



## **TALON METALS CORP.**

### **Condensed Consolidated Interim Financial Statements**

**March 31, 2011 and 2010**

**(Unaudited)**

*(Expressed in Canadian Dollars)*

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

<b>Talon Metals Corp.</b>				
<b>Condensed Consolidated Interim Statements of Financial Position</b>				
<i>(Expressed in Canadian Dollars)</i>				
<i>(Unaudited)</i>				
	<i>Notes</i>	<b>As at March 31, 2011</b>	<b>As at December 31, 2010</b>	<b>As at January 1, 2010</b>
<b>Assets</b>			<i>(Note 21)</i>	<i>(Note 21)</i>
<b>Current assets</b>				
Cash and cash equivalents		\$ 10,344,486	\$ 12,345,677	\$ 2,807,195
Term deposits		4,783,806	3,503,928	1,500,000
Investments	6	1,845,130	1,137,426	528,112
Prepayments		524,576	291,734	22,500
Accounts and other receivables		1,318,881	672,616	21,388
		18,816,879	17,951,381	4,879,195
<b>Non-current assets</b>				
Equipment		275,325	184,371	72,840
Resource properties and deferred expenditures	7	13,603,012	10,950,914	9,417,920
Loan receivable	8	-	-	5,000,000
Investment in Tlou Energy	6	20,835,854	20,937,027	-
Assets held for sale	9	4,159,788	3,915,488	-
<b>Total assets</b>		<b>\$ 57,690,858</b>	<b>\$ 53,939,181</b>	<b>\$ 19,369,955</b>
<b>Liabilities and Shareholders' Equity</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 1,619,523	\$ 2,139,930	\$ 920,069
<b>Shareholders' Equity</b>				
Share capital	11	46,841,449	41,990,775	22,320,031
Common share purchase warrants	11	-	1,388,815	-
Contributed surplus		10,549,706	7,864,955	5,263,836
Accumulated other comprehensive loss		(37,918)	(37,918)	-
Deficit		(15,636,341)	(12,763,346)	(9,133,981)
		41,716,896	38,443,281	18,449,886
Non-controlling interest	11	14,354,439	13,355,970	-
<b>Total equity</b>		<b>56,071,335</b>	<b>51,799,251</b>	<b>18,449,886</b>
<b>Total liabilities and equity</b>		<b>\$ 57,690,858</b>	<b>\$ 53,939,181</b>	<b>\$ 19,369,955</b>
<i>See accompanying notes to the condensed consolidated interim financial statements.</i>				

Approved by the Board on June 14, 2011.

Signed:

s/ Gregory S. Kinross, Director

s/ Jonathan M. Schneider, Director

<b>Talon Metals Corp.</b>			
<b>Condensed Consolidated Interim Statements of Loss and Comprehensive Loss</b>			
<i>(Expressed in Canadian Dollars)</i>			
<i>(Unaudited)</i>			
		<b>For the three months ended March 31,</b>	
	<b>Notes</b>	<b>2011</b>	<b>2010</b>
			<i>(Note 21)</i>
Interest Income		\$ 8,541	\$ 200
Office and general		344,944	141,035
Professional fees		495,764	164,750
Personnel expenses and stock based payments		2,886,811	-
Consulting fees		107,356	83,451
Management fees		99,000	69,870
Travel		111,298	7,798
Listing and filing expense		31,728	17,902
Interest and bank charges		9,811	3,182
Reversal for impairment of assets held for sale		(272,872)	-
Write down of projects		4,075	-
Amortization of equipment		11,095	5,000
		3,829,010	492,988
<b>Loss before the following</b>		<b>(3,820,469)</b>	<b>(492,788)</b>
Foreign currency translation loss (gain)		115,587	(31,881)
Share of loss in Tlou		101,174	-
Unrealized gain on investments		(707,704)	-
Gain on sale of investments	6	-	(195,894)
		(490,943)	(227,775)
<b>Net loss and comprehensive loss for the period</b>		<b>\$ (3,329,526)</b>	<b>\$ (265,013)</b>
Net loss and comprehensive loss attributable to:			
Shareholders of Talon		\$ (3,158,972)	\$ (265,013)
Non-controlling interests in Rio Verde		(170,554)	-
		\$ (3,329,526)	\$ (265,013)
<b>Loss per share - basic and diluted attributable to:</b>	13		
Shareholders of Talon		\$ (0.04)	\$ (0.01)
Non-controlling interests in Rio Verde		\$ -	\$ -
<i>See accompanying notes to the condensed consolidated interim financial statements.</i>			

Talon Metals Corp.										
Condensed Consolidated Interim Statements of Changes in Equity										
(Expressed in Canadian Dollars)										
(Unaudited)										
	Notes	Capital stock		Common share purchase warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Sub-total equity	Non-controlling interest in Rio Verde (Note 12)	Total equity
		Number of shares	Amount							
Balance at January 1, 2011		74,609,275	\$ 41,990,775	\$ 1,388,815	\$ 7,864,955	\$ (37,918)	\$ (12,763,346)	\$ 38,443,281	\$ 13,355,970	\$51,799,251
Options exercised		340,000	267,962	-	(132,300)			135,662		135,662
Warrants exercised		5,323,162	4,582,712	(1,388,815)				3,193,897		3,193,897
Share-based payment	12	-	-	-	2,817,051			2,817,051		2,817,051
Share issuance by Rio Verde							285,977	285,977	1,169,023	1,455,000
Net loss		-	-	-	-		(3,158,972)	(3,158,972)	(170,554)	(3,329,526)
<b>Balance at March 31, 2011</b>	<b>11</b>	<b>80,272,437</b>	<b>\$ 46,841,449</b>	<b>\$ -</b>	<b>\$ 10,549,706</b>	<b>\$ (37,918)</b>	<b>\$ (15,636,341)</b>	<b>\$ 41,716,896</b>	<b>\$ 14,354,439</b>	<b>\$56,071,335</b>
Balance at January 1, 2010		27,054,222	\$ 22,320,031	\$ -	\$ 5,263,836	\$ -	\$ (9,133,981)	\$ 18,449,886	\$ -	\$18,449,886
Shares issued on acquisition of net assets of Saber		36,823,728	16,202,439					16,202,439		16,202,439
Net loss		-	-				(265,013)	(265,013)		(265,013)
<b>Balance at March 31, 2010</b>	<b>21</b>	<b>63,877,950</b>	<b>\$ 38,522,470</b>	<b>\$ -</b>	<b>\$ 5,263,836</b>	<b>\$ -</b>	<b>\$ (9,398,994)</b>	<b>\$ 34,387,312</b>	<b>\$ -</b>	<b>\$34,387,312</b>

See accompanying notes to the condensed consolidated interim financial statements.

<b>Talon Metals Corp.</b>		
<b>Consolidated Statement of Cash Flows</b>		
<i>(Expressed in Canadian Dollars)</i>		
<i>(Unaudited)</i>		
	<b>For the three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
		<i>(Note 21)</i>
<b>Cash flows from operating activities</b>		
Net loss before tax for the period	\$ (3,329,526)	\$ (265,013)
<b>Adjustments to reconcile net loss to net cash flows:</b>		
<b>Non-cash adjustments:</b>		
Share-based payment	2,817,051	-
Write down of projects	4,075	-
Share of net loss in Tlou	101,174	-
Reversal of impairment on assets held for sale	(272,872)	-
Gain on sale of investments	-	(195,894)
Unrealized gain on investments	(707,704)	-
Amortization of equipment	11,095	5,000
	(1,376,707)	(455,907)
<b>Working capital adjustments:</b>		
Increase in prepayments	(220,584)	-
(Increase) decrease in accounts receivable	(646,265)	3,491
Decrease in accounts payables and accrued liabilities	(520,407)	(116,222)
<b>Net cash flows used in operating activities</b>	(2,763,963)	(568,638)
<b>Cash flows from investing activities</b>		
Acquisition of equipment	(102,049)	(16,648)
Disposition of assets held for sale	28,571	-
Proceeds on maturity of term deposit	1,564,972	1,500,000
Cash assumed from Saber	-	587,563
Transaction costs	-	(67,303)
Purchase of term deposit	(2,844,850)	(3,000,000)
Proceeds on sale of investments	-	724,006
Resource properties and deferred expenditures	(2,656,173)	(301,901)
<b>Net cash flows used in investing activities</b>	(4,009,529)	(574,283)
<b>Cash flows from financing activities</b>		
Proceeds from exercise of options	135,662	-
Proceeds from exercise of warrants	3,193,857	-
Proceeds from private placements	1,455,000	-
Repayment of loan receivable	-	190,224
<b>Net cash flows from financing activities</b>	4,784,519	190,224
<b>Net decrease in cash and cash equivalents</b>	(1,988,973)	(952,697)
Cash and cash equivalents, beginning of the period	12,333,459	2,807,195
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 10,344,486</b>	<b>\$ 1,854,498</b>

*See accompanying notes to the condensed consolidated interim financial statements.*

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 and 2010

(Presented in Canadian dollars)

(Unaudited)

### 1. NATURE OF OPERATIONS

Talon Metals Corp. ("Talon" or "the Company") is engaged in the acquisition, evaluation, exploration and development of mineral properties. The Company has three subsidiaries incorporated in Brazil, Brazilian Resources Mineracao Ltda. ("BRM"), Brazmin Ltda. ("BRAZ LTDA") and Talon Iron Mineracao Ltda ("TIML"). 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 subsidiary Rio Verde Minerals Corp., holds a 50 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, held exploration licenses for the exploration of coal bed methane and organic shale gas fields in Botswana during the year ended December 31, 2010.

Subsidiaries are entities over which the Company has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible, are taken into account in the assessment of whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date on which control ceases.

All intercompany accounts and transactions have been eliminated.

### 2. GOING CONCERN

These condensed consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These condensed consolidated financial statements do not include any adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classification that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

The recoverability of the amounts shown for mineral properties and related deferred costs is dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the development, and upon future profitable production or proceeds from disposition of the mineral properties. The amounts shown as mineral property costs represent incurred costs to date and do not necessarily represent future values.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance and conversion to International Financial Reporting Standards ("IFRS")

These are the Company's first IFRS unaudited condensed interim financial statements for the first quarter of the first IFRS annual financial statements to be presented in accordance with IFRS for the year ending December 31, 2011. IFRS 1, First-time Adoption of IFRS ("IFRS 1") has been applied and the impact of the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS is explained in note 21. Previously, the Company prepared its financial statements in accordance with Canadian GAAP.

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 and 2010

*(Presented in Canadian dollars)*

*(Unaudited)*

These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). They do not include all of the information required for full annual financial statements.

The accounting policies set out below have been applied consistently to all periods presented in preparing the opening balance sheet at January 1, 2010 (note 21) for purposes of transition to IFRS.

### **(b) Basis of preparation**

The financial statements are presented in Canadian dollars. The financial statements are prepared on the historical cost basis, except for financial instruments that are measured on fair value basis.

### **(c) Share-based payments**

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company. The fair value is measured at grant date and each tranche is recognized on a graded basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

### **(d) Deferred taxes**

The Company uses the asset and liability method of accounting for income taxes, under which future income tax assets and liabilities are recognized for the estimated future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using income tax rates in effect for the period in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in income tax rates or laws is recognized as part of the provision for income taxes in the period the changes are considered substantively enacted.

Future income tax benefits attributable to these differences, if any, are recognized to the extent that the realization of such benefits is more likely than not.

### **(e) Equipment**

Equipment is carried at cost, less accumulated amortization and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the condensed consolidated statement of comprehensive income or loss. Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 and 2010

(Presented in Canadian dollars)

(Unaudited)

The Company provides for amortization of its equipment at the following annual rate:

Office and computer equipment	20% declining balance basis
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### *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 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.

### **(f) Resource properties and deferred exploration and evaluation costs**

Interests in mineral exploration properties are recorded at cost. Exploration expenditures, other than those of a general nature, relating to mineral properties in which an interest is retained are deferred and carried as an asset until the results of the projects are known. If the 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.

### **(g) Impairment of non-financial assets**

At each financial position reporting date the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Therecoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 and 2010

(Presented in Canadian dollars)

(Unaudited)

asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### (h) Foreign currencies

#### *Functional and presentation currency*

The Canadian dollar is the functional currency of the Company.

The consolidated financial statements are presented in Canadian dollars (the reporting currency). The financial statements of the Company's fully integrated subsidiaries are translated into Canadian dollars. Monetary items are translated into Canadian dollars at the rate of exchange in effect at the statement of financial position date. Revenues and expenses are translated into Canadian dollars at the rates of exchange prevailing when the underlying transactions occurred.

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of loss and comprehensive loss.

### (i) Financial assets and liabilities

Financial instruments are measured on initial recognition at fair value, plus, in the case of financial instruments other than those classified as "fair value through profit and loss", directly attributable transaction costs. Measurement of financial assets in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit and loss", "available-for-sale", "held-to-maturity", or "loans and receivables" as defined by IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). Measurement of financial liabilities subsequent to initial recognition depends on whether they are classified as fair value through profit and loss or "other financial liabilities".

Financial assets and financial liabilities at fair value through profit and loss include financial assets and financial liabilities that are held for trading or designated upon initial recognition as at fair value through profit and loss. These financial instruments are measured at fair value with changes in fair values recognized in the condensed consolidated statements of operations. Financial assets classified as available-for-sale are measured at fair value, with changes in fair values recognized in other comprehensive income ("OCI"), except when there is objective evidence that the asset is impaired, at which point the cumulative loss that had been previously recognized in OCI is recognized within the consolidated statement of operations. Financial assets classified as held-to-maturity and loans and receivables are measured subsequent to initial recognition at amortized cost using the effective interest method. Financial liabilities, other than financial liabilities classified as fair value through profit and loss, are measured in subsequent periods at amortized cost using the effective interest method.

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 and 2010

(Presented in Canadian dollars)

(Unaudited)

The Company has classified its financial instruments as follows:

Cash	-	Fair value through profit and loss
Term deposits	-	Fair value through profit and loss
Investment in Marketable securities	-	Fair value through profit and loss
Accounts and other receivables	-	Loans and receivables
Accounts payable	-	Other liabilities

Financial instruments recorded at fair value on the consolidated balance sheets are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At March 31, 2011, cash and cash equivalents, term deposits and investment in marketable securities have been measured using level 1 inputs and the investment in share purchase warrants of publicly traded companies using level 2 inputs (refer to Note 6(a) for a summary of the inputs used in the Black-Scholes calculation).

### **Impairment of financial assets:**

Financial assets are assessed for indicators of impairment at each financial position reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

### **(j) Cash and cash equivalents**

Cash and cash equivalents consist of cash deposits in banks, certificates of deposit and short-term investments with remaining maturities of three months or less at time of acquisition.

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 and 2010

(Presented in Canadian dollars)

(Unaudited)

### (k) Investments in associates

The Company accounts for its investments in companies over which it has significant influence using the equity basis of accounting whereby the investments are initially recorded at cost and subsequently adjusted to recognize the Company's share of earnings or losses of the investee companies and reduced by dividends received, if any. Carrying values of investments are reviewed for indicators of impairment and written down to estimated fair values if there is evidence of impairment. Such impairment would be recorded in the condensed consolidated statements of operations.

### (l) Asset retirement obligations

A provision is recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Company's asset retirement obligations arise from its obligations to undertake site reclamation and remediation in connection with its resource properties. The estimated costs of reclamation are based on current regulatory requirements and the estimated reclamation costs at the date of purchase. Future changes to those regulations and standards, as well as changes resulting from operations may result in actual reclamation costs differing from the estimate.

### (m) Interest and other income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. 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.

### (n) Loss per share

Basic loss per common share is calculated by dividing the loss attributed to shareholders for the period by the weighted average number of common shares outstanding in the period. Diluted loss per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares.

### (o) Segment reporting

A segment is a component of the Company that is distinguishable by economic activity (business segment), or by its geographical location (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company operates in one business segment, namely, mineral exploration.

### (p) Accounting standards and interpretations issued but not yet adopted

IFRS 9, *Financial Instruments: Classification and Measurement*, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's condensed consolidated financial statements for the period beginning January 1, 2013 and has not yet considered the potential impact of the adoption of IFRS 9.

IFRS 7, *Financial Instruments - Disclosures* ("IFRS 7"), was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 and 2010

(Presented in Canadian dollars)

(Unaudited)

amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company is currently assessing the impact on its consolidated financial statements.

*IFRS 10, Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities* and is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

*IFRS 13, Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; leasing transactions within the scope of IAS 17 *Leases*; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

#### 4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The condensed consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position dates and for the periods then ended, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i. the recoverability of amounts receivable and prepayments which are included in the condensed consolidated interim statement of financial position;
- ii. the estimated useful life of equipment which is included in the condensed consolidated interim statement of financial position and the related amortization included in the condensed consolidated statement of comprehensive loss;
- iii. the inputs used in accounting for share purchase option expense in the condensed consolidated interim statement of comprehensive loss;
- iv. the nil provision for income taxes which is included in the condensed consolidated interim statements of comprehensive loss and composition of deferred income tax assets and liabilities included in the condensed consolidated interim statement of financial position..

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 and 2010

(Presented in Canadian dollars)

(Unaudited)

### 5. ACQUISITIONS

#### (a) Rio Verde Minerals Corp (see note 7.A.2)

On December 10, 2010, the Company completed the acquisition of 54.28%, representing approximately 27 million common shares, of Rio Verde Minerals Corporation ("Rio Verde") in exchange for all of the Company's rights in the Sergipe Potash Project licenses. The Company applied the purchase method to account for this acquisition.

The Company incurred \$83,000 of acquisition-related costs. These expenses are included in general and administrative expense in the Company's consolidated statement of income for the year ended 31 December 2010.

The following table summarizes the consideration transferred to acquire Rio Verde and the amounts of identified assets acquired and liabilities assumed at the acquisition date, as well as the fair value of the non-controlling interest in Rio Verde at the acquisition date. The provisional values of assets and liabilities are recognized at their estimated fair values at the date of acquisition. The Company has elected to measure the non-controlling interest at fair value by reference to the share price in the private placements completed by Rio Verde during December 2010. Further, no gain or loss has been recognized with respect to the Sergipe project transferred by Talon to Rio Verde as that asset continues to be part of the consolidated financial statements.

<b>Fair value of consideration received</b>	<u>\$13,309,754</u>
<b>Identifiable assets and liabilities</b>	
Cash	\$5,965,941
Mineral property interests	19,332,841
Equipment	67,654
Other assets	9,349
Accounts payable	<u>(714,446)</u>
	24,661,339
Non-controlling interest	<u>(11,351,585)</u>
	<u>\$13,309,754</u>

#### Rio Verde dilution

Subsequent to the effective date of the Company's acquisition and prior to December 31, 2010, Rio Verde issued approximately 5,500,000 common shares to third parties (non-controlling interests or NCI) for proceeds of approximately \$2.8 million thereby diluting Talon's ownership interest from 54% to 49%.

Subsequent to December 31, 2010 Rio Verde issued approximately 2,900,000 common shares to non-controlling interests for proceeds of approximately \$1.45 million thereby diluting Talon's ownership interest from 49% to 46%. The Company has determined that it has retained effective control over Rio Verde subsequent to Rio Verde's share issuance. Under applicable accounting guidance, changes in a parent's ownership interest after control is obtained that do not result in a change in control of the subsidiary are accounted for as equity transactions. As the Company continues to control Rio Verde, the Company has adjusted the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in Rio Verde. As a result of the foregoing, the Company has recorded in the 3 months ended March 31, 2011 financial statements:

- (i) An increase of \$1,169,023 to NCI; and
- (ii) A dilution adjustment of \$285,977 as a reduction of deficit.

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

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### Proposed distribution of Rio Verde shares

On April 5, 2011, the Board of Directors of Talon Metals announced that it has approved a transaction to facilitate the distribution of most of its shareholding in Rio Verde Minerals Corp. ("Rio Verde Spin-off") to the Company's shareholders on a pro-rata basis. As of the date of announcement Talon owned approximately 25.6 million shares in Rio Verde, representing an ownership interest of approximately 44% on an undiluted basis and 42% on a fully-diluted basis. The Rio Verde Spin-off will be reflected in the Company's interim financial statements upon closing.

### (b) 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;

For accounting purposes the Company 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 assigned to the acquired assets and liabilities, as follows:

Acquisition cost	<u>\$16,391,160</u>
Net assets acquired:	
Cash	\$591,469
Accounts receivable	431,750
Prepayments	119,789
Property, plant and equipment held for sale (note 9)	4,993,010
Exploration licenses held for sale	16,222,213
Accounts payable and accrued liabilities	(623,187)
Loan payable	(4,809,776)
Rehabilitation provision	(534,108)
	<u>\$16,391,160</u>

The Company disposed of a substantial part of the Saber exploration assets and the related property, plant and equipment before December 31, 2010.

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited)

### 6. INVESTMENTS

#### (a) Temporary investments

	March 31, 2011	December 31, 2010	January 1, 2010
Beadell Resources Limited	\$ -	\$ -	\$ 528,112
Lago Dourado Minerals Ltd.	741,000	516,353	-
Brazilian Gold Corporation	1,104,130	621,073	-
	<u>\$ 1,845,130</u>	<u>\$ 1,137,426</u>	<u>\$ 528,112</u>

The Company holds 500,000 shares in Lago Dourado Minerals Ltd. ("Lago") with a fair value of \$445,000. The Company also has 500,000 warrants in Lago with a fair value of \$296,000. The Company has valued the warrants using the Black-Scholes option pricing model with the following assumptions: expected life of 1.4 years (December 31, 2010 – 1.7 years), risk-free interest rate of 1.5% (December 31, 2010 – 2%), dividend rate of 0% (December 31, 2010 – 0%), and volatility of 122% (December 31, 2010 – 100%). These warrants have an exercise price of \$0.50 per warrant and expire on July 13, 2012.

The Company holds 985,830 shares in Brazilian Gold Corporation ("Brazilian") with a fair value of \$1,104,130. These shares were sold in April 2011 for gross proceeds of \$1,366,335.

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.

#### (b) Long term investments

##### Tlou Energy

	March 31, 2011	December 31, 2010	January 1, 2010
Tlou Energy Limited	\$ 20,835,854	\$ 20,937,027	\$ -

Effective November 30, 2010, the Company completed a transaction with Tlou Energy Limited (Tlou Energy) in which Talon transferred to Tlou Energy all of the Company's rights in the Saber Gas Project licenses and some property, plant and equipment, in return for a 30% ownership interest in Tlou Energy valued at approximately \$21 million. The Company recognized a net gain of approximately \$3 million in the year ended December 31, 2010, relating to the licenses and equipment sale. The Company also has the option to increase its investment by subscribing for an additional 4,945,055 shares of Tlou Energy. The Company accounts for its investment in Tlou Energy using the equity method, since it has significant influence over the investee.

The Company's investment in Tlou Energy at March 31, 2011 amounted to \$20,835,854 (December 31, 2010 - \$20,937,027) and is comprised of the initial cost of \$21,080,850, less a 30% share of net loss in Tlou Energy for the month ended December 31, 2010 and the three month period ended March 31, 2011. The Company's share of Tlou's net assets at the date of acquisition is approximately \$10 Million. The difference will be tested for impairment on an annual basis.

# Talon Metals Corp.

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### 7. RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS

The properties on which the Company's subsidiaries carry out exploration and development activities are located in Brazil. Details of additions and impairments for the three months period ended March 31, 2011 and cumulative resource properties and deferred exploration expenditures are comprised as follows:

	Balance January 1, 2010	2010 Additions	2010 Dispositions	Balance December 31, 2010	2011 Additions	Balance March 31, 2011
<b>Mineral Properties:</b>						
Trairao Iron Ore Project	\$ -	\$ 606,006	\$ -	\$ 606,006	\$ 1,739,972	\$ 2,345,978
Rio Verde Projects (including Sergipe)	751,687	7,357,254	-	8,108,941	867,807	8,976,748
Sao Jorge Gold Project	6,129,137	-	(6,129,137)	-	-	-
Agua Branca Gold Project	1,313,768	-	(194,864)	1,118,904	44,319	1,163,223
Campo Grande Gold Project	512,491	7,095	-	519,586	-	519,586
Other Projects	710,837	-	(113,360)	597,477	-	597,477
	<b>\$9,417,920</b>	<b>\$ 7,970,355</b>	<b>\$ (6,437,361)</b>	<b>\$ 10,950,914</b>	<b>\$ 2,652,098</b>	<b>\$13,603,012</b>

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.

The Sao Jorge Gold project was written down during 2010 by approximately \$2 Million to the expected proceeds of sale. The balance was then reclassified as assets held for sale (note 9).

#### (A) Mineral properties

##### 1. Iron Ore Project

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, in the event that Talon completes a feasibility study with respect to a deposit which identifies reserves totalling at least three million ounces.

# Talon Metals Corp.

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### 2. Rio Verde Projects (including Sergipe)

In December 2010, Talon closed a transaction to transfer 100% of its rights to the Sergipe Potash Project to Rio Verde, in return for a 54% stake in Rio Verde or 26.6 million shares. See note 5 Acquisitions.

Rio Verde's Sergipe Potash project comprises ten onshore and two offshore potash prospects in the Sergipe and Alagoas States of Brazil. Rio Verde holds exploration licenses 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 an agreement was concluded with Kmine Holdings Ltd ("Kmine"), a private company, to acquire a 100% interest in BANCOR. 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 another payment of the same amount, was made at the commencement of the second year (May 2010). A further US\$375,000 was 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. Rio Verde 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. A further US\$100,000 was paid before September 30, 2010, and a further US\$100,000 is payable on or before each of September 30, 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 SergiMineracaoLtda, is to be made on or before, October 31, 2014. Rio Verde 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 an agreement was concluded to acquire up to 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. To exercise its option, Rio Verde 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 Rio Verde. Both the cash payments and work commitments are on an annual basis, spread over four years. The work program includes the drilling of a minimum of five holes over four years. In addition, Rio Verde 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 (the predecessor party to the agreement with Lara) was completed and Talon paid Lara US\$50,000. A further payment of US\$100,000 that was due on or before December 31, 2010, was paid directly by Rio Verde in December 2010.

### 3. São Jorge Gold Project (see note 9)

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 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 by August 2011. A final payment of \$750,000 in cash and \$750,000 in shares is due by May 2012. This agreement is subject to a 1% net smelter return royalty payable to Talon upon commencement of commercial production.

Since this agreement has closed, the related project amounts remain classified under Assets Held for Sale, as at March 31, 2011.

# Talon Metals Corp.

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### 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 December 2010, the Company received a further US\$130,000. In order to exercise its option, Brazauro is required to make 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.

### **(B) Oil and gas properties**

Talon completed the sale of its interests in the Botswana Gas Project in November 2010 and received 19 million shares in Tlou Energy representing a 30% interest with the option to increase this interest by 5%, by subscribing for an additional 4,945,055 shares at listing. See note 6(b) Long term investments.

## Talon Metals Corp.

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#### 8. LOAN RECEIVABLE

	March 31, 2011	December 31, 2010	January 1, 2010
Saber Energy Corp.	\$ -	\$ -	\$ 5,000,000

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

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.

#### 9. ASSETS HELD FOR SALE

The Company's strategic objective in the medium term is to focus its efforts primarily on its existing projects in Brazil. The Company has disposed of substantially all the exploration equipment located at the Botswana project sites during fiscal 2010 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. The remainder of the equipment at March 31, 2011 has been classified as "Assets held for sale" and is measured at the lower of carrying value and their fair value less costs to sell.

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:

	March 31, 2011	December 31, 2010	January 1, 2010
Saber plant and equipment	\$ 1,459,788	\$ 1,215,488	\$ -
Sao Jorge project	2,700,000	2,700,000	-
	\$ 4,159,788	\$ 3,915,488	\$ -

Subsequent to March 31, 2011 the Company disposed of substantially all of the remaining Saber plant and equipment for net proceeds of approximately \$1.5 million. Accordingly the carrying value of the assets held-for-sale has been revised to reflect the value realized on the disposition.

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 10. ASSET RETIREMENT OBLIGATIONS

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 Company has no asset retirement obligations as of March 31, 2011 and December 31, 2010.

### 11. SHARE CAPITAL AND OTHER EQUITY

(a) *Authorized, issued and outstanding common shares*

Authorized – 100,000,000,000 common shares, no par value

Issued and outstanding - 80,272,437 and 74,609,275 shares as at March 31, 2011 and December 31, 2010, respectively.

In October 2010 the Company completed an equity offering of 10,646,325 units ("Units") of the Company at a price of \$0.45 per Unit for total gross proceeds of \$4,790,846 (the "Offering"). Each Unit was comprised of one common share in the capital of the Company (a "Common Share") and one-half of one Common Share Purchase Warrant (each whole warrant, a "Warrant"). Each Warrant entitled the holder thereof to acquire one Common Share at a price of \$0.60 until October 21, 2012. The gross proceeds have been prorated to Common Shares and Warrants based on the relative fair value of each component, as follows: Common Shares - \$3.4 million; Warrants - \$1.39 million. The Black-Scholes option pricing model was used to determine the fair value of the Warrants using the following assumptions: expected dividend yield – nil; expected volatility – 179%; risk free interest rate – 1.58%; and an expected life of two years. All of the warrants were exercised in March 2011.

(b) *Warrants*

Common share purchase warrants transactions during the periods ending March 31, 2011 and December 31, 2010 are as follows:

	March 31, 2011			December 31, 2010			January 1, 2010		
		Weighted average			Weighted average			Weighted average	
	Number of Warrants	exercise price	Fair Value	Number of Warrants	exercise price	Fair Value	Number of Warrants	exercise price	Fair Value
Outstanding – beginning of the year	5,323,163	\$0.60	\$1,388,815	-	-	-	-	-	-
Issued	-	-	-	5,323,163	\$0.60	\$1,388,815	-	-	-
Exercised	(5,323,163)	0.60	(1,388,815)	-	-	-	-	-	-
Outstanding – end of the period	-	\$0.00	\$ -	5,323,163	\$0.60	\$1,388,815	-	-	-

(c) *Non-controlling interest*

In connection with the acquisition of Rio Verde the Company recognized a non-controlling interest ("NCI") valued at \$11,351,585 at December 10, 2010 (see note 5). Subsequent to initial recognition, the NCI balance

# Talon Metals Corp.

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was adjusted as follows:

- Increased by \$2,027,436 representing the NCI's share of proceeds from share issuance by Rio Verde to third party investors during the period from December 11 to December 31, 2010.
- Increased by \$1,169,023 representing the NCI's share of proceeds from share issuance by Rio Verde to third party investors during the period from January 1, 2011 to March 31, 2011.
- NCI was allocated its share of net loss for the post acquisition period in the amount of \$23,051 for the year ended December 31, 2010.
- NCI was allocated its share of net loss for the post acquisition period in the amount of \$170,554 for the three months ended March 31, 2011.

## 12. SHARE - BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN

The Company has adopted a stock option plan (the "Plan") for its directors, officers and employees to acquire common shares of the Company at a price determined by the fair market value of the shares at the date 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 summary of the status of the Plan as at March 31, 2011 and as at December 31, 2010, and changes during the period ended on those dates is presented below:

	March 31, 2011		December 31, 2010	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding – beginning of the year	6,739,000	\$0.45	3,185,000	\$1.04
Granted	1,435,000	1.85	5,984,500	0.45
Cancelled	(25,000)	0.70	(850,500)	1.27
Expired	-	-	(1,495,000)	1.25
Exercised	(340,000)	0.40	(85,000)	0.40
Outstanding – end of the period	7,809,000	\$0.80	6,739,000	\$0.45

# Talon Metals Corp.

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As at March 31, 2011, the Company had stock options issued to directors, officers and employees of the Company outstanding as follows:

Date of grant	Number of options	Exercisable	Exercise price	Expiry date
February 18, 2008	200,000	200,000	\$0.57	February 18, 2013
June 11, 2009	599,500	599,500	\$0.385	June 11, 2014
May 21, 2010	4,589,500	4,589,500	\$0.40	May 21, 2015
October 26, 2010	985,000	985,000	\$0.70	October 26, 2015
January 17, 2011	835,000	835,000	\$1.58	January 17, 2016
February 7, 2011	70,000	70,000	\$2.12	February 7, 2016
March 3, 2011	530,000	530,000	\$2.48	March 3, 2016
	<u>7,809,000</u>	<u>7,809,000</u>		

A share-based payment cost of \$2,817,051 for the options granted in the three months ended March 31, 2011 (2010 - \$nil) was recognized in the three months ended March 31, 2011 (2010 - \$nil).

The fair value of the options granted was estimated determined using the Black-Scholes option pricing model, using the following range of assumptions:

	<u>2011</u>	<u>2010</u>
Risk-free interest rate	2.6%	2.0-2.6%
Expected life	5 years	5 years
Expected volatility	215%-218%	179-207%
Dividend yield	Nil	Nil

### 13. LOSS PER SHARE

#### (a) Basic

Basic loss per share is calculated by dividing the net loss attributable to common shareholders by the weighted average number of ordinary shares in issue during the year.

	For the three months ended March 31,	
	<u>2011</u>	<u>2010</u>
Net loss attributable to common shareholders	\$ (3,158,972)	\$ (265,013)
Weighted average number of ordinary shares in issue	76,700,140	30,327,411
Basic loss per share	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>

#### (b) Diluted

Diluted loss per share has not been presented as this is anti-dilutive.

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited)

### 14. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, term deposit, accounts and other receivable, loan 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 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		
Cash and cash equivalents		\$10,344,486
Term deposits		\$4,783,806
Investments		\$1,549,130
Level 2		
Lago Dourado warrants (included in investments)		\$296,000

### 15. FINANCIAL RISK MANAGEMENT

#### (a) Credit risk management

Certain of the Company's financial assets are exposed to a degree of credit risk. The Company endeavors to mitigate credit risk by holding its cash and cash equivalents as cash deposits and short-term government treasury funds with major commercial banks.

Credit risk relating to accounts receivable arises from the possibility that any counterparty to an instrument fails to perform. The Company does not feel there is significant counterparty risk that could have an impact on the fair value of cash, receivables and treasury bills.

#### (b) Liquidity risk

The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its capital, development and exploration expenditures. The Company ensures that there are sufficient funds to meet its short-term requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

As of March 31, 2011, the Company had a cash balance of \$10,344,486 (December 31, 2010 - \$12,345,677) to settle current accounts payable and accrued liabilities of \$1,619,523 (December 31, 2010 - \$2,139,930).

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

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### (c) 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. A 5% change in the value of its investments, will affect net income of the Company by about \$92,000.

### (d) Foreign exchange risk

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.

At March 31, 2011, the Company had net monetary assets and liabilities denominated in U.S. dollars, as follows:

Cash	\$816,118
Term deposits (interest bearing)	\$1,883,494

If foreign exchange rates changed by 5%, there would be an insignificant change in the net income of the Company.

The Company does not undertake currency hedging activities.

### (e) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk of investing cash equivalents into fixed interest rate investments is mitigated by the short terms in which the investments mature. The Company is exposed to interest rate risk only to the extent of its interest income on Treasury bills. These are typically short-term investments with a term of less than ninety days. The Company has no interest bearing debt.

### (f) Fair value of financial assets and liabilities

The book values of the cash, term deposits, accounts receivable, accounts payable and accrued liabilities, approximate their respective fair values due to the shortterm nature of these instruments.

The fair values together with the carrying amounts shown in the statement of financial position are as follows:

# Talon Metals Corp.

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	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	As at March 31, 2011		As at December 31, 2010		As at January 1, 2010	
Cash and cash equivalents	\$10,344,486	\$10,344,486	\$12,345,677	\$12,345,677	\$ 2,807,195	\$ 2,807,195
Term deposits	4,783,806	4,783,806	3,503,928	3,503,928	1,500,000	1,500,000
Investments	1,845,130	1,845,130	1,137,426	1,137,426	528,112	528,112
Accounts and other receivables	1,318,881	1,318,881	672,616	672,616	21,388	21,388
Loan receivable	-	-	-	-	5,000,000	5,000,000
Accounts payable and accrued liabilities	(1,619,523)	(1,619,523)	(2,139,930)	(2,139,930)	(920,069)	(920,069)
Unrecognized (losses) / gains		\$ -		\$ -		\$ -

### (g) Estimation of fair values

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

#### *Trade and other receivables/payables*

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

## 16. CAPITAL RISK MANAGEMENT

The Company defines capital as Shareholders' equity which at March 31, 2011 was \$56,071,335 (December 31, 2010:\$51,799,251).The Company manages its capital structure and makes adjustments to it, in order to have the funds available to support its exploration, development and operations activities.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its mineral properties and maximize shareholder returns. The Company satisfies its capital requirements through careful management of its cash resources and by utilizing bank indebtedness or equity issues, as necessary, based on the prevalent economic conditions of both the industry and the capital markets and the underlying risk characteristics of the related assets. As at March 31, 2011, the Company had no bank debt.

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the three month period ended March 31, 2011. The Company is not subject to externally imposed capital requirements.

## 17. 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 \$906,000 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 South African subsidiary has unrecognized tax losses of approximately \$1,000,000 on its operations. These losses have no expiry date.

The Company has taken a full valuation allowance against the deferred tax asset relating to the losses, and

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

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accordingly, no deferred 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.

### 18. RELATED PARTY TRANSACTIONS

The Company has entered into an administrative service agreement (the "Tau Agreement") with Tau Capital Corp. ("Tau"). The Tau Agreement terminated on March 31, 2011. A new agreement has been entered into between Talon and Tau. This agreement becomes effective on April 1, 2011 and has an initial term of one year, which can be renewed. Under this agreement, Talon has agreed to pay Tau a monthly service fee of \$58,500. For the three months ended March 31, 2011, fees paid to Tau for these services were \$99,000 (2010: \$69,870).

Consulting fees paid to officers of the Company for the three months ended March 31, 2011 were \$58,922 (2010:\$64,004). In addition an amount of \$48,554 (2010:\$19,447) 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, 2011 were \$41,465 (2010:\$41,465).

Prepayments at March 31, 2011 include \$33,000 paid to Tau for management fees for April 2011 (2010:\$22,500).

Accounts payable at March 31, 2011 include \$41,563 payable to an officer of the Company for consulting fees. (2010:\$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.

The remuneration of key management of the Company for the three months ended March 31, 2011 and 2010 was as follows.

	2011	2010
Aggregate compensation	\$698,069	\$66,522
Share based compensation	\$647,800	\$ -

The key management was awarded the following share options under the employee share option plan during the three months ended March 31, 2011:

Date of grant	Number of options	Exercise price	Expiry
January 17, 2011	410,000	\$1.58	January 2016

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 19. GEOGRAPHIC INFORMATION

Interest income is earned in Canadian dollars. \$217,902 (2010 - \$79,795), of the Company's 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.

### 20. SUBSEQUENT EVENTS

On April 29, 2011 the Company completed a bought deal prospectus offering of 9,804,000 units (each a "Unit") at a price of \$2.55 per unit for gross proceeds of \$25,000,200 (the "Offering"). The Underwriters exercised their full overallotment option to acquire 1,470,600 additional Units for additional gross proceeds of \$3,750,030. In total, 11,274,600 Units were sold for gross proceeds of \$28,750,230. Each Unit consists of one common share in the Capital of the Company (each a "Common-Share") and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Subject to acceleration of the expiry time in certain circumstances, each Warrant entitles the holder thereof to purchase one Common Share at a price of \$3.10 at any time up to October 29, 2012.

In addition, 552,852 Brokers warrants were issued on April 29, 2011. These warrants expire on October 29, 2012 and have an exercise price of \$2.55 each.

On May 16, 2011 the Company mailed an information circular and related materials to shareholders of record as of May 3, 2011 shareholders to consider and vote on the proposed distribution of Rio Verde shares to Talon shareholders (the "RV Distribution"). The anticipated completion of the RV Distribution, subject to the receipt of all necessary approvals, is scheduled for no later than June 30, 2011. The number of Rio Verde shares to be distributed per outstanding Talon share will be announced prior to the date of distribution. The RV Distribution will be facilitated through a plan of arrangement involving Talon, Rio Verde, EM Resources Inc. (a reporting issuer in Ontario) and a subsidiary of EM Resources Inc. As a result of the completion of the arrangement, Rio Verde will become a reporting issuer.

In May 2011, the Company issued 2,085,000 options to certain of its officers and employees. These have varying vesting periods; have a term of 5 years and an exercise price of \$1.95.

### 21. TRANSITION TO IFRS

As stated in Significant Accounting Policies note 3, these are the Company's first consolidated financial statements prepared in accordance with IFRS.

The policies set out in the Significant Accounting Policies section have been applied in preparing the financial statements for the three months ended March 31, 2011, the comparative information presented in these financial statements for the three and twelve months ended March 31, 2010 and December 31, 2010, respectively, and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

The Company has followed the recommendations in IFRS-1 *First-time adoption of IFRS*, in preparing its transitional condensed consolidated interim financial statements.

#### *IFRS Exemptions and Choices*

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this

## Talon Metals Corp.

### Notes to the Condensed Consolidated Interim Financial Statements

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*(Presented in Canadian dollars)*

*(Unaudited)*

retrospective treatment.

The Company has elected to apply the following optional exemptions in its preparation of an opening IFRS statement of financial position as at January 1, 2010, the Company's "Transition Date":

- To apply IFRS 2 Share based Payments only to equity instruments that were issued after November 7, 2002 and had not vested by the Transition Date.
- To apply IFRS 3 Business Combinations prospectively from the Transition Date, therefore not restating business combinations that took place prior to the Transition Date.
- Property, plant and equipment - IFRS 1 provides a one-time choice of measuring property, plant and equipment at its fair value as deemed cost at the date of transition and using those amounts as deemed cost or using the historical valuation under the prior GAAP. For the purpose of subsequent measurement, the Company has elected to apply the cost model for property, plant & equipment rather than the fair value model available under IFRS. The Company has elected not to use fair value as historical cost bases under Canadian GAAP have been determined to be substantially the same under IFRS at transition date of January 1, 2010.
- Leases Exemption - IFRS 1 provides a first-time adopter with an option to not apply certain requirements under IAS 17 *Leases* retrospectively. The Company has availed itself of this option.

In preparing its opening IFRS statement of financial position at January 1, 2010, the Company has not adjusted amounts reported previously in financial statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as there were no differences identified.

*Mandatory exceptions to retrospective application*

Estimates: Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the company under Canadian GAAP are consistent with their application under IFRS.

Other IFRS-1 exemptions and mandatory exceptions have not been discussed above as they are not applicable to the Company.

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## Notes to the Condensed Consolidated Interim Financial Statements

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### Reconciliation of equity:

	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
	January 1, 2010			March 31, 2010			December 31, 2010		
<b>Assets</b>									
<b>Current assets</b>									
Cash and cash equivalents	2,807,195	-	2,807,195	1,854,498	-	1,854,498	12,345,677	-	12,345,677
Term deposits	1,500,000	-	1,500,000	3,000,000	-	3,000,000	3,503,928	-	3,503,928
Investment	528,112	-	528,112	-	-	-	1,137,426	-	1,137,426
Prepayments	22,500	-	22,500	762,661	-	762,661	291,734	-	291,734
Accounts receivable	21,388	-	21,388	505,015	-	505,015	672,616	-	672,616
	4,879,195	-	4,879,195	6,122,174	-	6,122,174	17,951,381	-	17,951,381
Equipment	72,840	-	72,840	84,488	-	84,488	184,371	-	184,371
Resource properties and deferred expenditures	9,417,920	-	9,417,920	26,049,354	-	26,049,354	10,950,914	-	10,950,914
Loan receivable	5,000,000	-	5,000,000	-	-	-	-	-	-
Investment in Tlou Energy	-	-	-	-	-	-	20,937,027	-	20,937,027
Asset held for sale	-	-	-	4,275,470	-	4,275,470	3,915,488	-	3,915,488
<b>Total assets</b>	19,369,955	-	19,369,955	36,531,486	-	36,531,486	53,939,181	-	53,939,181
<b>Liabilities and Shareholders' Equity</b>									
<b>Current liabilities</b>									
Accounts payable and accrued liabilities	920,069	-	920,069	1,610,066	-	1,610,066	2,139,930	-	2,139,930
<b>Long-term liabilities</b>									
Rehabilitation provision	-	-	-	534,108	-	534,108	-	-	-
	920,069	-	920,069	2,144,174	-	2,144,174	2,139,930	-	2,139,930
<b>Shareholders' Equity</b>									
Share capital	22,320,031	-	22,320,031	38,522,470	-	38,522,470	41,990,775	-	41,990,775
Common share purchase warrants	-	-	-	-	-	-	1,388,815	-	1,388,815
Contributed surplus	5,263,836	-	5,263,836	5,263,836	-	5,263,836	7,864,955	-	7,864,955
Accumulated other comprehensive loss	-	-	-	-	-	-	(37,918)	-	(37,918)
Deficit	(9,133,981)	-	(9,133,981)	(9,398,994)	-	(9,398,994)	(12,763,346)	-	(12,763,346)
<b>Total equity</b>	18,449,886	-	18,449,886	34,387,312	-	34,387,312	38,443,281	-	38,443,281
Non-controlling interest	-	-	-	-	-	-	13,355,970	-	13,355,970
<b>Total liabilities and equity</b>	19,369,955	-	19,369,955	36,531,486	-	36,531,486	53,939,181	-	53,939,181

# Talon Metals Corp.

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Reconciliation of loss and comprehensive loss for the three months period ended March 31, 2010 and the year ended December 31, 2010:

	For the three month period ended March 31, 2010			For the year ended December 31, 2010		
	Canadian	Effect of	IFRS	Canadian	Effect of	IFRS
	GAAP	Transition to IFRS		GAAP	Transition to IFRS	
<b>Continuing operations</b>						
Gain on sale of projects and equipment	-	-	-	4,234,594	-	4,234,594
Office and general	141,035	-	141,035	1,214,193	-	1,214,193
Professional fees	164,750	-	164,750	853,563	-	853,563
Consulting fees	83,451	-	83,451	1,520,768	-	1,520,768
Management fees	69,870	-	69,870	366,870	-	366,870
Share-based payment	-	-	-	2,633,769	-	2,633,769
Travel	7,798	-	7,798	166,812	-	166,812
Listing and filing expense	17,902	-	17,902	103,386	-	103,386
Interest and bank charges	3,182	-	3,182	28,464	-	28,464
Interest and other income	(200)	-	(200)	(73,511)	-	(73,511)
Write down of projects	-	-	-	2,128,772	-	2,128,772
Amortization of equipment	5,000	-	5,000	23,116	-	23,116
	492,788	-	492,788	8,966,202	-	8,966,202
<b>Loss before the following</b>	(492,788)	-	(492,788)	(4,731,608)	-	(4,731,608)
Foreign currency translation (gain) loss	(31,881)	-	(31,881)	18,903	-	18,903
(Gain) on sale of investments	(195,894)	-	(195,894)	(195,894)	-	(195,894)
Unrealized (gain) on investments	-	-	-	(314,426)	-	(314,426)
Share of net loss of Tlou	-	-	-	105,905	-	105,905
	(227,775)	-	(227,775)	(385,512)	-	(385,512)
<b>Net loss for the period</b>	(265,013)	-	(265,013)	(4,346,096)	-	(4,346,096)
Share of other comprehensive loss - Tlou	-	-	-	(37,918)	-	(37,918)
<b>Total comprehensive loss for the period</b>	(265,013)	-	(265,013)	(4,384,014)	-	(4,384,014)
<b>Net loss per share:</b>						
Basic and diluted loss per share	(0.01)		(0.01)	(0.08)		(0.08)