



Unaudited Consolidated Financial Statements of  
**TALON METALS CORP.**  
for the three and nine months ended  
September 30, 2009 and 2008

These unaudited financial statements of Talon Metals Corp. (the "Company") have not been reviewed by the auditors of the Company. This notice is being provided in accordance with Section 4.3(3)(a) of National Instrument 51-102 Continuous Disclosure Obligations

# TALON METALS CORP.

## Consolidated Balance Sheets Expressed in Canadian Dollars

	<u>September 30,</u> <u>2009</u> <u>Unaudited</u>	<u>December 31,</u> <u>2008</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents (note 4)	<b>\$1,684,179</b>	\$4,202,562
Term deposit	<b>3,108,851</b>	1,393,784
Loans receivable (note 5)	<b>5,543,050</b>	5,000,000
Accounts receivable and other assets	<b>58,640</b>	82,907
	<b>10,394,720</b>	10,679,253
Equipment (note 6)	<b>77,840</b>	86,281
Mineral properties and deferred expenditures (note 7)	<b>9,086,102</b>	8,168,925
Investments (note 8)	<b>255,486</b>	1,415,663
	<b>\$19,814,148</b>	\$20,350,122
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	<b>\$853,493</b>	\$328,053
<b>Shareholders' equity</b>		
Share capital and warrants (note 9)	<b>22,320,031</b>	22,320,031
Contributed surplus (note 9)	<b>5,263,836</b>	4,994,057
Deficit	<b>(8,623,212)</b>	(7,292,019)
	<b>18,960,655</b>	20,022,069
	<b>\$19,814,148</b>	\$20,350,122

See accompanying notes to the consolidated financial statements.

# TALON METALS CORP.

## Consolidated Statements of Operations and Deficit Expressed in Canadian Dollars

	<u>Three months</u> <u>ended</u> <u>September 30</u> <u>2009</u> <u>Unaudited</u>	<u>Three months</u> <u>ended</u> <u>September 30</u> <u>2008</u> <u>Unaudited</u>	<u>Nine months</u> <u>ended</u> <u>September 30</u> <u>2009</u> <u>Unaudited</u>	<u>Nine months</u> <u>ended</u> <u>September 30</u> <u>2008</u> <u>Unaudited</u>
Income				
Interest income	<b>\$2,281</b>	\$66,901	<b>\$11,343</b>	\$259,019
Expenses				
Professional fees	<b>385,726</b>	78,398	<b>519,043</b>	256,775
Office and general	<b>659,251</b>	95,371	<b>893,659</b>	310,135
Consulting fees	<b>139,042</b>	52,797	<b>392,632</b>	193,552
Management fees	<b>67,500</b>	67,500	<b>202,500</b>	202,500
Travel	<b>33,158</b>	30,142	<b>50,406</b>	131,193
Interest and bank charges	<b>6,209</b>	33,135	<b>41,937</b>	60,834
Stock based compensation	<b>6,083</b>	35,570	<b>269,779</b>	240,637
Amortization of equipment	<b>5,000</b>	5,000	<b>15,000</b>	15,000
Listing and filing expense	<b>4,454</b>	8,130	<b>33,501</b>	56,187
Write down of projects	-	711,327	<b>23,282</b>	711,327
	<b>1,306,423</b>	1,117,370	<b>2,441,739</b>	2,178,140
Loss for the period before the following:	<b>(1,304,142)</b>	(1,050,469)	<b>(2,430,396)</b>	(1,919,121)
Foreign currency translation gain (loss)	<b>(22,329)</b>	(9,707)	<b>(13,557)</b>	43,911
Gain on sale of investments	-	-	<b>682,542</b>	-
Unrealized gain (loss) on investments	<b>84,542</b>	(3,125,018)	<b>430,218</b>	(2,015,994)
Net loss for the period	<b>(1,241,929)</b>	(4,185,194)	<b>(1,331,193)</b>	(3,891,204)
Deficit, beginning of the period	<b>(7,381,283)</b>	(164,868)	<b>(7,292,019)</b>	(458,858)
Deficit, end of the period	<b>\$(8,623,212)</b>	\$(4,350,062)	<b>\$(8,623,212)</b>	\$(4,350,062)
Basic and diluted loss per share (note 12)	<b>\$(0.05)</b>	\$(0.16)	<b>\$(0.05)</b>	\$(0.14)

See accompanying notes to the consolidated financial statements.

# TALON METALS CORP.

## Consolidated Statements of Cash Flows Expressed in Canadian Dollars

	<u>Three months ended September 30 2009 Unaudited</u>	<u>Three months ended September 30 2008 Unaudited</u>	<u>Nine months ended September 30 2009 Unaudited</u>	<u>Nine months ended September 30 2008 Unaudited</u>
<b>Cash flows from operating activities</b>				
Net loss for the period	\$(1,241,929)	\$(4,185,194)	\$(1,331,193)	\$(3,891,204)
Items not affecting cash:				
Loss (gain) on sale of investments	-	-	(682,542)	-
Non cash interest on loan	-	(5,918)	-	(5,918)
Foreign currency translation gain on loan	-	-	(20,515)	-
Stock based compensation	6,083	35,570	269,779	240,637
Write down of projects	-	711,327	23,282	711,327
Unrealized loss (gain) on investments	(84,542)	3,125,018	(430,218)	2,015,994
Amortization of equipment	5,000	5,000	15,000	15,000
	<u>(1,315,388)</u>	<u>(314,197)</u>	<u>(2,156,407)</u>	<u>(914,164)</u>
Changes in non-cash working capital balances:				
Accounts receivable and other assets	13,158	(46,044)	24,267	(65,246)
Accounts payable and accrued liabilities	768,729	(48,604)	525,441	(233,736)
	<u>(533,501)</u>	<u>(408,845)</u>	<u>(1,606,699)</u>	<u>(1,213,146)</u>
<b>Cash flows from investing activities</b>				
Acquisition of equipment	-	(1,875)	(6,559)	(18,147)
Proceeds on maturity of term deposit	-	-	2,394,243	-
Purchase of term deposit	(3,108,851)	-	(4,109,310)	-
Loan receivable	(543,050)	(3,000,000)	(1,100,535)	(3,000,000)
Collection of loan receivable	578,000	-	578,000	-
Proceeds on sale of investments	-	-	2,272,937	-
Mineral properties and deferred expenditures	(284,774)	(343,399)	(940,460)	(1,279,240)
	<u>(3,358,675)</u>	<u>(3,345,274)</u>	<u>(911,684)</u>	<u>(4,297,387)</u>
Increase (decrease) in cash and cash equivalents	<u>(3,892,176)</u>	<u>(3,754,119)</u>	<u>(2,518,383)</u>	<u>(5,510,533)</u>
Cash and cash equivalents, beginning of the period	<u>5,576,355</u>	<u>12,843,282</u>	<u>4,202,562</u>	<u>14,599,696</u>
Cash and cash equivalents, end of the period (note 4)	<u>\$1,684,179</u>	<u>\$9,089,163</u>	<u>\$1,684,179</u>	<u>\$9,089,163</u>

See accompanying notes to consolidated financial statements.

# TALON METALS CORP.

Notes to Consolidated Financial Statements  
For the three and nine months ended September 30, 2009 and 2008

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## 1. Incorporation and Operations

Resource Holdings & Investments Inc. ("RHI") was incorporated on July 8, 2004 under the International Business Companies Act in the Territory of The British Virgin Islands ("BVI") to engage in the acquisition, exploration, development and operations of mineral properties in Brazil. On April 5, 2005 RHI amalgamated with Ventures Resource Corporation ("VRC"), a publicly traded company, to form BrazMin Corp. (the "Company"), which later changed its name to Talon Metals Corp.

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 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 -

In the opinion of management all adjustments required for a fair presentation are included in these statements, in accordance with the accounting policies of the Company. These unaudited interim consolidated financial statements have been prepared following accounting principles consistent with those used in the audited annual consolidated financial statements and should be read in conjunction with the consolidated financial statements of the Company, for the year ended December 31, 2008. The results of operations for the interim period, are not necessarily indicative of the results of operations for any other interim period, or for a full fiscal year. The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements.

### 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.

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## Notes to Consolidated Financial Statements

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### 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 are 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.

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## Notes to Consolidated Financial Statements

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### 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.

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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

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will 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 currently engaged in the scoping phase of its conversion which involved a high level review of major differences between Canadian GAAP and IFRS, setting a timeline for resources and developing a project plan. This scoping is intended to provide direction to the Company's management for the second phase of the conversion project and will be disclosed in the Company's 2009 annual financial statements and management's discussion and analysis as in accordance with the requirements of CSA Staff Notice 52-230, Disclosure of Expected Changes In Accounting Policies Relating To Changeover To International Financial Reporting Standard.

The Company continues to monitor standards development as issued by the International Accounting Standards board and the Accounting Standards Board, as well as regulatory developments by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of the adoption of IFRS.

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.

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### 4. Cash and cash equivalents

	<u>September 30,</u> <u>2009</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2008</u>
Cash on hand and balances with banks	\$584,372	\$333,090
Short term investments	1,099,807	3,869,472
	<hr/> \$1,684,179 <hr/>	<hr/> \$4,202,562 <hr/>

### 5. Loans receivable

	<u>September 30,</u> <u>2009</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2008</u>
Saber Energy Corp.	\$5,543,050	\$5,000,000

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 has been extended to January 15, 2010. The interest rate is 18% per annum to July 24, 2009, and thereafter 25% per annum. The loan is 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 Balance Sheet at September 30, 2009), based on management's estimate of the net recoverable amount of the loan. As such, no interest has been accrued to date. A further amount of \$543,050 (US\$500,000) was advanced to Saber in September 2009. This amount was repaid in full in October 2009.

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

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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 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 is US\$0.06 per common share of Saber. The warrant expiry date is 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 is not material.

### 6. Equipment

	<u>September 30,</u> <u>2009</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2008</u>
Cost	\$141,000	\$134,441
Accumulated Amortization	<u>63,160</u>	<u>48,160</u>
Net Book Value	<u>\$77,840</u>	<u>\$86,281</u>

### 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:

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**Name of Project**

	<b><u>September 30, 2009 (unaudited)</u></b>	<b><u>Additions (unaudited)</u></b>	<b><u>December 31, 2008</u></b>
São Jorge Gold Project	\$6,069,923	\$131,453	\$5,938,470
Água Branca Gold Project	1,297,683	74,885	1,222,798
Campo Grande Gold Project	507,628	6,128	501,500
Other Gold Projects	708,068	201,911	506,157
Sergipe Potash Project	502,800	502,800	-
	<hr/> \$9,086,102	<hr/> \$917,177	<hr/> \$8,168,925

**a) 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

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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.

## **b) 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.

In September 2006, a Talon subsidiary signed option agreements to acquire a 100% interest in an additional 7,725 hectares. This option was dropped by the Company during 2008.

The rights to an additional area of 5,651 hectares, was applied by the Company to cover available land adjacent to the current land holdings.

During the three months ending September 30, 2009, a total of \$58,207 was spent at Água Branca.

## **c) 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. A net smelter royalty ("NSR") of 1.5% is held by a third party on one of the three licenses.

During the three months ending September 30, 2009, a total of \$3,283 was spent at Campo Grande.

## **d) Other Gold Projects**

The Company owns or has interests in several Other Properties in Brazil.

In 2007 Talon applied for the rights to the Juruena Gold Project ("Juruena"), a property which is 100% owned by the Company. In April 2009, a 6,369 hectare (15,739 acre) exploration license was formally granted to Talon.

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

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The Serrita and Serrita Norte Project are two adjoining parcels located in Pernambuco State, Brazil (together the "Serrita Project"). BRAZ LTDA initially owned a 65% interest in the Serrita Project. The Company has decided to farm-out this project as it does not constitute a core asset. On February 8, 2006, the Company entered into an option agreement with Troy Resources NL ("Troy") of Australia. Troy has the right to up to a 75% interest in the Serrita project by spending US\$700,000 over 4 years and making certain cash payments to the Company and its partners. Should Troy earn its 75% interest, the Company may retain a 16.25% interest or elect to convert to a NSR royalty. In the third quarter of 2008 the Serrita project was written down by \$374,094 to \$nil as it will not be pursued further.

The Rio Maria Project ("Rio Maria") consists of five exploration license applications covering 43,379 hectares in the name of Brazmin Ltda. and located in southeastern Pará State. The Company determined during the fourth quarter of 2007, that the Rio Maria did not meet the current corporate objectives and a decision was made to farm the project out. As such, Rio Maria was written down by \$62,405 to reduce the value of this project to \$nil in 2007. In the fourth quarter of 2007, Talon entered into an agreement with Reinarda Mineracao Ltda. ("**Reinarda**"), a Brazilian subsidiary of Troy, regarding Rio Maria. Under the terms of the agreement Reinarda earned a 51% interest in Rio Maria by paying Talon a total of US\$150,000 and committing to expenditure of US\$100,000 over twelve months ending December 31, 2008. (This payment and expenditure was made within the specified timeframe.) Reinarda can increase their ownership of Rio Maria to 100%, with a 2% NSR royalty payable to Talon Ltda, and by making an additional US\$200,000 payment and further expenditures totalling US\$250,000 over the following 24 months. One half of the 2% NSR (i.e. 1%) can be purchased by Reinarda for a one time payment of US\$1,000,000.

### e) Sergipe Potash Project

On May 22, 2009 the Company concluded an agreement with Kmine Holdings Ltd ("Kmine"), a private company, to acquire a 100% interest in Bancor Mineracao Ltda. ("Bancor"), a Brazilian subsidiary of Kmine. 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 payable on closing of the agreement and again at the commencement of the second year. 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 Bancor shares to Kmine. As such, the full amount payable as per above, has not been set up as a liability.

The project comprises ten onshore and two offshore potash prospects in the Sergipe and Alagoas States of Brazil. Exploration licenses are held for a total area of 40,277 hectares (99,526 acres) and applications for licenses are pending for a further 44,120 hectares (109,022 acres).

A payment of US\$75,000 was made in October 2009 in order to obtain additional potash prospects.

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## f) Other Projects

An additional \$54,990 was written off other smaller projects during the previous year, representing amounts spent on projects that will no longer be pursued.

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. Investments

	<u>September 30,</u> <u>2009</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2008</u>
Brazauro Resources Corporation ("Brazauro")	\$-	\$1,283,230
Beadell Resources Limited ("Beadell")	255,486	132,433
	<hr/> \$255,486	<hr/> \$1,415,663

The Company holds 2,450,000 shares in Beadell. These shares have been valued at the closing bid price of the shares as of September 30, 2009. An unrealized gain of \$84,542 has been recognized in net loss for the three months ended September 30, 2009 (2008: loss of \$755,978). An unrealized gain of \$430,218 has been recognized in net loss for the nine months ended September 30, 2009 (2008: loss of \$634,054).

The share price of the Beadell shares is subject to volatility. There can be no assurance that an active trading market for Beadell shares is sustainable. The trading price could be subject to wide fluctuations in response to factors beyond the Company's control including: quarterly variations in

Beadell's results of operations, changes in earnings, estimates by analysts, conditions in the industry and general market or economic conditions. Such fluctuations could adversely affect the value of the Beadell shares held by the Company

# TALON METALS CORP.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2009 and 2008

## 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 period from January 1, 2008 to September 30, 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 September 30, 2009 (unaudited)	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 previous period, 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 September 30, 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 September 30, 2009.

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### 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 September 30, 2009 and 2008 and changes during the three month periods then ended, is presented below (unaudited):

	2009		2008	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding – beginning of period	3,185,000	\$1.04	2,540,500	\$1.20
Granted	-	-	-	-
Balance, end of period	3,185,000	1.04	2,540,500	\$1.20
Total outstanding (September 30, 2009)	Expire		Total exercisable (September 30, 2009)	
Options	Weighted Average Exercise Price		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

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### Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2009 and 2008

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#### Contributed Surplus

A summary of the changes in contributed surplus for the period from January 1, 2008 to September 30, 2009, is as follows:

Balance – January 1, 2008	\$3,119,938
Options granted	261,929
Warrants expired unexercised	<u>1,612,190</u>
Balance – December 31, 2008	4,994,057
Options granted (unaudited)	<u>269,779</u>
Balance – September 30, 2009 (unaudited)	<u>\$5,263,836</u>

#### 10. Financial instruments

	<u>September</u> <u>30,</u> <u>2009</u> (unaudited)	<u>December 31,</u> <u>2008</u>
Held for trading, measured at fair value:		
Cash and cash equivalents	\$1,684,179	\$4,202,562
Term deposit	3,108,851	1,393,784
Investments	255,486	1,415,663
Loans and receivables, measured at amortized cost:		
Accounts receivable	58,640	82,907
Loans receivable	5,543,050	5,000,000
Financial liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	853,493	328,053

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

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.

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 September 30, 2009.

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

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## Notes to Consolidated Financial Statements

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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. Cash and short-term investments are held in treasury bills and are therefore not exposed to credit risk. The Company is exposed to credit risk to the extent of its Saber loan receivable not being repaid, and the assets held as security for the loan cannot be sold. The Company is also exposed to credit risk to the extent of its other loan receivable not being repaid.

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.

### 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 September 30, 2009 was \$18,960,655 (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

	<b>Three months ended September 30, 2009</b>	Three months ended September 30, 2008	<b>Nine months ended September 30, 2009</b>	Nine months ended September 30, 2008
The following table sets forth the computing of basic and diluted loss per share: (unaudited)				
Numerator for basic and diluted loss per share available to common shareholders	<b>\$(1,241,929)</b>	\$(4,185,194)	<b>\$(1,331,193)</b>	\$(3,891,204)
Denominator for basic and diluted loss per share	<b>27,054,222</b>	27,054,222	<b>27,054,222</b>	27,054,222
Basic and diluted loss per share	<b>\$(0.05)</b>	\$(0.16)	<b>\$(0.05)</b>	\$(0.14)

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## 13. Income taxes

As the Company is incorporated under the International Companies Business Act, it is exempt from tax in the British Virgin Islands. The Brazilian subsidiaries have loss carry forwards of approximately \$501,424, 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 Capital Corp. ("Tau"). The controlling shareholder of Tau is a 5% shareholder of the Company. 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 three months ended September 30, 2009, fees paid to Tau for these services were \$67,500 (2008: \$67,500).

Consulting fees paid to officers of the Company for the three months ended September 30, 2009 were \$60,321 (2008:\$52,797). For the nine months ended September 30, 2009, these amounts were \$188,824 (2008:\$193,552). In addition an amount of \$26,937 (2008:\$41,974) was charged to the Company by Tau in respect of services rendered outside of the Agreement for the three months ended September 30, 2009. For the nine months ended September 30, 2009, this amount was \$103,153 (2008:\$109,483). Consulting fees paid to a Company owned by an officer of the Company for the three months ended September 30, 2009 were \$41,465 (2008:\$NIL). For the nine months ended September 30, 2009 this amount was \$100,433 (2008:\$NIL).

Accounts receivable and other assets at September 30, 2009 include \$22,500 paid to Tau for management fees for October 2009 (September 30, 2008: \$22,500).

Accounts payable at September 30, 2009 include \$11,607 payable to an officer of the Company for consulting fees for September 2009. (September 30, 2008: \$11,607).

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 by the parent company, a British Virgin Islands Company. \$72,295 of the Company's equipment is in Brazil, with the remainder being in Canada. All of the mining properties are located in Brazil.