



Unaudited Consolidated Financial Statements of
TALON METALS CORP.
For the three months ended
March 31, 2010 and 2009

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>March 31</u> <u>2010</u> <u>Unaudited</u>	<u>December 31</u> <u>2009</u>
Assets		
Current assets		
Cash and cash equivalents (note 5)	\$1,854,498	\$2,807,195
Term deposit	3,000,000	1,500,000
Investment (note 6)	-	528,112
Prepayments	762,661	22,500
Accounts receivable	505,015	21,388
	<u>6,122,174</u>	<u>4,879,195</u>
Equipment (note 7)	84,488	72,840
Resource properties and deferred expenditures (note 8)	26,049,354	9,417,920
Loan receivable (note 9)	-	5,000,000
Assets held for sale (note 10)	4,275,470	-
	<u>\$36,531,486</u>	<u>\$19,369,955</u>
Current liabilities		
Accounts payable and accrued liabilities	\$1,610,066	\$920,069
Long term liabilities		
Rehabilitation provision (note 11)	534,108	-
	<u>\$2,144,174</u>	<u>\$920,069</u>
Shareholders' equity		
Share capital (note 12)	38,522,470	22,320,031
Contributed surplus (note 12)	5,263,836	5,263,836
Deficit	(9,398,994)	(9,133,981)
	<u>34,387,312</u>	<u>18,449,886</u>
	<u>\$36,531,486</u>	<u>\$19,369,955</u>

See accompanying notes to the consolidated financial statements.

TALON METALS CORP.

Consolidated Statements of Operations and Deficit Expressed in Canadian Dollars

	<u>Three months ended March 31 2010 Unaudited</u>	<u>Three months ended March 31 2009 Unaudited</u>
Income		
Interest income	<u>\$200</u>	\$6,038
Expenses		
Office and general	141,035	130,181
Professional fees	164,750	56,632
Consulting fees	83,451	124,325
Management fees	69,870	67,500
Stock based compensation	-	17,236
Travel	7,798	13,302
Interest and bank charges	3,182	7,920
Listing and filing expense	17,902	4,231
Write down of projects	-	23,282
Amortization of equipment	5,000	5,000
	<u>492,988</u>	<u>449,609</u>
Loss for the period before the following:	(492,788)	(443,571)
Foreign currency translation gain	31,881	1,816
Gain on sale of investments	195,894	721,175
Unrealized gain on investments	-	<u>300,284</u>
Net earnings (loss) for the period	(265,013)	579,704
Deficit, beginning of the period	(9,133,981)	(7,292,019)
Deficit, end of the period	<u>\$(9,398,994)</u>	<u>\$(6,712,315)</u>
Basic and diluted earnings (loss) per share (note 15)	<u>\$ (0.01)</u>	<u>\$0.02</u>

See accompanying notes to the consolidated financial statements.

TALON METALS CORP.

Consolidated Statements of Cash Flows Expressed in Canadian Dollars

	<u>Three months ended March 31 2010 Unaudited</u>	<u>Three months ended March 31 2009 Unaudited</u>
Cash flows from operating activities		
Net earnings (loss) for the period	\$(265,013)	\$579,704
Items not affecting cash:		
Stock based compensation	-	17,236
Gain on sale of investments	(195,894)	(721,175)
Write down of projects	-	23,282
Unrealized gain on investments	-	(300,284)
Amortization of equipment	5,000	5,000
	<u>(455,907)</u>	<u>(396,237)</u>
Changes in non-cash working capital balances:		
Accounts receivable	3,491	44,643
Accounts payable and accrued liabilities	(116,222)	(198,000)
	<u>(568,638)</u>	<u>(549,594)</u>
Cash flows from investing activities		
Acquisition of equipment	(16,648)	-
Proceeds on maturity of term deposit	1,500,000	1,393,784
Cash assumed from Saber (note 4)	587,563	-
Transaction costs	(67,303)	-
Purchase of term deposit	(3,000,000)	(1,000,459)
Proceeds on sale of investments	724,006	1,657,175
Resource properties and deferred expenditures	(301,901)	(148,107)
	<u>(574,283)</u>	<u>1,902,393</u>
Cash flows from financing activities		
Repayment of loan receivable	190,224	-
	<u>190,224</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	(952,697)	1,352,799
Cash and cash equivalents, beginning of the period	2,807,195	4,202,562
Cash and cash equivalents, end of the period	<u>\$1,854,498</u>	<u>\$5,555,361</u>

See accompanying notes to consolidated financial statements.

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

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.

The Company also has a subsidiary, Saber Energy Inc ("Saber"), incorporated in Barbados. Saber, through its various wholly-owned subsidiaries, holds exploration licenses for the exploration of coal bed methane and organic shale gas fields in Botswana.

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, 2009. 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) Property, plant & equipment

Office and computer equipment

Office and computer 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.

Assets held for sale

Long-lived assets are classified as held for sale when certain criteria are met, which include: the Company's commitment to a plan to sell the assets; the assets are available for immediate sale in their present condition; an active program to locate buyers and other actions to sell the assets have been initiated; the sale of the assets is probable and their transfer is expected to qualify for recognition as a completed sale within one year; the assets

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

are being actively marketed at reasonable prices in relation to their fair value; and it is unlikely that significant changes will be made to the plan to sell the assets or that the plan will be withdrawn.

The Company measures assets held for sale at the lower of carrying amount or fair value less cost to sell. These assets are not depreciated.

d) Resource properties and deferred exploration costs

Mineral properties

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.

Oil & gas properties

The company follows the full cost method of accounting for oil and gas operations, whereby all costs related to exploration and development of oil and gas reserves are capitalized. Such costs which includes licence costs, the cost of drilling productive and non-productive wells, geological and geophysical costs, production facilities, corporate expenses directly related to acquisition, exploration and development activities, are capitalized on a country-by-country

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

basis, which to date there is one cost centre, Botswana. These costs do not include any costs related to the general overhead expenses.

The amounts shown for exploration properties represents costs to date and do not necessarily reflect present or future values. If the properties are sold, allowed to lapse or are no longer of interest, accumulated costs are written down.

Included in exploration properties are amounts related to expenditures incurred during the pre-development period. Once a project reaches commercial production, the exploration costs are amortised over the estimated useful life of the producing properties.

The Company reviews and evaluates the carrying value of its exploration properties on an annual basis or whenever events or changes in circumstances indicate that their carrying amounts might not be recoverable.

e) Impairment of property, plant & equipment

Property, plant & equipment subject to amortization is reviewed for impairment periodically or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss must be recognised if the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. In that event, the asset must be written down to its fair value and an impairment loss recorded in the statement of operations.

The fair value is based on the present value of the estimated cash flows. Management's estimate of future cash flows is subject to risk and uncertainties and it is reasonably possible that changes could occur which may affect the recoverability of the Company's long-lived assets and may have a material effect on the Company's results of operations and financial position.

f) 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.

g) 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.

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

h) 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.

i) 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 enacted tax rates or 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.

j) 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, Brazilian reals, Botswana pula and South African rands. 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 the abovementioned currencies 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.

k) 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

l) Share issue costs –

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

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

m) 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

Future accounting changes

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 has continued to review the impact in the first quarter of 2010. The Company will continue to update its disclosures throughout the remainder of 2010 to reflect specific actions taken to facilitate changeover to IFRS effective January 1, 2011.

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

4. Acquisition of Saber Energy Corp.

On March 24, 2010 the Company and Saber Energy Corp 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 Talon share was converted into one MergeCo share
 - (b) each outstanding Talon 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 Talon Option so exercised;
 - (c) each outstanding value warrant issued by Saber to Talon was cancelled;
 - (d) each outstanding Saber share was exchanged for 0.17685 of a MergeCo share;
- The Company has provisionally determined that this transaction does not meet the definition of a business combination in accordance with GAAP. For accounting purposes the Company has provisionally determined that the transaction represents an acquisition of Saber's net assets and has designated an effective date of March 24, 2010. The measurement of the purchase consideration is based on the closing market price of the Talon common shares on the effective acquisition date.

The acquisition cost of \$16.4 million has been provisionally assigned to the acquired assets and liabilities, as follows. In view of the very recent closing of the transaction, the Company is still engaged in the process of identifying, reviewing and updating the relative fair values of the acquired net assets. Accordingly the following identification and allocation should be viewed as preliminary and subject to further change upon completion of the valuation process.

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

Acquisition cost (comprised of share consideration and direct transaction costs)	<u>\$ 16,391,160</u>
Net assets acquired:	
Cash	587,563
Accounts receivable	487,118
Prepayments	740,161
Property, plant and equipment held for sale (note 10)	4,275,470
Exploration licenses	16,329,533
Accounts payable	(684,801)
Loan payable	(4,809,776)
Rehabilitation provision	(534,108)
	<u>\$ 16,391,160</u>

5. Cash and cash equivalents

	<u>March 31</u> <u>2010</u> <u>(unaudited)</u>	<u>December 31</u> <u>2009</u>
Cash on hand and balances with banks	\$1,355,303	\$199,718
Short term investments	499,195	2,607,477
	<u>\$1,854,498</u>	<u>\$2,807,195</u>

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

6. Investment

At December 31, 2009 the Company held 2,450,000 shares of Beadell Resources Limited with a fair value of \$528,112. All of these shares were sold by the Company during the first quarter of 2010 for gross proceeds of \$724,006.

7. Equipment

	<u>March 31</u> <u>2010</u> <u>(unaudited)</u>	<u>December 31</u> <u>2009</u>
Cost	\$157,648	\$141,000
Accumulated amortization	<u>73,160</u>	<u>68,160</u>
Net book value	<u>\$84,488</u>	<u>\$72,840</u>

8. Resource properties and deferred expenditures

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

	<u>December 31</u> <u>2009</u>	<u>Addition</u>	<u>March 31</u> <u>2010</u> <u>(unaudited)</u>
<u>Mineral Properties</u>			
Sergipe Potash Projects	\$751,687	\$270,978	\$1,022,665
São Jorge Gold Project	6,129,137	17,059	6,146,196
Água Branca Gold Project	1,313,768	-	1,313,768
Campo Grande Gold Project	512,491	1,742	514,233
Other Gold Projects	710,837	12,122	722,959
<u>Oil and Gas Properties</u>			
Botswana exploration licenses	<u>-</u>	<u>16,329,533</u>	<u>16,329,533</u>
	<u>\$9,417,920</u>	<u>\$16,631,434</u>	<u>\$26,049,354</u>

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

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.

(A) Mineral properties

1. Sergipe Potash Project

This 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 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), and again six months later (November 2010). A further US\$1,000,000 is payable in May 2011, US\$1,375,000 in May 2012 and US\$2,000,000 in May 2013. Finally US\$4,500,000 is payable in May 2014 and US\$10,000,000 is payable in May 2019. 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

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

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.

In April 2010 the transfer of Lara's potash exploration licences to Talon was completed and Talon paid Lara US\$50,000.

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

2. 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 and remains pending.

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.

3. 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

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

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 Água Branca gold project.

Under the terms of this 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, which has not yet occurred. 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.

4. 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.

5. 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 once the licenses have been transferred, which has not yet occurred. 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,

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

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.

Subsequent to the February 2010 agreement, Gungnir assigned the option to 7177411 Canada Corp.

Batistão

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.

(B) Oil and gas properties

The Saber Gas Project is an unconventional gas project targeting coalbed methane ("CBM") and shale gas deposits in the Karoo age rocks in the Kalahari and Zambesi basins in Botswana, Africa.

Saber's license area total approximately 1.2 million hectares (3 million acres) in eastern central Botswana, along the eastern flank of the Karoo age basins, in the Kalahari and in northeastern Botswana where the Karoo age, Mid-Zambezi Basin extends south-westward.

The company holds five renewed prospecting licences of which two expire at the end of September 2010 and the other three at the end of March 2011, respectively. The Company holds another thirteen prospecting licenses which expire June 30, 2010, September 30, 2010 and September 30, 2011.

The Company entered into a joint venture agreement with Tlou Energy Pty Ltd ("Tlou") in August 2009. Under this agreement, the expenditure requirements in terms of the various prospecting licences will be met by Tlou, enabling Saber to renew the licences for ongoing exploration. Pursuant to the transaction, Tlou acquired interests in various Saber projects in return for drilling 12 core holes before October 17, 2011. Should Tlou not complete this obligation, all of Tlou's interests in the projects will be transferred back to Saber.

9. Loan receivable

As at March 24, 2010, the loan receivable from Saber (net of a repayment of \$190,224 during the first quarter), was cancelled pursuant to the terms of the merger agreement.

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

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.

10. Assets held for sale (Note 4)

The Company's strategic objective in the medium term is to focus its efforts primarily on its existing projects in Brazil. As described in note 8, ongoing exploration of the Botswana properties is conducted entirely by the joint venture partner Tlou. Accordingly the Company has decided to dispose of all the exploration equipment located at the Botswana project sites and has commenced a formal process of disposing of its drill rigs, compressors etc and is actively working with a number of agents to facilitate the sale. At March 31, 2010 the property, plant and equipment acquired from Saber have been classified as "Assets held for sale" and measured at the lower of carrying value and their fair value less costs to sell.

11. Rehabilitation provision

An environmental rehabilitation provision, determined by an independent specialist, has been made to restore all the exploration drilling boreholes. The measurement is based on actual drilling incurred and at the current cost of closing all exploration drilling boreholes. Environmental rehabilitation processes are ongoing in the normal course of exploration activities, however the provision is re-assessed annually, thus there are no estimated undiscounted amounts of cash flows required to settle the obligation.

The Group's activities are subject to various laws and regulations regarding the environmental restoration and closure provisions for which the Group estimates future costs. These provisions may be revised on the basis of amendments to such laws and regulations and the availability of new information such as changes in reserves corresponding to a change in the mine life and the acquisition or construction of new mines.

12. 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, 2009 to March 31, 2010:

	Number of shares	Amount
Balance, January 1 and December 31, 2009	27,054,222	\$22,320,031
Issued on acquisition of net assets of Saber (note 4)	36,823,728	16,202,439
Balance, March 31, 2010	63,877,950	\$38,522,470

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

The fully diluted share capital of the Company is 67,062,950 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 vested immediately. The exercise price is \$0.385 per share. All these options are outstanding as at March 31, 2010.

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%

A summary of options outstanding as at March 31, 2010 and 2009 and changes during the three month periods then ended, is presented below (unaudited):

	2010		2009	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding – beginning and end of period	<u>3,185,000</u>	<u>\$1.04</u>	<u>2,540,500</u>	<u>\$1.20</u>

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

Total outstanding (March 31 2010)			Expire	Total exercisable (March 31 2010)		
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	
<u>3,185,000</u>	<u>\$1.04</u>			<u>3,185,000</u>	<u>\$1.04</u>	

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 period from January 1, 2009 to March 31, 2010, is as follows:

Balance – January 1, 2009	\$4,994,057
Options granted	<u>269,779</u>
Balance – December 31, 2009	5,263,836
Options granted	<u>-</u>
Balance – March 31, 2010	<u>\$5,263,836</u>

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

13. Financial instruments

	<u>March 31</u> <u>2010</u> <u>(unaudited)</u>	<u>December 31</u> <u>2009</u>
Held for trading, measured at fair value:		
Cash and cash equivalents	\$1,854,498	\$2,807,195
Term deposit	3,000,000	1,500,000
Investments	-	528,112
Loans and receivables, measured at amortized cost:		
Accounts receivable	505,015	21,388
Loans receivable	-	5,000,000
Financial liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	1,610,066	920,069

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

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

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 March 31, 2010.

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, the Brazilian real, South African Rand and the Botswana Pula as transfers are made to these subsidiaries in United States dollars and then converted by them in domestic currencies. 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.

14. 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 March 31, 2010 was \$34,387,312 (December 31, 2009:\$18,449,886).

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

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.

15. Earnings (loss) per share

The following table sets forth the computing of basic and diluted loss per share:	<u>Three months ended March 31 2010</u>	<u>Three months ended March 31 2009</u>
Numerator for basic and diluted loss per share available to common shareholders	\$(265,013)	\$579,704
Denominator for basic and diluted loss per share	30,327,441	27,054,222
Basic and diluted loss per Share	<u>\$(0.01)</u>	<u>\$0.02</u>

16. 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 \$581,000 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.

17. Related party transactions and balances

The Company has entered into an administrative service agreement (the "Agreement") with Tau. The Agreement terminates on December 31, 2010, but can be renewed. The terms of the Agreement require the Company to pay Tau a monthly service fee of \$33,000. The monthly amount prior to the merger was \$22,500. For the three months ended March 31, 2010, fees paid to Tau for these services were \$69,870 (2009: \$67,500).

TALON METALS CORP.

Notes to Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

Consulting fees paid to officers of the Company for the three months ended March 31, 2010 were \$64,004 (2009:\$65,937). In addition an amount of \$19,447(2009:\$40,753) 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 three months ended March 31, 2010 were \$41,465 (2009:\$29,484).

Prepayments at March 31, 2010 include \$22,500 paid to Tau for management fees for April 2010 (March 31, 2009: \$22,500).

Accounts payable at March 31, 2010 include \$11,607 payable to an officer of the Company for consulting fees for March 2010 (2009: \$13,555), as well as \$25,934 (2009:\$NIL) owing to a Company controlled by a director of the Company.

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.

18. Geographic information

Interest income is earned in Canadian dollars. \$79,795 (2009 - \$67,721), of the Company's mining equipment is in Brazil, and all of the Company's assets held for sale are located in Southern Africa. All of the mineral properties are located in Brazil, and all of the oil and gas properties are located in Southern Africa.