby Talon acquired a 100% interest in three adjacent claims in the São Jorge area. On May 13, 2005 an agreement was made with Tapajós Mineração and a Mr. Pacheco whereby Talon acquired a 100% interest in certain adjacent claims within the São Jorge area. One of the vendors of the latter claims is entitled to receive a bonus at the time the project reaches development stage. The bonus amount corresponds to 1% of the proven mineable reserves as demonstrated by a feasibility study relating to the São Jorge area. This study should be prepared in accordance with internationally accepted practices and be compliant with NI 43-101. This 1% bonus is purchasable by the Company on or before September 30, 2006 for an amount of US $2,500,000. Talon has elected not to exercise the purchase of this bonus. In addition, cash option payments totaling US $440,000 were payable, all of which have been made. One of the acquired properties has a residual royalty amounting to 2% of gross proceeds from any mining operation, 1.5% of which is purchasable at any time for US$500,000. The total area of São Jorge including all the above is 57,420 hectares.

On May 5, 2006, the Company issued a press release in respect of certain alleged irregularities affecting Licence #024, being one of the licences that were obtained from Centaurus in 2004. In November 2008, Talon was notified that Licence #024 will be nullified by the DNPM, and as such Licences #058 and #275, each owned 100% by the Company, would prevail and be granted priority rights over the São Jorge deposit and a large area surrounding such deposit.

c. Água Branca Gold Project

On July 16, 2004 the Company acquired through BRAZ LTDA, a 100% interest in the underlying mineral rights of Água Branca, a 9,356 hectare property, located in Pará State, Brazil within the Tapajós Gold District, from an independent vendor and Centaurus. These licences have been converted to exploration licences and transferred into the name of Brazmin Ltda. Nine payments totaling approximately US$150,000 have already been made to the vendors. A final option payment of US$150,000 was due in March 2009, conditional on the transfer of licenses for this portion of the property to Talon. These licenses have not yet been transferred and consequently Talon has not yet made the final payment. The property area is subject to a 2% net smelter return royalty, with a buy out for US$2,000,000.

On December 10, 2009, the Company concluded an agreement with Brazauro, whereby Brazauro has the option to earn a 100% interest in the 9,356 hectare Agua Branca gold project.

Under the terms of the Agreement, Talon received an initial payment of US$60,000 immediately and a further US$60,000 is receivable upon the transfer of the licences to Brazauro. In order to exercise its option, Brazauro is required to make additional payments to Talon of US$130,000 on or before December 31, 2010 and a further payment of US$1.87 million on or before September 30, 2011. In addition, Brazauro must spend US$1 million on exploration within two years of the transfer of the licences, including the completion of a minimum of 2,000 meters of core sample drilling in the first year.

Talon is also entitled to a 2% net smelter royalty ("NSR") which Brazauro can repurchase for US$2 million. If the payments are not made or the exploration program is not completed Brazauro forfeits its ownership rights.

d. **Campo Grande Gold Project**

The Campo Grande project is located in the Iron Quadrangle gold camp, approximately 110 km west of Belo Horizonte, the capital of Minas Gerais State, Brazil. This project consists of three exploration licenses covering 2,611 hectares, which are owned 100% by Company subsidiaries. An NSR of 1.5% is held by a third party on one of the three licenses.

e. **Other Gold Projects**

The Company owns or has interests in several other gold projects in Brazil.

Juruena

In 2007 the Company applied for the rights to the Juruena Gold Project ("Juruena") and in April 2009, an exploration license was formally granted to the Company.

On February 12, 2010 the Company concluded an agreement with Gungnir Resources Inc. ("Gungnir"), whereby Gungnir has been granted an option to earn up to a 75% interest in Juruena.

Under the terms of the agreement, Gungnir is required to make an initial payment of US$150,000. In order to exercise its option, Gungnir is required to make additional payments of US$300,000 on or before February 11, 2011, US$350,000 on or before February 11, 2012, US$450,000 on or before February 11, 2013 and US$500,000 on or before February 11, 2014, for a total option payment to the Company of US$1.75 million.

In addition, Gungnir is required to complete an exploration program and a feasibility study, at their cost, on or before December 31, 2014. Subject to certain conditions, the deadline for the feasibility study may be extended to December 31, 2016. On Gungnir fulfilling all the terms of the agreement, the Company will retain a 25% interest in Juruena.

Prior to completing the feasibility study, Gungnir may acquire a 51% interest in Juruena by spending at least US$15 million on exploration activities on the project and making any remaining option payments to the Company.

Batistao

The Batistão Gold Project comprises a 20,000-hectares property, which is 100% owned by BRAZ LTDA. The project was secured by BRAZ LTDA in 2007 and is located on the Peixoto de Azevedo Mineral Province on the northern portion of Mato Grosso State, Brazil.

Although the Company believes it has taken reasonable measures to ensure proper title to its mineral properties in which it has an interest, there is no guarantee that title to any of its mineral properties will not be challenged or impaired. Third parties may have valid claims underlying portions of the Company's interests, including prior unregistered liens, agreements, transfers or claims, including native land claims, and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

8. Loan receivable

During 2008, the Company entered into a heads of agreement with Saber Energy Corp. (“Saber”), under which they have agreed to negotiate a pre-merger agreement in respect of a potential business combination. In addition, Talon loaned $6 million to Saber. The loan was repayable by March 24, 2009, but was extended to January 15, 2010 and again to March 31, 2010. The interest rate was 18% per annum to July 24, 2009, and thereafter 25% per annum. The loan was secured by the property and assets of Saber. An allowance for impairment of the loan of $1 million has been set up (loan therefore valued at $5 million in the Company’s balance sheet at December 31, 2009 and 2008), based on management’s estimate of the net recoverable amount of the loan at those dates. As such, no interest has been accrued. This loan was cancelled upon the closing of the merger in March 2010, as described in note 16.

The Company and Saber share one common director who directly or indirectly holds (or has control or direction over) approximately 5% of the outstanding shares of the Company, and approximately 8% of the outstanding shares of Saber. Both Talon and Saber have an administrative services agreement with Tau Capital Corp. (“Tau”). Management has determined that the Company and Saber are not related parties under GAAP. However, in light of the

foregoing, an independent committee of the board of directors of Talon was formed and it reviewed and approved the loan to Saber.

The Company received 6,000,000 Saber warrants (the "Value Warrants") in September 2009, in accordance with the terms of the loan agreement, upon completion by Saber of a round of financing. The warrants' exercise price was US$0.06 per common share of Saber. The warrant expiry date was the date that is 2 years following the date of the closing of a Saber going public transaction. The Company has determined that the value of the warrants was not material. These warrants were cancelled upon the closing of the merger in March 2010.

9. Share capital and warrants

The Company has 100,000,000,000 authorized common shares of no par value. The following details the changes in the Company's share capital for the two years ended December 31, 2009:

	Number of shares	Number of warrants	Amount
Balance, January 1, 2008	27,054,222	2,500,000	$23,932,221
Warrants expired	-	(2,500,000)	(1,612,190)
Balance, December 31, 2008 and 2009	27,054,222	-	$22,320,031

The fully diluted share capital of the Company is 30,239,222 common shares.
This is comprised of the shares as above as well as the options as described below.

Stock Options

The Company has an incentive stock option plan which provides for the granting of options for the benefit of employees and officers. The exercise price for the options is equivalent to the market price during the session immediately preceding the date on which the option is granted. The terms and conditions of the options are determined by the Board of Directors. All options are granted for a term of five years from the grant date. The total number of options that can be granted is limited to 12.5% of the issued and outstanding share capital of the Company.

a) During the second quarter of 2009, the Company issued a total of 644,500 stock options to certain of its officers and employees. The options expire in June 2014 and vest immediately. The exercise price is $0.385 per share. All these options are outstanding as at December 31, 2009.

   Estimated fair value of stock options
   The Company determined the fair value of the 644,500 stock options issued using the Black-Scholes option pricing model under the following assumptions:

Expected life	5 years
Fair value ($/option)	$0.37
Risk-free interest rate	2.00%
Volatility	179%
Dividends	0%

b) During the first quarter of fiscal 2008, the Company issued a total of 200,000 stock options to certain of its officers and employees. The options expire in February 2013 and vest immediately. The exercise price is $0.57 per share. All these options are outstanding as at December 31, 2009.

Estimated fair value of stock options
The Company determined the fair value of the 200,000 stock options issued using the Black-Scholes option pricing model under the following assumptions:

Expected life	5 years
Fair value ($/option)	$0.47
Risk-free interest rate	3.80%
Volatility	117%
Dividends	0%

A summary of options outstanding as at December 31, 2009 and 2008 and changes during the years then ended is presented below:

	2009		2008	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding – beginning of year	2,540,500	$1.20	2,340,500	$1.26
Granted	644,500	0.385	200,000	0.57
Balance, December 31, 2009	3,185,000	1.04	2,540,500	$1.20

Total outstanding (December 31, 2009)			Total exercisable (December 31, 2009)	
Options	Weighted Average Exercise Price	Expire	Options	Weighted Average Exercise Price
1,495,000	$1.25	2010	1,495,000	$1.25
230,500	2.00	2011	230,500	2.00
200,000	1.00	2011	200,000	1.00
50,000	0.98	2012	50,000	0.98
365,000	1.00	2012	365,000	1.00
200,000	0.57	2013	200,000	0.57
644,500	0.385	2014	644,500	0.385
3,185,000	$1.04		3,185,000	$1.04

The total potential proceeds to the Company should all outstanding options be exercised would be $3,305,882

Contributed Surplus

A summary of the changes in contributed surplus for the two years ended December 31, 2009, is as follows:

Balance – January 1, 2008	$3,119,938
Options granted	261,929
Warrants expired unexercised	1,612,190
Balance – December 31, 2008	4,994,057
Options granted	269,779
Balance – December 31, 2009	$5,263,836

10. Financial instruments

	2009	2008
Held for trading, measured at fair value:		
Cash and cash equivalents	$2,807,195	$4,202,562
Term deposit	1,500,000	1,393,784
Investments	528,112	1,415,663
Loans and receivables, measured at amortized cost:		
Accounts receivable	43,888	82,907
Loans receivable	5,000,000	5,000,000
Financial liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	920,069	328,053

The Company's financial instruments include cash and cash equivalents, term deposit, accounts receivable, loans receivable, investments, and accounts payable and accrued liabilities. The fair value of these financial instruments approximates carrying value.

Fair Value Hierarchy

The fair value hierarchy in Section 3862 establishes three levels to classify inputs to the valuation techniques used to measure fair value. Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly, such as as prices, or indirectly (derived from prices). Level 3 inputs are unobservable (supported by little or no market activity), such as non-corroborative indicative prices for a particular instrument provided by a third party.

The Company has classified the above financial assets and liabilities as follows:

Level 1
(i) Cash and cash equivalents
(ii) Term deposits
(iii) Investments

Level 2

No items are included in this category

Level 3

No items are included in this category.

There were no transfers between Level 1 and 2 or any transfers into or out of Level 3 during the year.

Risks

The Company is exposed to various risks related to its financial assets and liabilities. These risk exposures are managed on an ongoing basis. The exploration and development of mineral deposits involves significant financial risks. The success of the Company will be impacted by a number of factors including financing, currency, exploration and extraction risks, political uncertainty, regulatory issues and environmental and other regulations.

Liquidity Risk -

The Company's approach to liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company has sufficient cash to meet all expected obligations at December 31, 2009.

Market Risk -

Market risk is the risk that changes in market prices including foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments. The Company records its investments using the year end bid price. Changes in the bid price will affect the fair value of these investments. The Company is minimally exposed to movements in the United States dollar and the Brazilian real as transfers are made to the Brazilian subsidiaries in United States dollars and then converted by them to Brazilian reals. In addition, the Company's investment in Beadell is denominated in Australian dollars. The Company is exposed to interest rate risk only to the extent of its interest income on Treasury bills. These are typically short-term investments with a term of less than ninety days. The Company has no interest bearing debt.

Credit risk -

Cash and short–term investments are held in treasury bills and are therefore not exposed 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 one year period: Interest bearing bank accounts are at a variable rate and investments maturing in less than 1 year are subject to new interest rates at the time of renewal, and therefore, may be impacted. Sensitivity to a 1% change in interest rates would not have a material effect on net income.

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11. Capital management

The Company's capital management objectives are to maintain financial flexibility in order to preserve its capacity to meet its financial commitments and to meet its potential obligations resulting from internal growth and acquisitions. The Company defines capital as Shareholders' equity which at December 31, 2009 was $18,449,886 (December 31, 2008:$20,022,069).

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, it may issue new shares. The Company is currently meeting all its financial commitments. There have been no changes in the Company's approach to capital management during the period. The Company is not subject to any external capital requirements.

12. Loss per share

The following table sets forth the computing of basic and diluted loss per share:	**2009**	2008
Numerator for basic and diluted loss per share available to common shareholders	**$(1,841,962)**	$(6,833,161)
Denominator for basic and diluted loss per share	**27,054,222**	27,054,222
Basic and diluted loss per share	**$(0.07)**	$(0.25)

13. Income taxes

As the Company is incorporated under the BVI Business Companies Act, 2004, it is exempt from tax in the British Virgin Islands. The Brazilian subsidiaries have loss carry forwards of approximately $469,703 which are available to shelter future taxable income. These losses have no expiry date but can only be offset against taxable income to the extent of 30% in a year.

The Company has taken a full valuation allowance against the future tax asset relating to these losses, and accordingly, no future income tax asset has been recognized in these financial statements.

The difference between the expected tax recovery at statutory rates and the actual tax recovery of $nil, is due to the tax effect of losses not booked in the Brazilian subsidiaries, and the exempt status of the parent company.

14. Related party transactions and balances

The Company has entered into an administrative service agreement (the "Agreement") with Tau. Until December 6, 2009, a director of the Company, who, at that time, was also a 5% shareholder of the Company, was the controlling shareholder of Tau. The Agreement terminates on July 31, 2009, but automatically renews on the same terms and conditions for a further one year period at a time. The terms of the Agreement require the Company to pay Tau a monthly service fee of $22,500. For the year ended December 31, 2009, fees paid to Tau for these services were $270,000 (2008: $270,000). The Agreement has been amended such that post-merger the monthly service fee for the merged Company will be $33,000. This agreement terminates on December 31, 2010.

Consulting fees paid to officers of the Company for the year ended December 31, 2009 were $249,145 (2008:$261,001). In addition an amount of $139,950 (2008:$154,729) was charged to the Company by Tau in respect of services rendered outside of the Agreement. Consulting fees paid to a Company owned by an officer of the Company for the year ended December 31, 2009 were $141,898 (2008:$55,719).

Accounts receivable and other assets at December 31, 2009 include $22,500 paid to Tau for administrative and advisory fees for January 2010 (December 31, 2008: $22,500).

Accounts payable at December 31, 2009 include $34,821 payable to an officer of the Company for consulting fees for October to December 2009. (2008: $26,459).

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

15. Geographic information

Interest income is earned in Canadian dollars. $67,721 (2008 - $79,458) of the Company's equipment is in Brazil, with the remainder being in Canada. All of the mining properties are located in Brazil.

16. Subsequent events

On March 24, 2010 the Company and Saber completed a merger pursuant to the pre-merger agreement entered into on September 1, 2009. The resulting company (" MergeCo") is governed by the provisions of the BVI Act and retains the corporate name, "Talon Metals Corp.". The MergeCo common shares continue to be listed and posted for trading on the Toronto Stock Exchange under the symbol "TLO".

The merger was effected as follows:

(a) each outstanding Company share was converted into one MergeCo share

(b) each outstanding Company option, without exchange of the option certificate or agreement,

becomes exercisable to purchase one MergeCo share at an exercise price per MergeCo share equal to the exercise price of the Company option so exercised;

(c) each outstanding value warrant issued by Saber to the Company was cancelled;

(d) each outstanding Saber share was exchanged for 0.17685 of a MergeCo share; and

(e) transaction costs incurred have been expensed in the statement of operations, and future costs will continue to be expensed in the same manner.

The Company is currently evaluating the accounting for the merger. The Company expects that the net assets of the Company will likely be recorded in the accounts of MergeCo at their carrying values and the net assets of Saber recorded at their fair market values. For accounting purposes, the measurement of the purchase consideration is to be based on the fair value of the shares of the Company. The Company is to present a preliminary purchase allocation of net assets acquired in its interim financial statements for the three month period ending March 31, 2010, and is to incorporate the operations of Saber from the effective date of the merger. Post merger, the Talon shareholders are to hold 27,054,222 shares in MergeCo, whilst the Saber shareholders are to hold 36,823,728 shares of MergeCo.