



Unaudited Consolidated Financial Statements of
TALON METALS CORP.
For the three and nine months ended
September 30, 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>September 30</u> <u>2010</u> <u>Unaudited</u>	<u>December 31</u> <u>2009</u>
Assets		
Current assets		
Cash and cash equivalents (note 5)	\$3,829,978	\$2,807,195
Term deposit	-	1,500,000
Investment (note 6)	261,000	528,112
Prepayments	237,574	22,500
Accounts receivable	886,754	21,388
	<u>5,215,306</u>	<u>4,879,195</u>
Equipment (note 7)	90,582	72,840
Resource properties and deferred expenditures (note 8)	4,054,414	9,417,920
Loan receivable (note 9)	-	5,000,000
Assets held for sale (note 10)	23,507,619	-
	<u>\$32,867,921</u>	<u>\$19,369,955</u>
Current liabilities		
Accounts payable and accrued liabilities	1,518,250	920,069
Liabilities held for sale (note 11)	536,771	-
	<u>\$2,055,021</u>	<u>\$920,069</u>
Shareholders' equity		
Share capital (note 12)	38,522,470	22,320,031
Contributed surplus (note 12)	7,204,287	5,263,836
Deficit	(14,913,857)	(9,133,981)
	<u>30,812,900</u>	<u>18,449,886</u>
	<u>\$32,867,921</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</u> <u>ended</u> <u>September 30</u> <u>2010</u> <u>Unaudited</u>	<u>Three 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>2010</u> <u>Unaudited</u>	<u>Nine months</u> <u>ended</u> <u>September 30</u> <u>2009</u> <u>Unaudited</u>
Income				
Gain on sale of project	\$903,907	\$-	\$903,907	\$-
Interest income	3,892	2,281	6,096	11,343
	907,799	2,281	910,003	11,343
Expenses				
Office and general	191,943	659,251	494,884	893,659
Professional fees	358,051	385,726	817,482	519,043
Consulting fees	118,285	139,042	374,912	392,632
Personnel expenses	65,785	-	118,638	-
Management fees	119,161	67,500	288,031	202,500
Stock based compensation	-	6,083	1,940,451	269,779
Travel	145,975	33,158	332,310	50,406
Interest and bank charges	7,800	6,209	23,258	41,937
Listing and filing expense	9,122	4,454	77,580	33,501
Write down of advances	138,313	-	138,313	-
Write down of projects (note 10)	99,035	-	2,128,772	23,282
Amortization of equipment	5,000	5,000	15,000	15,000
	1,258,470	1,306,423	6,749,631	2,441,739
Loss for the period before the following:	(350,671)	(1,304,142)	(5,839,628)	(2,430,396)
Foreign currency translation loss	(84,373)	(22,329)	(163,696)	(13,557)
Realized gain on sale of investments and assets	-	-	223,448	682,542
Unrealized gain on investments	-	84,542	-	430,218
Net loss for the period	(435,044)	(1,241,929)	(5,779,876)	(1,331,193)
Deficit, beginning of the period	(14,478,813)	(7,381,283)	(9,133,981)	(7,292,019)
Deficit, end of the period	\$(14,913,857)	\$(8,623,212)	\$(14,913,857)	\$(8,623,212)
Basic and diluted loss per share (note 15)	\$(0.01)	\$(0.05)	\$(0.11)	\$(0.05)

See accompanying notes to the consolidated financial statements.

TALON METALS CORP.
Consolidated Statements of Cash Flows
Expressed in Canadian Dollars

	<u>Three months</u> <u>ended</u> <u>September 30</u> <u>2010</u> <u>Unaudited</u>	<u>Three 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>2010</u> <u>Unaudited</u>	<u>Nine months</u> <u>ended</u> <u>September 30</u> <u>2009</u> <u>Unaudited</u>
Cash flows from operating activities				
Net loss for the period	\$(435,044)	\$(1,241,929)	\$(5,779,876)	\$(1,331,193)
Items not affecting cash:				
Stock based compensation	-	6,083	1,940,451	269,779
Gain on sale of investments and assets	-	-	(223,448)	(682,542)
Gain on sale of projects	(903,907)	-	(903,907)	-
Write down of projects	99,035	-	2,128,772	23,282
Liabilities held for sale	3,827	-	3,827	-
Foreign currency translation gain	-	-	-	(20,515)
Unrealized gain on investments	-	(84,542)	-	(430,218)
Amortization of equipment	5,000	5,000	15,000	15,000
	<u>(1,231,089)</u>	<u>(1,315,388)</u>	<u>(2,819,181)</u>	<u>(2,156,407)</u>
Changes in non-cash working capital balances:				
Prepayments	830,628	-	662,200	-
Accounts receivable	(451,920)	13,158	(1,057,640)	24,267
Accounts payable and accrued liabilities	84,630	768,729	471,355	525,441
	<u>(767,751)</u>	<u>(533,501)</u>	<u>(2,743,266)</u>	<u>(1,606,699)</u>
Cash flows from investing activities				
Acquisition of equipment	(9,594)	-	(33,823)	(6,559)
Proceeds on maturity of term deposit	751,000	-	1,500,000	2,394,243
Proceeds on disposal of assets held for sale	1,095,040	-	1,137,743	-
Cash assumed from Saber (note 4)	-	-	587,563	-
Loan receivable	-	(543,050)	-	(1,100,535)
Collection of loan receivable	-	578,000	-	578,000
Transaction costs	-	-	(67,303)	-
Purchase of term deposit	-	(3,108,851)	-	(4,109,310)
Proceeds on sale of mineral properties	1,016,000	-	1,740,006	2,272,937
Resource properties and deferred expenditures	(509,008)	(284,774)	(1,288,361)	(940,460)
	<u>2,343,438</u>	<u>(3,358,675)</u>	<u>3,575,825</u>	<u>(911,684)</u>
Cash flows from financing activities				
Repayment of loan receivable	-	-	190,224	-
Increase (decrease) in cash and cash equivalents	1,575,687	(3,892,176)	1,022,783	(2,518,383)
Cash and cash equivalents, beginning of the period	2,254,291	5,576,355	2,807,195	4,202,562
Cash and cash equivalents, end of the period	<u>\$3,829,978</u>	<u>\$1,684,179</u>	<u>\$3,829,978</u>	<u>\$1,684,179</u>

See accompanying notes to consolidated financial statements.

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1. Incorporation and Operations

The Company has five subsidiaries incorporated in Brazil, Brazilian Resources Mineracao Ltda. ("BRM"), Brazmin Ltda. ("BRAZ LTDA"), Sergi Mineracao Ltda. ("SERGI"), Talon Iron Mineracao Ltda ("TIML") 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, through its subsidiary TIML holds a 100% interest in various iron ore 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 being available for immediate sale in their present condition; an active program to locate buyers and other

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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 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

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acquisition, exploration and development activities, are capitalized on a country-by-country 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) Investments -

The Company's short-term investments are measured initially at cost, and carried at cost in subsequent periods until such time as the investment is no longer in a private company. Investments are tested regularly for impairment.

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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.

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

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l) Share issue costs –

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

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.

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The Company has completed the initial diagnostic phase and has continued to review the impact in the third 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.

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 recent closing of the transaction, and the ongoing sale of saber assets, 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.

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Acquisition cost	<u>\$16,391,160</u>
Net assets acquired:	
Cash	587,563
Accounts receivable	487,118
Prepayments	820,565
Property, plant and equipment held for sale (note 10)	3,767,040
Exploration licenses held for sale	16,757,559
Accounts payable and accrued liabilities	(684,801)
Loan payable	(4,809,776)
Rehabilitation provision	(534,108)
	<u>\$16,391,160</u>

5. Cash and cash equivalents

	<u>September 30</u> <u>2010</u> <u>(unaudited)</u>	<u>December 31</u> <u>2009</u>
Cash on hand and balances with banks	\$3,080,529	\$199,718
Short term investments	749,449	2,607,477
	<u>\$3,829,978</u>	<u>\$2,807,195</u>

6. Investment

The Company holds 500,000 shares in Lago Dourado Minerals Ltd. ("Lago") with a fair value of \$250,000. The Company also has 500,000 warrants in Lago with a fair value of \$11,000. These warrants have an exercise price of \$0.50 per warrant and expire on the earlier of (i) July 13, 2012,

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if Lago successfully lists its shares on a recognized stock exchange by way of an initial public offering on or before December 31, 2010, (ii) the date that is two years from the date of an initial public offering if such offering occurs after December 31, 2010 and (iii) December 31, 2015.

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>September 30</u> <u>2010</u> <u>(unaudited)</u>	<u>December 31</u> <u>2009</u>
Cost	\$173,742	\$141,000
Accumulated amortization	(83,160)	68,160
Net book value	<u>\$90,582</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. The resource properties and deferred exploration expenditures are comprised as follows:

Mineral Properties

	<u>December</u> <u>31</u> <u>2009</u>	<u>Net</u> <u>Additions</u> <u>(Reductions)</u>	<u>September 30</u> <u>2010</u> <u>(unaudited)</u>
Sergipe Potash Projects	\$751,687	\$1,089,987	\$1,841,674
São Jorge Gold Project	6,129,137	(6,129,137)	-
Água Branca Gold Project	1,313,768	(63,544)	1,250,224
Campo Grande Gold Project	512,491	4,114	516,605
Trairão Iron Ore Project	-	202,814	202,814
Other Projects	710,837	(467,740)	243,097
	<u>\$9,417,920</u>	<u>\$(5,363,506)</u>	<u>\$4,054,414</u>

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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. Iron Ore Projects

On September 29, 2010, Talon announced that it had acquired 100% of the rights to the Trairão Project and the Inajá South Project in Pará State, Brazil, through concluding two separate agreements, respectively, with Codelco do Brasil Mineração Ltda (“Codelco”) and Barrick International (Barbados) Corp. (“Barrick Barbados”). The Barrick Barbados rights are held in TIML.

Under the agreement with Codelco, Talon paid Codelco a nominal purchase price and will pay a royalty of US\$0.7005 per tonne of iron mined and sold, in the event of mining in the future on the licences.

Under the agreement with Barrick Barbados, Talon paid Barrick Barbados a nominal purchase price and is obliged to pay certain production related royalties, at varying levels in respect of specific metals, in the event of mining on any of the rights to projects held by Barrick Brasil. In the case of the Trairão Project, the royalty payable to Barrick Barbados is US\$0.2995 per tonne of iron mined and sold. However, Talon has the right to buy back this royalty for US\$599,000 during the 12 month period following the start of commercial production. In terms of the Inajá South Project, Barrick will receive a net smelter royalty of 0.5% for any base metals that may be produced and sold and 1.0% for any precious metals that may be produced and sold. There are also provisions for Talon to buy back the base metal royalty and for Barrick Barbados to buy back up to a 50% interest in any future gold mining operation, which exceeds a reserve of three million ounces.

2. 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 107,987 hectares (266,840 acres) and applications for licenses are pending for a further 4,982 hectares (12,311 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

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10 years, of which US \$375,000 was paid on closing of the agreement and another payment of the same amount, was made at the commencement of the second year (May 2010). A further US\$375,000 is payable in November 2010 and 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 totaling US\$0.5 million, as well as undertake a US\$4 million work program to be managed and funded by Talon. Both the cash payments and work commitments are on an annual basis, spread over four years. The next payment due is US\$100,000 on or before December 31, 2010. 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.

In October 2010, Talon signed a Letter of Intent ("LOI") with Rio Verde Minerals Corporation ("Rio Verde"), a private Brazilian focused fertilizer company. Under the terms of the LOI, Talon will transfer to Rio Verde all of its rights to the Sergipe potash licenses in return for a 66% stake in Rio Verde. The transaction with Rio Verde is expected to close in December 2010, pending the satisfaction of all closing conditions.

3. São Jorge Gold Project

On June 15, 2010, Talon announced that it had concluded an agreement with Brazilian Gold Corporation ("Brazilian Gold") (TSXV:BGC) whereby Brazilian Gold has been granted an option to purchase a 100% interest in São Jorge, a 57,420 hectare property in Pará State, Brazil. Under the terms of this agreement, Brazilian Gold is required to pay Talon a total of \$2,250,000 in cash

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and \$2,250,000 in Brazilian Gold shares (calculated as the number of Brazilian Gold shares equal to the dollar amount divided by the twenty day volume-weighted average trading price of Brazilian Gold shares).

In October 2010, Brazilian Gold made an initial payment of \$1,000,000 in cash and \$500,000 in Brazilian Gold shares. Brazilian Gold is required to make additional payments of \$500,000 in cash and \$1,000,000 in shares 270 days after the closing date. A final payment of \$750,000 in cash and \$750,000 in shares is due 540 days after the closing date. This agreement is subject to a 1% net smelter return royalty payable to Talon upon commencement of commercial production.

Since this agreement closed subsequent to the end of the third quarter, the related project amounts remain classified under Assets Held for Sale, as at September 30, 2010.

4. Água Branca Gold Project

In 2004 the Company acquired a 100% interest in Água Branca, a 9,356 hectare property, located in Pará State, Brazil within the Tapajós Gold District.

On December 10, 2009, the Company concluded an agreement with Brazauro Resources Corporation ("Brazauro") (TSX:BZO), whereby Brazauro has the option to earn a 100% interest in Água Branca. Subsequently, Brazauro was acquired by Eldorado Gold Corporation (TSX:ELD).

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

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

5. Campo Grande Gold Project

The Campo Grande project is located 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.

6. Other Projects

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

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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 was granted an option to earn up to a 75% interest in Juruena. Subsequently, Gungnir assigned the option to 7177411 Canada Corp., and this company then changed its’ name to Lago Dourado Minerals Ltd (“Lago”).

In July 2010, Talon concluded an agreement with Lago that superseded the option agreement of February 2010 with Gungnir. Under the terms of the agreement with Lago, Talon sold 100% of its indirect interest in Juruena to Lago. In return, Talon received \$1,016,000 in cash on July 13, 2010, the closing date of this transaction, along with 500,000 Lago common shares (at a deemed price of \$0.50 per share) and 500,000 Lago warrants.(See note 6)

Batistao

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

(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 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. 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.

The Company is currently in the process of selling all of the above licenses to Tlou and expects the sale to be completed in the fourth quarter of 2010. Accordingly the related project amounts remain classified under Assets Held for Sale (note 10).

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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.

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 has classified certain assets as "Assets held for sale" and measured them at the lower of carrying value and fair value less costs to sell.

Assets held for sale are comprised of the following:

- (i) Saber plant and equipment – \$2,600,060
- (ii) Saber licenses - \$16,757,559
- (iii) Sao Jorge projects - \$4,150,000

Total \$23,507,619

11. Liabilities held for sale

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 Company's activities are subject to various laws and regulations regarding the environmental restoration and closure provisions for which the Company 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.

The responsibility for this environmental rehabilitation will be assumed by Tlou as part of the sale of the licenses to them. As such, this provision has been reclassified as "liabilities held for sale" (note 8).

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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 September 30, 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, September 30, 2010	63,877,950	\$38,522,470

The fully diluted share capital of the Company is 70,517,450 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 2010, the Company issued a total of 4,974,500 stock options to certain of its officers and employees. The options expire in May 2015 and vested immediately. The exercise price is \$0.40 per share. All these options are outstanding as at September 30, 2010.

Estimated fair value of stock options

The Company determined the fair value of the 4,974,500 stock options issued using the Black-Scholes option pricing model under the following assumptions:

Expected life	5 years
Fair value (\$/option)	\$0.39
Risk-free interest rate	2.60%
Volatility	199%
Dividends	0%

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- b) 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 September 30, 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 September 30, 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	6,639,500	\$0.51	3,185,000	\$1.04

Total outstanding (September 30, 2010)	Weighted Average Exercise Price	Expire	Total exercisable (September 30, 2010)	Weighted Average Exercise Price
Options	Weighted Average Exercise Price		Options	Weighted Average Exercise Price
205,500	\$2.00	2011	205,500	\$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
4,974,500	0.40	2015	4,974,500	0.40
6,639,500	\$0.51		6,639,500	\$0.51

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The total potential proceeds to the Company should all outstanding options be exercised would be \$3,376,932

Contributed Surplus

A summary of the changes in contributed surplus for the period from January 1, 2009 to September 30, 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>1,940,451</u>
Balance – September 30, 2010	<u>\$7,204,287</u>

13. Financial instruments

	<u>September</u> <u>30</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	\$3,829,978	\$2,807,195
Term deposit	-	1,500,000
Investments	261,000	528,112
Loans and receivables, measured at amortized cost:		
Accounts receivable	886,754	21,388
Loan receivable	-	5,000,000
Financial liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	<u>1,518,250</u>	<u>920,069</u>

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.

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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 prices, or indirectly (derived from prices). Level 3 inputs are unobservable (supported by little or no market activity), such as non-corroborative indicative prices for a particular instrument provided by a third party.

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

Level 1

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

Level 2

No items are included in this category

Level 3

No items are included in this category.

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

Risks

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

Liquidity Risk -

The Company's approach to liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company has sufficient cash to meet all expected obligations at September 30, 2010.

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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 September 30, 2010 was \$30,812,900 (December 31, 2009:\$18,449,886).

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

	<u>Three months ended September 30 2010 Unaudited</u>	<u>Three months ended September 30 2009 Unaudited</u>	<u>Nine months ended September 30 2010 Unaudited</u>	<u>Nine months ended September 30 2009 Unaudited</u>
The following table sets forth the computing of basic and diluted loss per share:				
Numerator for basic and diluted loss per share available to common shareholders	\$(435,044)	\$(1,241,929)	\$(5,779,876)	\$(1,331,193)
Denominator for basic and diluted loss per share	63,877,950	27,054,222	51,603,374	27,054,222
Basic and diluted loss per Share	\$(0.01)	\$(0.05)	\$(0.11)	\$(0.05)

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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 \$778,824 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 South African subsidiaries have unrecognized tax losses of approximately \$43,000,000 on their operations, and further unrecognized tax losses of approximately \$12,000,000 on their exploration assets. These losses have no expiry date.

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 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. For the three months ended September 30, 2010, fees paid to Tau for these services were \$99,000 (2009: \$67,500).

Consulting fees paid to officers of the Company for the three months ended September 30, 2010 were \$59,568 (2009:\$60,321). For the nine months ended September 30, 2010, these amounts were \$183,140 (2009:\$188,824). In addition an amount of \$49,206 (2009:\$26,937) was charged to the Company by Tau in respect of services rendered outside of the Agreement for the three months ended September 30, 2010. For the nine months ended September 30, 2010, the amount was \$114,291 (2009:\$103,153). Consulting fees paid to a Company owned by an officer of the Company for the three months ended September 30, 2010 were \$41,465 (2009:\$41,465). For the nine months ended September 30, 2010 this amount was \$124,395 (2009:\$100,433).

Prepayments at September 30, 2010 include \$33,000 paid to Tau for management fees for October 2010 (September 30, 2009: \$22,500).

Accounts payable at September 30, 2010 include \$21,688 payable to an officer of the Company for consulting fees for August and September 2010. (2009: \$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.

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18. Geographic information

Interest income is earned in Canadian dollars. \$81,295 (2009 - \$72,295), 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.

19. Subsequent events

In October 2010, the Company completed a non-brokered private placement with strategic investors for a total of 10,646,325 units (each, a "Unit") at a price of CDN\$0.45 per Unit for gross proceeds of CDN\$4,790,846. Each Unit is comprised of one common share of Talon (each, a "Common Share") and one-half of one Common Share purchase warrant. Each whole such purchase warrant, entitling the holder thereof to purchase one Common Share at an exercise price of CDN\$0.60 per Common Share. The warrant expiry date is October 21, 2012.

In October 2010, the Company issued 1,010,000 stock options to directors, management and employees. These all vest immediately, have a five year term and are exercisable at \$0.70 each.