



Consolidated Financial Statements of
TALON METALS CORP.
For the years ended
December 31, 2008 and 2007

TALON METALS CORP.

Management's Responsibility for Financial Information

Management has prepared the information and representations in these financial statements. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in Canada, and where appropriate, reflect management's best estimates and judgment.

Talon Metals Corp. maintains adequate systems of internal accounting and administrative controls, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that relevant and reliable financial information is produced. Our independent auditors have the responsibility of auditing the consolidated financial statements and expressing an opinion on them.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee is comprised of three directors. This Committee meets periodically with management and the independent auditors to review accounting, auditing, internal control and financial reporting matters.

s/Stuart Comline, President and CEO

s/Nelson Pfaltzgraff, CFO

TALON METALS CORP.

Auditors' Report

To the Shareholders of Talon Metals Corp.

We have audited the consolidated balance sheets of Talon Metals Corp. as at December 31, 2008 and 2007 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

s/ Zeifmans LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada
March 12, 2009
(except as to Notes 5 and 8
which are as at March 30, 2009)

TALON METALS CORP.

Consolidated Balance Sheets Expressed in Canadian Dollars December 31, 2008

	<u>2008</u>	<u>2007</u>
Assets		
Current assets		
Cash and cash equivalents (note 4)	\$4,202,562	\$14,599,696
Term deposit	1,393,784	-
Loan receivable (note 5)	5,000,000	-
Accounts receivable and other assets	82,907	82,198
	10,679,253	14,681,894
Equipment (note 6)	86,281	88,134
Mineral properties and deferred expenditures (note 7)	8,168,925	8,797,395
Investments (note 8)	1,415,663	3,325,826
	\$20,350,122	\$26,893,249
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$328,053	\$299,948
Shareholders' equity		
Share capital and warrants (note 9)	22,320,031	23,932,221
Contributed surplus (note 9)	4,994,057	3,119,938
Deficit	(7,292,019)	(458,858)
	20,022,069	26,593,301
	\$20,350,122	\$26,893,249

See accompanying notes to the consolidated financial statements.

On behalf of the Board

s/L Azevedo
Director

s/G Kinross
Director

TALON METALS CORP.

Consolidated Statements of Operations and Deficit Expressed in Canadian Dollars Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Income		
Interest income	\$270,637	\$415,310
Other income	124,650	-
	<u>395,287</u>	<u>415,310</u>
Expenses		
Write down of projects	2,091,053	103,105
Impairment of loan receivable	1,000,000	-
Professional fees	483,291	343,935
Office and general	408,381	394,814
Consulting fees	417,420	362,002
Management fees	270,000	270,000
Stock based compensation	261,929	255,376
Travel	152,056	85,262
Interest and bank charges	103,679	99,441
Property evaluation	96,332	100,784
Listing and filing expense	56,187	56,034
Amortization of equipment	20,000	17,935
	<u>5,360,328</u>	<u>2,088,688</u>
Loss for the year before the following:	(4,965,041)	(1,673,378)
Foreign currency translation gain (loss)	42,043	(120,465)
Realized gain on sale of mineral properties	-	9,389,770
Realized gain on sale of investments	-	164,205
Unrealized loss on investments	<u>(1,910,163)</u>	<u>(1,006,539)</u>
Net earnings (loss) for the year	(6,833,161)	6,753,593
Deficit, beginning of the year	<u>(458,858)</u>	<u>(7,212,451)</u>
Deficit, end of the year	<u>\$(7,292,019)</u>	<u>\$(458,858)</u>
Basic and diluted earnings (loss) per share (note 12)	<u>\$ (0.25)</u>	<u>\$0.25</u>

See accompanying notes to the consolidated financial statements.

TALON METALS CORP.

Consolidated Statements of Cash Flows Expressed in Canadian Dollars Year ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Net earnings (loss) for the year	\$(6,833,161)	\$6,753,593
Items not affecting cash:		
Realized gain on sale of investments	-	(164,205)
Realized gain on sale of mineral properties	-	(9,389,770)
Write down of projects	2,091,053	103,105
Stock based compensation	261,929	255,376
Unrealized loss on investments	1,910,163	1,006,539
Impairment of loan receivable	1,000,000	-
Amortization of equipment	20,000	17,935
	<u>(1,550,016)</u>	<u>(1,417,427)</u>
Changes in non-cash working capital balances:		
Accounts receivable and other assets	(709)	30,533
Accounts payable and accrued liabilities	28,105	(52,329)
	<u>(1,522,620)</u>	<u>(1,439,223)</u>
Cash flows from investing activities		
Acquisition of equipment	(18,147)	(23,428)
Acquisition of term deposit	(1,393,784)	-
Proceeds on sale of investments	-	6,489,370
Proceeds on sale of mineral property	-	153,128
Loan receivable	(6,000,000)	-
Mineral properties and deferred expenditures	(1,462,583)	(2,019,308)
	<u>(8,874,514)</u>	<u>4,599,762</u>
Increase (decrease) in cash and cash equivalents	(10,397,134)	3,160,539
Cash and cash equivalents, beginning of the year	14,599,696	11,439,157
Cash and cash equivalents, end of the year (note 4)	<u>\$4,202,562</u>	<u>\$14,599,696</u>

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements
For the years ended December 31, 2008 and 2007

1. Incorporation and Operations

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

The Company has two subsidiaries incorporated in Brazil (Brazilian Resources Mineracao Ltda. ("BRM") and Brazmin Ltda. ("BRAZ LTDA"). The Company, through its subsidiaries, has acquired rights ranging from a 65% to 100% interest in a number of prospective gold mining projects situated in Brazil.

South American Resource Holdings Inc. ("South American") was incorporated in BVI during 2006, and is a wholly-owned subsidiary of the Company. In the 1st quarter of 2007, BRM and BRAZ LTDA were transferred into South American.

On June 18, 2007, Seatrain Holdings Limited ("Seatrain") was incorporated in BVI, and is a wholly-owned subsidiary of the Company.

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 -

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Because a precise determination of assets and liabilities depends on future events, the preparation of financial statements for a period necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expense during the period. Estimates are used when accounting for items and matters such as amortization, asset valuations, impairment assessments, taxes, stock based compensation and contingencies. Actual amounts could differ from these estimates. These consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

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b) Cash and cash equivalents –

Cash and cash equivalents include cash and term deposits with original maturities less than three months from the date of acquisition.

c) Equipment –

Equipment is stated at cost and amortized at 20% per annum on a declining balance. One-half of this rate is applied in the year of acquisition.

d) Mineral properties and deferred exploration costs –

Interests in mineral exploration properties are recorded at cost. Exploration expenditures, other than those of a general nature, relating to mineral properties in which an interest is retained are deferred and carried as an asset until the results of the projects are known. If a project is unsuccessful or if exploration has ceased because continuation is not economically feasible, the cost of the property and the related exploration expenditures are written off.

The cost of mineral properties includes the cash consideration and the negotiated value of shares issued on the acquisition of properties. Properties acquired under option agreements, whereby option payments are made at the discretion of the company, are recorded in the financial statements at the time payments are made. Certain option payments that management has determined are likely to be made, have been accrued in the financial statements. The proceeds from options granted on properties are credited to the cost of the related property.

Once the feasibility of a project has been established, deferred exploration expenses and other costs are segregated as deferred development expenditures. These costs are amortized over the estimated useful life of the related mineral property as commercial production commences. If the net carrying amount of the deferred exploration expenses are not recoverable, these costs are written down to net recoverable amount of the deferred exploration expense.

The amounts shown for mineral properties and deferred exploration costs represents cost to date, and do not necessarily represent present or future values as they are entirely dependent upon the economic recovery of future reserves.

The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

e) Stock based compensation –

The Company uses the accounting standard for stock-based compensation which requires the use of the fair value method for valuing stock option grants. Under this method, compensation cost attributable to all share options granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed

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surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

f) Long-term investments -

The Company's long-term investments are classified as "held-for-trading" securities and are measured at fair value. Changes in fair value are recognized in net income. Investments in securities having quoted market values and which are publicly traded on a recognized securities exchange are recorded at values based on the current bid prices.

g) Asset retirement obligation –

An asset retirement obligation is a legal obligation associated with the retirement of long-lived assets that the company is required to settle.

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred, when a reasonable estimate of the fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company does not have any significant asset retirement obligations for the years presented.

h) Income taxes –

Income taxes are accounted for using the liability method under which future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment. In assessing future tax assets, the Company considers whether it is more likely than not some portion or all of the future income tax asset will be realized and whether a valuation allowance is required.

i) Foreign currency translation –

The functional currency of the company is Canadian dollars. A portion of the Company's transactions are denominated in United States dollars and Brazilian reals. The Company's foreign subsidiaries are integrated operations and financial statements stated in foreign currencies are translated using the temporal method. Monetary assets and liabilities denominated in United States dollars or Brazilian reals are translated to Canadian dollars at the rate in effect at the balance sheet date. Non-monetary items are translated at historical rates. Revenue and expenses are translated at average rates prevailing in effect during the year. The resulting gain or loss is included in the statement of operations.

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j) Basic and diluted earnings (loss) per share –

The Company uses the treasury stock method to determine the dilutive effect of the share purchase warrants and the stock options. Per share amounts have been computed based on the weighted average number of common shares outstanding for the period presented. Diluted earnings (loss) per share is calculated by adjusting outstanding shares to take into account the dilutive effect of stock options and share purchase warrants.

k) Share issue costs –

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

l) Revenue recognition –

Revenue comprises interest income and is recognized when earned. The proceeds from options granted on properties are credited to the cost of the related property, but where the proceeds exceed the property's carrying value, any excess proceeds are credited to income.

3. Adoption of new accounting recommendations

Effective January 1, 2008, the Company adopted two new CICA standards, Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments Presentation", which replaced Section 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 mandates disclosures about the significance of financial instruments to the Company's financial position and performance. It further mandates disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new disclosure standard increases the Company's disclosure regarding the risks associated with financial instruments and how those risks are managed. The Company has included the required disclosures in Note 10 to these financial statements.

Effective January 1, 2008, the Company adopted CICA Handbook Section 1535, "Capital Disclosures", which mandates disclosure of the Company's objectives, policies and processes for managing capital. This disclosure also includes summary quantitative data about what the Company manages as capital and information as to whether the Company has complied with any externally imposed capital requirements. Section 1535 requires additional disclosure, but has not had a significant impact on the Company's financial statements. The required disclosures have been included in Note 11 to these financial statements.

Effective January 1, 2008, the Company adopted CICA Handbook Section 1400, "Going Concern", which requires management to make an assessment of the Company's ability to continue as a going concern after taking into account information concerning, as a minimum, the next twelve months. When management is aware of material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern, management is

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obliged to disclose these uncertainties. The adoption of the changes to Section 1400 has had no impact on the Company's financial statements.

In 2006, Canada's Accounting Standards Board adopted a strategy of converging Canadian generally accepted accounting principles for publicly accountable enterprises with International Financial reporting Standards (IFRS). The Company will be required to report using these converged standards for interim and annual financial statements for fiscal years commencing on or after January 1, 2011. The Company is currently in the process of evaluating the impacts of this convergence on the consolidated financial statements.

4. Cash and cash equivalents

	<u>2008</u>	<u>2007</u>
Cash on hand and balances with banks	\$ 333,090	\$ 190,438
Short term investments	3,869,472	14,409,258
	<hr/>	<hr/>
	\$ 4,202,562	\$ 14,599,696

5. Loan receivable

During the third quarter, 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 the first quarter of 2009. In addition, Talon loaned \$6 million to Saber. The loan was repayable by March 24, 2009, but has been extended to April 24, 2009. Should current discussions not result in a further extension to the loan, the loan would become due immediately. Interest accrues at 12% per annum to January 24, 2009, and thereafter a rate of 18% per annum. The loan is secured by certain property and assets of Saber. An allowance for impairment of the loan of \$1 Million has been set up, based on management's estimate of the net recoverable amount of the loan.

Talon and Saber share one common director who directly or indirectly holds (or has control or direction over) approximately 5% of the outstanding shares of Talon, and approximately 8% of the outstanding shares of Saber. Management has determined that the Company and Saber are not related parties in accordance with generally accepted accounting principles. However, in light of the foregoing, an independent committee of the board of directors of Talon was formed and it reviewed and approved the loan to Saber.

Talon and Saber both have an administrative services agreement with Tau Capital Corp.

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6. Equipment

	<u>2008</u>	<u>2007</u>
Cost	\$ 134,441	\$ 116,294
Accumulated Amortization	48,160	28,160
Net Book Value	<u>\$ 86,281</u>	<u>\$ 88,134</u>

7. Mineral properties and deferred expenditures

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

Name of Project

	<u>2008</u>	<u>2007</u>
<u>BRM</u>		
São Jorge Project	\$5,938,470	\$5,446,087
<u>BRAZ LTDA</u>		
Água Branca Project	1,222,798	1,900,633
Campo Grande Project	501,500	740,485
Other Projects	506,157	710,190
	<u>\$8,168,925</u>	<u>\$8,797,395</u>

a) São Jorge Project -

On July 16, 2004 the Company entered into an agreement whereby BRM acquired a 100% interest in São Jorge exploration license and mineral rights located in Pará State, Brazil, within the Tapajós Gold District, from Centaurus Mineração e Participação Ltda ("Centaurus"). The license has an initial term of three years from the date of publication of the license on March 2, 2003. An application for the extension of the license for a second term of three years was submitted to the Departamento Nacional de Produção Mineral ("DNPM") in December 2005.

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On April 22, 2005 the Company entered into an agreement with Jaguar Resources do Brasil Ltda whereby Talon acquired a 100% interest in three adjacent claims in the São Jorge area. On May 13, 2005 an agreement was made with Tapajós Mineração and a Mr. Pacheco whereby Talon acquired a 100% interest in certain adjacent claims within the São Jorge area. One of the vendors of the latter claims is entitled to receive a bonus at the time the project reaches development stage. The bonus amount corresponds to 1% of the proven mineable reserves as demonstrated by a feasibility study relating to the São Jorge area. This study should be prepared in accordance with internationally accepted practices and be compliant with NI 43-101. This 1% bonus is purchasable by the Company on or before September 30, 2006 for an amount of US \$2,500,000. Talon has elected not to exercise the purchase of this bonus. In addition, cash option payments totaling US \$440,000 were payable, all of which have been made. One of the acquired properties has a residual royalty amounting to 2% of gross proceeds from any mining operation, 1.5% of which is purchasable at any time for US\$500,000. The total area of São Jorge including all the above is 57,420 hectares.

On May 5, 2006, the Company issued a press release in respect of certain alleged irregularities affecting Licence #024, being one of the licences that were obtained from Centaurus in 2004. In November 2008, Talon was notified that Licence #024 will be nullified by the DNPM, and as such Licences #058 and #275, each owned 100% by the Company, would prevail and be granted priority rights over the São Jorge deposit and a large area surrounding such deposit.

b) Água Branca Project -

On July 16, 2004 the Company acquired through BRAZ LTDA, a 100% interest in the underlying mineral rights of Água Branca, a 9,356 hectare property, located in Pará State, Brazil within the Tapajós Gold District, from an independent vendor and Centaurus. These licences have been converted to exploration licences and transferred into the name of Brazmin Ltda. Nine payments totaling approximately US\$150,000 have already been made to the vendors. A final option payment of US\$150,000 is due in March 2009, which has not yet been paid. The property area is subject to a 2% net smelter return royalty, with a buy out for US\$2,000,000.

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

The rights to an additional area of 33,259 hectares was applied by the Company to cover available land adjacent to the current land holdings.

This project was written down by \$1,249,833 during the year, to an amount of \$1,222,798 at December 31, 2008, representing management's estimate of the expected market value of this project.

c) Campo Grande Project –

The Campo Grande project is located in the Iron Quadrangle gold camp, approximately 110 km west of Belo Horizonte, the capital of Minas Gerais State, Brazil. This project consists of three exploration licenses covering 2,611 hectares, which are owned 100% by Company subsidiaries.

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A net smelter royalty ("NSR") of 1.5% is held by a third party on one of the three licenses. This project was written down by \$246,504 during the year to an amount of \$501,500 at December 31, 2008, representing management's estimate of the expected market value of this project.

d) Other Projects

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

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

The Rio Maria Project ("Rio Maria") consists of five exploration license applications covering 43,379 hectares in the name of Brazmin Ltda. and located in southeastern Pará State. The Company determined during the fourth quarter of 2007, that the Rio Maria did not meet the current corporate objectives and a decision was made to farm the project out.

During the previous year, Brazmin Ltda. entered into an agreement with Reinarda Mineracao Ltda. ("Reinarda"), a Brazilian subsidiary of Troy, regarding Rio Maria. Under the terms of the agreement Reinarda can earn a 51% interest in Rio Maria by paying Brazmin Ltda. a total of US\$150,000 and making expenditures of US\$100,000 over twelve months. Reinarda can then increase their ownership of Rio Maria to 100%, with a 2% NSR royalty payable to Brazmin Ltda., by making an additional US\$200,000 payment and further expenditures totaling US\$250,000 over the next 24 months. One half of the 2% NSR (i.e. 1%) can be purchased by Reinarda for a one time payment of US\$1,000,000.

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

The Company also last year signed a binding letter of interest with Sagitario Servicos Minerais S/C Ltda ("Sagitario") to acquire a 100% interest in the Barra do França Gold Project ("Barra do França") located in the northeastern region of Brazil. In terms of the agreement, the Company has already paid USD \$15,000 to secure the option on Barra do França and conduct a due diligence review. USD \$85,000 was paid in May 2008; and a final USD \$150,000 is payable on February 11, 2009 to acquire a 100% interest in the project. In addition, Sagitario will retain a royalty of 1% net smelter return, which can be acquired by the Company at any time through the payment of USD \$500,000. The Company has the right to withdraw from this agreement at any time. This investment has been written down by \$165,633, to bring it to \$nil in the books as it will not be pursued.

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

Although the Company believes it has taken reasonable measures to ensure proper title to its mineral properties in which it has an interest, there is no guarantee that title to any of its mineral properties will not be challenged or impaired. Third parties may have valid claims underlying portions of the Company's interests, including prior unregistered liens, agreements, transfers or claims, including native land claims, and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

8. Investments

	<u>2008</u>	<u>2007</u>
Brazauro Resources Corporation ("Brazauro")	\$1,283,230	\$2,566,460
Beadell Resources Limited ("Beadell")	132,433	759,366
	<u>\$1,415,663</u>	<u>\$3,325,826</u>

The Company holds 2,450,000 shares in Beadell. These shares have been valued at the closing bid price of the shares as of December 31, 2008. An unrealized loss of \$1,283,230 has been recognized in net loss for the year ended December 31, 2008 (an unrealized gain of \$227,336 for 2007). An insignificant further unrealized loss would be reflected in the first quarter of 2009, in respect of the movement in the Beadell share price between December 31, 2008 and March 12, 2009.

The Company held 4,935,500 common shares of Brazauro at December 31, 2008 which represented about 6% of the outstanding common shares of Brazauro. These shares have been recorded at the closing bid price of the shares as of December 31, 2008. An unrealized loss in the amount of \$626,933 has been recognized in net loss for the year ended December 31, 2008 (2007: \$1,233,875). On March 30, 2009, the Company sold 3,600,000 of its' Brazauro holding for total proceeds of \$1,674,000. The Company continues to hold 1,335,500 Brazauro shares which represents about 1.6% of the outstanding common shares of Brazauro.

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

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

9. Share capital and warrants

The Company has an unlimited number of authorized voting common shares. The following details the changes in the Company's share capital for the two years ended December 31, 2008:

	Number of shares	Number of Warrants	Amount
Balance, January 1, 2007	27,054,222	2,800,000	\$24,104,131
Warrants expired	-	(300,000)	(171,910)
Balance, December 31, 2007	27,054,222	2,500,000	23,932,221
Warrants expired	-	(2,500,000)	(1,612,190)
Balance, December 31, 2008	27,054,222	-	\$22,320,031

The fully diluted share capital of the Company is 29,594,722 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 first quarter of fiscal 2008, the Company issued a total of 200,000 stock options to certain of its officers and employees. The options expire in February 2013 and vest immediately. The exercise price is \$0.57 per share. All these options are outstanding as at December 31, 2008.

Estimated fair value of stock options

The Company determined the fair value of the 200,000 stock options issued using the Black-Scholes option pricing model under the following assumptions:

Expected life	5 years
Fair value (\$/option)	\$0.47
Risk-free interest rate	3.80%
Volatility	117%
Dividends	0%

- b) During the third quarter of fiscal 2007, the Company issued a total of 415,000 stock options to certain of its officers and employees. The options expire in August 2012 and

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vest over a period of 24 months, 25% vesting each 6 months from August 2007. The exercise price is \$1.00 per share. All these options, other than 50,000 which were forfeited in the fourth quarter of 2007, are outstanding as at December 31, 2008.

Estimated fair value of stock options

The Company determined the fair value of the 415,000 stock options issued using the Black-Scholes option pricing model under the following assumptions:

Expected life	5 years
Fair value (\$/option)	\$0.80
Risk-free interest rate	4.30%
Volatility	110%
Dividends	0%

- c) During the second quarter of fiscal 2007, the Company issued a total of 300,000 stock options to its officers. The options expire in April, 2012 and vest over a period of 18 months, 33% vesting each 6 months from April 2007. The exercise price is \$0.98 per share. All these options, other than 250,000 forfeited during the fourth quarter of 2007, are outstanding as at December 31, 2008.

Estimated fair value of stock options

The Company determined the fair value of the 300,000 stock options issued using the Black-Scholes option pricing model under the following assumptions:

Expected life	5 years
Fair value (\$/option)	\$0.76
Risk-free interest rate	4.30%
Volatility	102%
Dividends	0%

A summary of options outstanding as at December 31, 2008 and 2007 and changes during the periods ended on those dates is presented below:

	2008		2007	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding – beginning of year	2,340,500	\$1.26	2,452,500	\$1.33
Granted	200,000	0.57	300,000	0.98
Cancelled	-	-	(250,000)	0.98
Cancelled	-	-	(50,000)	1.00
Granted	-	-	415,000	1.00
Cancelled	-	-	(207,000)	2.00
Cancelled	-	-	(320,000)	1.25
Balance, December 31, 2008	<u>2,540,500</u>	<u>1.20</u>	<u>2,340,500</u>	<u>\$1.26</u>

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Total outstanding (December 31, 2008)			Total exercisable (December 31, 2008)		
Options	Weighted Average Exercise Price	Expire	Options	Weighted Average Exercise Price	
1,495,000	\$1.25	2010	1,495,000	\$1.25	
230,500	2.00	2011	230,500	2.00	
200,000	1.00	2011	200,000	1.00	
50,000	0.98	2012	50,000	0.98	
365,000	1.00	2012	182,500	1.00	
200,000	0.57	2013	200,000	0.57	
<u>2,540,500</u>	<u>\$1.20</u>		<u>2,358,000</u>	<u>\$1.22</u>	

The total potential proceeds to the Company should all outstanding options be exercised would be \$3,057,750.

Warrants

On February 10, 2006, the Company issued 5,000,000 units at \$2 per unit by way of private placement. Each unit consisted of one common share and one-half of one common share purchase warrant. Each full warrant entitled the holder to purchase one common share of the Company at a price of \$2.75 until February 10, 2008. None of these warrants were exercised by the expiry date of February 10, 2008. \$1,612,190 has been credited to contributed surplus in respect of these unexercised warrants. The fair value per warrant was calculated at \$0.64, using the Black-Scholes option pricing model using assumptions for volatility of 67%, dividends of 0%, risk-free interest rate of 4% per annum and a term of 2 years.

Warrants were also issued to the private placement brokers at a rate of 6% of the total number of units issued ("Compensation Warrants"). These warrants were exercisable within 12 months at a price of \$2.13, or an amount agreed by the Toronto Stock Exchange. None of these warrants were exercised by the expiry date of February 10, 2007. \$171,910 has been credited to contributed surplus in respect of these unexercised warrants. The fair value per warrant was calculated at \$0.57, using the Black-Scholes option pricing model using assumptions for volatility of 67%, dividends of 0%, risk-free interest rate of 3.9% per annum and a term of one year.

Contributed Surplus

A summary of the changes in contributed surplus for the two years ended December 31, 2008, is as follows:

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Balance – January 1, 2007	\$ 2,692,652
Warrants expired unexercised	171,910
Options granted	290,826
Options forfeited and unvested	(35,450)
Balance – December 31, 2007	<u>3,119,938</u>
Options granted	261,929
Warrants expired unexercised	<u>1,612,190</u>
Balance – December 31, 2008	<u>\$ 4,994,057</u>

10. Financial instruments

	<u>2008</u>	<u>2007</u>
Held for trading, measured at fair value:		
Cash and cash equivalents	\$ 4,202,562	\$ 14,599,696
Term deposit	1,393,784	-
Investments	1,415,663	3,325,826
Loans and receivables, measured at amortized cost:		
Accounts receivable	82,907	82,198
Loan receivable	5,000,000	-
Financial liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	328,053	299,948

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

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

The Company's approach to liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company has sufficient cash to meet all expected obligations at December 31, 2008.

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

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States dollar and the Brazilian real as transfers are made to the Brazilian subsidiaries in United States dollars and then converted by them to Brazilian reals. In addition, the Company's investment in Beadell is denominated in Australian dollars. The Company is exposed to interest rate risk only to the extent of its interest income on Treasury bills. These are typically short-term investments with a term of less than ninety days. The Company has no interest bearing debt. Cash and short-term investments are held in treasury bills and are therefore not exposed to credit risk. The Company is exposed to credit risk to the extent of its Saber loan receivable not being repaid, and the assets held as security for the loan cannot be sold.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a one year period: Interest bearing bank accounts are at a variable rate and investments maturing in less than 1 year are subject to new interest rates at the time of renewal, and therefore, may be impacted. Sensitivity to a 1% change in interest rates would not have a material effect on net income. The Company has investments in public companies. Sensitivity to a plus or minus 20% change in the fair market value of those securities would affect net income by \$273,000.

11. Capital management

The Company's capital management objectives are to maintain financial flexibility in order to preserve its capacity to meet its financial commitments and to meet its potential obligations resulting from internal growth and acquisitions. The Company defines capital as Shareholders' equity which at December 31, 2008 was \$20,022,069 (December 31, 2007:\$26,593,301).

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, it may issue new shares. The Company is currently meeting all its financial commitments. There have been no changes in the Company's approach to capital management during the period. The Company is not subject to any external capital requirements.

12. Earnings (loss) per share

The following table sets forth the computing of basic and diluted earnings (loss) per share:

	2008	2007
Numerator for basic and diluted earnings (loss) per share available to common shareholders	<u>\$(6,833,161)</u>	<u>\$6,753,593</u>
Denominator for basic earnings (loss) per share	27,054,222	27,054,222
Share Purchase Options	-	6,212
Denominator for diluted earnings (loss) per share	<u>27,054,222</u>	<u>27,060,434</u>
Basic and diluted earnings (loss) per share	\$(0.25)	\$0.25

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13. Income taxes

As the Company is incorporated under the International Companies Business Act, it is exempt from tax in the British Virgin Islands. The Brazilian subsidiaries have loss carry forwards of approximately \$149,000 which are available to shelter future taxable income. These losses have no expiry date but can only be offset against taxable income to the extent of 30% in a year.

The Company has taken a full valuation allowance against the future tax asset relating to these losses, and accordingly, no future income tax asset has been recognized in these financial statements.

The difference between the expected tax recovery at statutory rates and the actual tax recovery of \$nil, is due to the tax effect of losses not booked in the Brazilian subsidiaries, and the exempt status of the parent company.

14. Related party transactions and balances

The Company has entered into an administrative service agreement (the "Agreement") with Tau Capital Corp. ("Tau"). The controlling shareholder of Tau is a 5% shareholder of the Company. The Agreement was to terminate on July 31, 2007, but automatically renews on the same terms and conditions for a further one year period at a time. The terms of the Agreement require the Company to pay Tau a monthly service fee of \$22,500. For the year ended December 31, 2008, fees paid to Tau for these services were \$270,000 (2007: \$270,000).

Consulting fees paid to officers of the Company for the year ended December 31, 2008 were \$261,001 (2007:\$295,955). In addition an amount of \$154,729 (2007:\$66,047) 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 year ended December 31, 2008 were \$55,719 (2007:\$39,417)

Accounts receivable and other assets at December 31, 2008 include \$22,500 paid to Tau for management fees for January 2009 (December 31, 2007: \$22,500).

Accounts payable at December 31, 2008 include \$26,459 payable to an officer of the Company for consulting fees for November and December 2008. (December 31, 2007: \$21,254).

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

15. Geographic information

Interest income is earned in Canadian dollars by the parent company, a British Virgin Islands Company. The other income was earned in Brazil. \$79,458 of the Company's equipment is in Brazil, with the remainder being in Canada. All of the mining properties are located in Brazil.