



May 12, 2010

Dear Shareholders,

The past year has been one of consolidation and reorganization for your company. Although the uncertainty of the markets persisted during the first half of the year, the market for the mineral exploration sector gradually improved thereafter, as stability returned and demand for many commodities recovered, along with their prices. Talon took this opportunity to reorganize the company and to ensure that we focus on assets that have the greatest potential to add value for shareholders.

At the outset, it is the pleasure of Talon's directors to welcome shareholders of Saber Energy Corp., following the merger of the two companies that was completed in March 2010.

In terms of reviewing your company's activities, it would be appropriate to report on progress since my letter to shareholders of a year ago. At that time, I indicated that we would consider diversifying your company's commodity focus in circumstances where it was warranted and where we identified potential. Accordingly, in the past year Talon acquired a substantial interest in a number of potash properties in the Sergipe Alagoas basin in Brazil, the only area of potash production in the country. By the end of the year, we had a very significant land holding of 114,340 hectares (including areas where rights have been granted and those under application) over 12 prospective potash targets in what we have termed our Sergipe potash project.

***"IN THE PAST YEAR TALON ACQUIRED A SUBSTANTIAL INTEREST IN A NUMBER OF POTASH PROPERTIES IN BRAZIL"***

In last year's letter, I also emphasized that we did not believe that some of our Brazilian gold properties would likely deliver a satisfactory return on investment. We are pleased to report that we have successfully reduced our interest in some of these properties, and entered into agreements to divest of others.

Although our reorganization process still has some way to go to completion, we are now well set to undertake more substantial exploration in the coming year, particularly on both the potash and Saber projects, as well as at the São Jorge gold project.

#### **THE SERGIPE POTASH PROJECT**

The business case for Talon's acquisition of the portfolio of potash properties that make up the Sergipe potash project includes the following three factors: the generally positive outlook for fertilizers in global markets, of which potash is a principal component; the fact that there is a concerted drive in Brazil to increase domestic potash production to reduce the reliance on the very significant imports of potash into the country; and the increase in both potash demand and prices in recent years.

While potash prices had been anchored in the US\$200 a tonne range for many years, in 2008 prices increased significantly to the US\$900 a tonne range. Although the price has since retreated somewhat to the US\$400 to US\$500 a tonne range, the outlook remains positive for the elevated prices to persist into the future. Brazil, which imports some 90% of its potash requirements of 7.5 million tonnes per annum, is the world's third largest consumer of potash. At present there is only one producing potash mine, the Taquari Vassouras mine, operated by Vale and situated in the same area and geological environment as Talon's recently acquired properties in the Sergipe Alagoas basin.

While the area of Talon's Sergipe potash project has not experienced much exploration specifically for potash to date, it has the advantage of a very large and comprehensive database of geological information and intersections of potash mineralization, based on the extensive drilling and seismic surveys done in the area by the oil and gas industry. Our project also stands to benefit from its close proximity to the sizeable Brazilian market for potash and the excellent infrastructure available to access this market.

***"OUR SERGIPE PROJECT STANDS TO BENEFIT FROM ITS CLOSE PROXIMITY TO THE SIZEABLE BRAZILIAN MARKET FOR POTASH"***

Talon's entry into potash exploration commenced in May 2009, when it entered an agreement to acquire a 100% interest of the private Brazilian company, Bancor, through staged payments. Bancor held the rights for 17,473 hectares of ground which is highly prospective for potash deposits. Since then, Talon has increased the area of potash exploration holdings significantly, and acquired the rights

to earn a 75% interest in the potash properties held by a subsidiary of Lara Exploration Ltd (or 21,688 hectares). These properties are immediately north and north east of the Taquari Vassouras potash mine. Through additional agreements with third parties and applications for exploration rights by Talon, your company now has a very considerable landholding of 114,340 hectares in 10 onshore targets and two offshore targets, all in the Sergipe Alagoas basin.

Although the original intention was to commence field exploration immediately following the Bancor acquisition, our plans were modified with the identification of the large data base that we could acquire. This data base included results from drilling and seismic surveys undertaken in the past by the oil and gas industry and includes 11 drill intersections with potash mineralization. Much of this data is relevant to the evaporite, or salt sequence, which host the potash deposits in the Sergipe Alagoas basin. We have spent some nine months compiling and interpreting data from 286 drill holes and 234 line kilometers of seismic data.

Talon engaged Stratageo Soluções Tecnológicas Ltda (“Stratageo”), Brazilian based consultants who specialize in the processing and interpretation of this type of data, to assist with this major undertaking. Subsequently, we engaged Ercosplan Ingenieurgesellschaft Geotechnik und Bergbau mbH (“Ercosplan”), a German consulting company specializing in potash deposits, to provide an independent status report on Talon’s potash properties. They also assisted Talon’s management to quantify and prioritize the targets, based on the data processed by management and Stratageo. Ercosplan examined many of the 11 drill holes in which potash mineralization was intersected as either sylvinitic or carnallitic, in multiple seams, which are within, or close to, Talon’s properties.

Ercosplan’s report was completed in April 2010 and confirmed the views of Talon’s management that the Talon properties potentially hold significant potash mineralization and there is obvious justification for further drilling to confirm and extend the potash mineralization. The depth of the potash mineralization ranged between 600 metres and 1,600 metres. Furthermore, Ercosplan estimated the order of magnitude of exploration target sizes that may be anticipated within Talon’s properties to include up to approximately 450 million tonnes of sylvinitic mineralization, and up to approximately 1.1 billion tonnes of carnallitic

mineralization, subject to further successful drilling.<sup>1</sup> The targets identified by Ercosplan will be the priority for the forthcoming drilling program.

## THE GOLD PORTFOLIO

Although the past year has seen less prospecting activity on our gold projects than previous years, management has made progress in reorganizing the projects in the gold portfolio, with an aim of obtaining the optimal return for shareholders. As we believe that further resources may be identified at the **São Jorge** gold project, further exploration is planned in the extension areas of the Wilton pit where a resource of 343,000 ounces in the indicated category at 1.3 g/t gold (8.3 million tonnes) has been delineated, which is augmented by the 458,000 ounces of inferred resource at 1.1 g/t gold (12.5 million tonnes).<sup>2</sup>

At the **Água Branca** gold project, Talon concluded an agreement whereby Brazauro Resources Corporation (“Brazauro”) has an option to acquire a 100% interest in this 9,356 hectare project through staged payments of US\$3.12 million, subject to Brazauro committing a minimum of US\$1 million on exploration expenditure in the two year option period.

At the 25,150 hectare **Juruena** gold project, we undertook a rigorous assessment of this project once we had received the exploration licences and concluded that this project was unlikely to provide an adequate return to our shareholders. Subsequently we have entered into an agreement with Gungnir Resources Inc. (“Gungnir”) whereby Gungnir may earn a 75% interest in the project through committing to complete a feasibility study and making staged payments to Talon of US\$1.75 million.

Talon retains its 100% interest in the 2,611 hectare **Campo Grande** and the 20,000 hectare **Batistão** projects in Brazil, however Talon is seeking farm-out partners for both.

## THE SABER GAS PROJECT

On March 24, 2010 the merger between Talon and Saber Energy Corp. was concluded, pursuant to the loan and premerger agreements initially entered into between the two companies on September 25, 2008. As a result, Talon now has interests in three blocks of exploration licenses which are targeting the coal bed methane and shale gas (or “unconventional gas”) deposits in the Karoo age rocks in Botswana, Africa. These three blocks cover a total area of 12,000 square kilometers and are estimated to contain a contingent gas resource of 23 trillion cubic feet (“tcf”) on a best estimate basis, as reported by Gustavson and Associates, independent reservoir engineers and geological consultants, in a Canadian National Instrument 51-101 resource report.<sup>3</sup>

**“ERCOSPLAN’S REPORT CONFIRMED THAT TALON’S PROPERTIES POTENTIALLY HOLD SIGNIFICANT POTASH MINERALIZATION”**

**“THE SABER GAS PROJECT IS ESTIMATED TO  
CONTAIN A CONTINGENT GAS RESOURCE OF  
23 TCF”**

During 2009, Saber Energy Corp. entered into a joint venture agreement with Tlou Energy. Tlou Energy is a joint venture between Walcott Capital and Mitchell Energy, both unconventional gas specialists, with a successful track record in this field in Australia. In terms of the agreement, Tlou Energy may earn an ownership interest of between 10% and 75% in each of the three blocks, in return for fully funding an exploration program of 12 drill holes as well as undertaking other commitments.

Tlou Energy, who are managing the project, commenced exploration drilling in October 2009, initially at the Masama block where Tlou Energy has reported that five holes were completed by March 2010. While drilling continues and the results of the testwork from the completed holes are still to be received, it is encouraging that the coal seams and shales hosting the shale gas have been intersected, as anticipated. This drilling program is expected to be concluded towards the end of 2010.

#### **NEW PROJECTS**

During the year, Talon’s management continued to review new opportunities focused on those commodities where demand and pricing is underpinned by a strong market, particularly where such strength appears sustainable. The projects reviewed included those where there is a possibility of near term cash generating capacity and large projects which have the potential of adding considerable value through exploration. The review of several projects remains ongoing.

#### **INVESTMENTS AND TREASURY**

During the year there was a substantial increase in the value of the 250,000 shares of Beadell Resources Limited (ASX:BDR) that Talon held. Accordingly, the company decided to sell these shares realizing gross proceeds of \$724,000. At the end of April 2010, Talon’s treasury stood at \$4 million (April 2009 - \$7 million).

#### **REORGANIZATION**

Although considerable progress was made during the year in the reorganization of the company’s assets, the completion of the merger with Saber and the acquisition of a large land holding for potash in the Sergipe Alagoas basin necessitates that the reorganizing process continue. Management is currently considering a number of alternatives to ensure that each of the diverse groups of assets held by your company are structured optimally in order to ensure value for shareholders.

#### **THE YEAR AHEAD**

Whereas further work is planned to extend resources at the **São Jorge gold project**, this will be integrated with the reorganization envisaged and with discussions that are in progress with third parties on Talon’s gold projects.

We expect that considerably more field exploration and drilling will be undertaken at the **Sergipe potash project** in 2010, but here we are also mindful of the high unit cost of exploration on potash mineralization and the high capital demands of mine development for potash projects. This is therefore an area where we seek to refine the optimum position for Talon on this project.

Similarly, while we await the results of the current drilling program on the **Saber gas project** in Botswana, we will consider the optimal structure for these assets.

Regarding new projects, as this letter goes to print we are in negotiations with third parties on one such opportunity.

In conclusion I would like to express appreciation to Talon’s shareholders for their support during the year. I would also like to recognize the role the board has played in guiding the strategy of the company and providing valuable advice on the reorganization of the company’s assets and in the merger with Saber Energy Corp. As always Talon’s management in Brazil have worked tirelessly and achieved much in the past year that it is anticipated will lay the foundation for the years ahead.



Sincerely,  
Stuart Comline  
President and CEO

## **FORWARD LOOKING INFORMATION**

This letter contains certain “forward-looking statements”. All statements, other than statements of historical fact, that address activities, events or developments that Talon believes, expects or anticipates will or may occur in the future are forward-looking statements. Forward-looking statements in this letter include, but are not limited to, statements regarding mineral resources, gas resources, the price of potash, Talon’s exploration and development plans, exploration results, potential mineralization, potential resources, and possible transactions). These forward-looking statements reflect the current expectations or beliefs of Talon based on information currently available to the company.

Please see the section entitled “Forward-Looking Information” in Talon’s management’s discussion and analysis dated March 29, 2010, which section is incorporated by reference herein, for details regarding the factors and assumptions that underlie the forward-looking information included in this letter and the risks and uncertainties involved in such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, Talon disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although Talon believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.

## **FOOTNOTES**

<sup>1</sup>The potential quantity of potash is conceptual in nature as there has been insufficient exploration to define a mineral resource and it is uncertain if further exploration will result in the target being delineated as a mineral resource. The potential quantities of target mineralization disclosed have been determined based on sylvinitic and carnallitic logged in drill holes or identified in down hole geophysical logs and applying an area of influence of 1,500 metres around the individual mineralized drill holes within the Talon properties. No grades have been provided as Talon has not been able to undertake independent re-assaying of the core and therefore the estimated quantities do not represent a mineral resource. Further drilling and assaying is required to confirm the historical data.

<sup>2</sup>Talon’s exploration programs in Brazil are managed by Talon’s VP Exploration, Mr. Paulo Ilidio de Brito (Member: AusIMM), who is a “Qualified Person” within the meaning of Canadian National Instrument 43-101 (“NI 43-101”). The “Qualified Person” who prepared the mineral resource estimate for São Jorge is Mr. Bernardo Viana (Member: AusIMM). Mr. Viana is independent of Talon and an employee of Coffey Mining. Additional information with respect to the São Jorge NI 43-101 mineral resource estimate is contained in a technical report dated September 4, 2008 and entitled “Talon Metals Corp.: São Jorge Gold Project, Para State, Brazil, National Instrument 43-101 Second Technical Report” which has been filed on SEDAR and may be accessed at [www.sedar.com](http://www.sedar.com).

<sup>3</sup>Contingent resources are defined as those quantities of gas estimated on a given date to be potentially recoverable from known accumulations, but are not currently economic. There is no certainty that it will be commercially viable to produce any portion of the resource. The Gustavson resource report was dated September 1, 2009. Talon has a 90% interest in the Kalahari block, a 21% interest in the Masama block and a 25% interest in the Kweneng block. Additional information with respect to the resource report can be found in Appendix “D” Saber Energy Corp. Information Brochure to the management information circular of Talon Metals Corp. dated February 2, 2010, which is available on SEDAR profile at [www.sedar.com](http://www.sedar.com).