TALON METALS CORP.

Condensed Consolidated Interim Financial Statements

September 30, 2013 and 2012

(Unaudited)

(Expressed in Canadian dollars)

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

Talon Metals Corp.
Condensed Consolidated Interim Balance Sheets

(Expressed in Canadian dollars)
(Unaudited)

	Notes	September 30, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents		$ 15,980,010	$ 16,485,729
Investments	*4a*	329,149	1,447,186
Prepayments		99,387	58,813
Accounts and other receivables		14,320	51,607
		16,422,866	18,043,335
Non-current assets			
Equipment		92,682	105,333
Investment in Tlou Energy	*4b*	2,880,000	6,107,143
Resource properties and deferred expenditures	*5*	19,175,169	18,290,769
Assets held for sale	*6*	8,013	262,400
		$ 38,578,730	$ 42,808,980
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 506,646	$ 556,118
Provision for distribution of Rio Verde shares to option holders	*7*	478,000	516,000
		984,646	1,072,118
Shareholders' equity			
Share capital	*8*	74,106,555	74,106,555
Contributed surplus		15,035,464	14,572,653
Accumulated other comprehensive loss		(1,195,101)	(873,821)
Deficit		(50,352,835)	(46,068,525)
		37,594,083	41,736,862
		$ 38,578,729	$ 42,808,980

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the audit committee of the board of directors of Talon Metals Corp. on November 11, 2013

Signed:

"Gregory S. Kinross" "Jonathan M. Schneider"

Talon Metals Corp.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

(Unaudited)

	Notes	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012 (Adjusted - Note 18)
Revenue					
Interest income		$ 19,623	$ 15,843	$ 59,489	$ 133,574
Expenses					
Office and general		110,300	412,731	293,206	689,579
Professional fees	*9*	17,865	52,935	105,567	244,491
Stock option compensation payments (recovery)	*10*	134,761	216,803	462,811	615,631
Salaries, benefits, consulting and management fees	*9, 15*	181,402	183,317	559,538	998,332
Project evaluation and due diligence	*9*	878,009	303,221	1,977,640	1,284,484
Provision for distribution of Rio Verde shares to option holders	*7, 18*	-	17,105	(38,000)	(127,895)
Listing and filing expense		9,188	16,372	64,141	60,104
Depreciation of equipment		5,425	6,003	16,341	19,063
Foreign currency translation (gain) loss		160,639	568,789	(184,710)	71,355
Loss (gain) on investments	*4a*	73,830	(236,663)	396,101	851,911
Share of loss in Tlou	*4b*	-	187,519	225,470	931,418
Loss (gain) on investments - Tlou	*4b*	(966,910)	-	465,694	-
Gain on sale of equipment		-	-	-	(911,395)
Accretion of present value on long term assets	*6*	-	-	-	(47,022)
		604,509	1,728,132	4,343,799	4,680,056
Net loss		(584,886)	(1,712,289)	(4,284,310)	(4,546,482)
Share of other comprehensive income (loss) - Tlou	*4b*	-	(162,855)	(321,280)	(91,067)
Net loss and comprehensive loss		$ (584,886)	$ (1,875,144)	$ (4,605,590)	$ (4,637,549)
Basic and diluted net loss per share	*11*	$ (0.01)	$ (0.02)	$ (0.05)	$ (0.05)
Shares outstanding		92,076,687	92,076,687	92,076,687	92,076,687

The accompanying notes are an integral part of these consolidated financial statements.

Talon Metals Corp.

Condensed Consolidated Interim Statements of Changes in Equity

(Expressed in Canadian dollars)
(Unaudited)

	Notes	Common shares: Number of shares	Common shares: Amount	Common share purchase warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit (Adjusted - Note 18)	Shareholders' equity
Balance at January 1, 2013		92,076,687	$ 74,106,555	$ -	$ 14,572,653	$ (873,821)	$ (46,068,525)	$ 41,736,862
Stock option compensation payments	*10*				462,811			462,811
Other comprehensive income - Tlou						(321,280)		(321,280)
Net loss							(4,284,310)	(4,284,310)
Balance at September 30, 2013	*8*	92,076,687	$ 74,106,555	$ -	$ 15,035,464	$ (1,195,101)	$ (50,352,835)	$ 37,594,083
Balance at January 1, 2012		92,001,687	$ 68,501,013	$ 5,546,292	$ 13,577,709	$ (723,363)	$ (27,668,469)	$ 59,233,182
Options exercised		75,000	59,250		(29,250)			30,000
Stock option compensation payments	*10*				615,631			615,631
Other comprehensive income - Tlou						(91,067)		(91,067)
Net loss							(4,546,482)	(4,546,482)
Balance at September 30, 2012	*8*	92,076,687	$ 68,560,263	$ 5,546,292	$ 14,164,090	$ (814,430)	$ (32,214,951)	$ 55,241,264

The accompanying notes are an integral part of these consolidated financial statements.

Talon Metals Corp.
Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian dollars)

(Unaudited)

	Nine months ended September 30, 2013	Nine months ended September 30, 2012 (Adjusted - Note 18)
Cash flows from operating activities		
Net loss and comprehensive loss	$ (4,605,590)	$ (4,637,549)
Non-cash adjustments:		
Share-based payments	462,811	615,631
Share of net loss and comprehensive loss in Tlou	546,750	1,022,485
Loss (gain) on investments	396,101	851,911
Loss (gain) on investments - Tlou	465,694	-
Provision for distribution of Rio Verde shares to option holders	(38,000)	(127,895)
Gain on sale of equipment	-	(911,395)
Accretion of present value on long term assets	-	(47,022)
Depreciation of equipment	16,341	19,063
	(2,755,893)	(3,214,771)
Working capital adjustments:		
Decrease (Increase) in prepayments	(40,574)	(50,198)
Decrease (Increase) in accounts and other receivables	37,287	151,183
(Decrease) in accounts payables and accrued liabilities	(49,472)	(506,946)
Net cash flows used in operating activities	(2,808,652)	(3,620,732)
Cash flows from investing activities		
Proceeds on sale (acquisition) of equipment	(3,689)	919,711
Proceeds on sale (acquisition) of assets held for sale	254,387	-
Proceeds on sale of investments	721,935	582,761
Proceeds on sale of investments - Tlou	2,214,699	-
Acquisition of resource properties and deferred expenditures	(884,400)	(2,435,970)
Net cash flows used in investing activities	2,302,932	(933,498)
Cash flows from financing activities		
Proceeds from share issuance	-	-
Proceeds from exercise of options	-	30,000
Net cash flows from financing activities	-	30,000
Net (decrease) increase in cash and cash equivalents	(505,720)	(4,524,230)
Cash and cash equivalents, beginning of the year	16,485,729	21,570,417
Cash and cash equivalents, end of the period	$ 15,980,009	$ 17,046,187

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS

Talon Metals Corp. ("Talon" or the "Company") is a mineral exploration company focused on the exploration and development of the Trairão iron project (the "Trairão Project") in Brazil. The Company has three indirect subsidiaries incorporated in Brazil. They are Brazmin Ltda. ("Brazmin"), Talon Ferrous Mineração Ltda. ("Ferrous") and Talon Iron Mineração Ltda ("TIML"). The Company, through TIML and Ferrous, holds a 100% interest in the Company's only material project, the Trairão Project.

The Company's head office address is Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in particular International Accounting Standard ("IAS") 34 (Interim Financial Reporting) as issued by the International Accounting Standards Board.

These Condensed Consolidated Interim Financial Statements have been prepared using the same accounting policies as those used in the Company's most recent annual consolidated financial statements. These Condensed Consolidated Interim Financial Statements do not include all of the disclosures included in the Company's annual consolidated financial statements. Accordingly, these should be read in conjunction with the Company's most recent annual consolidated financial statements.

Basis of preparation

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

Foreign currencies

Functional and presentation currency

The Canadian dollar is the functional currency and reporting currency of the Company and of all its subsidiaries.

The Condensed Consolidated Interim Financial Statements are presented in Canadian dollars. Monetary items are translated into Canadian dollars at the rate of exchange in effect at the end of the reporting period. Revenues and expenses are translated into Canadian dollars at the rates of exchange prevailing when the underlying transactions occurred.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the condensed consolidated interim statements of loss and comprehensive loss.

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 the time of acquisition.

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 recoverable amount if there is evidence of impairment. Such impairment is recorded in the condensed consolidated interim statements of loss and comprehensive loss.

Equipment

Equipment is carried at cost, less accumulated depreciation 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. 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.

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

Office and computer equipment	20% to 33% straight line basis

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 has 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.

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. During 2013 and 2012, the Company only capitalized costs on its core properties and expensed all costs related to properties that were of a secondary focus.

The cost of mineral properties includes the cash consideration paid 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. 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.

Impairment of non-financial assets

At the end of each reporting period 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. The recoverable 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 order to determine fair value, the Company considers multiple valuation approaches, including the income, market and cost approaches. 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 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Asset retirement obligations

A provision is recognized on the balance sheet 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. 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.

Deferred taxes

The Company uses the asset and liability method of accounting for income taxes, under which deferred 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. Deferred 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 deferred 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.

Deferred income tax benefits attributable to these differences, if any, are recognized to the extent that the realization of such benefits is probable.

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 fair value through profit and loss. These financial instruments are measured at fair value with changes in fair values recognized in the condensed consolidated interim statements of loss and comprehensive loss. 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 condensed consolidated interim statements of loss and comprehensive loss. 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.

The Company has classified its financial instruments as follows:

Cash and cash equivalents	-	Fair value through profit and loss
Investments	-	Fair value through profit and loss
Accounts and other receivables	-	Loans and receivables
Accounts payable and accrued liabilities	-	Other liabilities

Financial instruments recorded at fair value on the condensed consolidated interim 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).

Cash and cash equivalents and investment in marketable securities have been measured using level 1 inputs.

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.

Stock option compensation payments

The Company's shareholder approved stock option plan allows employees, directors and consultants of the Company 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, and includes directors and most consultants of the Company. The fair value is measured at grant date and each tranche is recognized 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.

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.

Reclassification

Amounts in the condensed consolidated interim statement of loss and comprehensive loss from the prior year have been reclassified to conform to the current year's presentation.

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.

Changes in accounting policies

IFRS 9 Financial Instruments: This standard replaces the current IAS 39 Financial Instruments Recognition and Measurement. The standard introduces new requirements for classifying and measuring financial assets and liabilities. The Company will start the application of IFRS 9 in the financial statements effective from January 1, 2015. The Company has not yet evaluated the impact on the financial statements.

IFRS 10 Consolidated Financial Statements: This standard replaces the current IAS 27 Consolidated and Separate Financial Statements. The standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The Company started the application of IFRS 10 in the financial statements effective from January 1, 2013. There were no significant impacts to the financial statements as a result of adopting this standard.

IFRS 12 Disclosure of Interests in Other Entities: This standard requires disclosures relating to an entity's interests in subsidiaries, joint arrangements and associates, including the reporting entity's involvement with other entities. The Company started the application of IFRS 12 in the financial statements effective from January 1, 2013. There were no significant impacts to the financial statements as a result of adopting this standard.

IFRS 13 Fair Value Measurements: This standard establishes a single source of guidance for all fair value measurements required by other IFRS, clarifies the definition of fair value, and enhances disclosures about fair value measurements. IFRS 13 applies when other IFRS require or permit fair value measurements or disclosures. IFRS 13 specifies how an entity should measure fair value and disclose fair value information. It does not specify when an entity should measure an asset, a liability, or its own equity instrument at fair value. The Company's adoption of IFRS 13, on Jan. 1, 2013, did not have a material financial impact upon the consolidated financial position or results of operations.

(Expressed in Canadian dollars)

IAS 1 Presentation of Financial Statements: The standard provides guidance on the presentation of items of OCI and their classification within OCI. The Company started the application of this standard in the financial statements effective from January 1, 2013. There were no significant impacts to the financial statements as a result of adopting this standard.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these Condensed Consolidated Interim 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 Interim Financial Statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the Condensed Consolidated Interim 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 also in future periods when 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 end of each reporting period 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 valuation of resource properties and the provision for distribution of Rio Verde Minerals Development Corp. (“Rio Verde”) shares to certain option holders.

The uncertainty in regards to the valuation of resource properties arises as a result of the estimates and judgements such as forecasts of metal prices, operating costs, capital costs and income taxes among numerous other valuation inputs, discount rates, comparability of the Company’s properties to those of other market participants and the selection of market-participant assumptions used in the determination of fair value.

The uncertainty in regards to the provision for distribution of Rio Verde shares to option holders arises as a result of estimating the probability that certain option holders will exercise their options.

4. INVESTMENTS

(a) Temporary investments

Temporary investments have been valued based on the closing price on the Toronto Stock Exchange (“TSX”).

	September 30, 2013			December 31, 2012		
	Number	**Price**	**Value**	**Number**	**Price**	**Value**
Lago Dourado Minerals Ltd. shares	500,000	0.02	$ 10,000	500,000	0.21	$ 105,000
Brazilian Gold Corporation shares	3,191,489	0.10	319,149	3,191,489	0.20	638,298
Rio Verde Minerals Development Corp. shares	-	-	-	1,804,838	0.39	703,887
			$ 329,149			$ 1,447,185

(Expressed in Canadian dollars)

(b) Long term investments

Tlou Energy Limited

On January 1, 2013, the Company owned 21,857,142 shares (2012 – 21,857,142 shares) representing an ownership interest in Tlou Energy Limited ("Tlou Energy) of 26.3% (2012 – 31.1%). On April 2, 2013, Tlou Energy issued 20,000,000 shares in conjunction with its initial public offering on the Australian Securities Exchange ("ASX") and on April 5, 2013, the Company sold 5,000,000 shares for proceeds of AUD$1,250,000, resulting in a decrease of the Company's ownership interest in Tlou Energy to 16.4%. As a result of the reduced ownership interest, the Company changed the accounting method for its investment in Tlou Energy from the equity method to a financial instrument classified as held-for-trading. The investment is now valued based on the trading price of Tlou Energy on the ASX. The accounting change was implemented in accordance with IFRS and was a result of the Company no longer having significant influence in Tlou Energy. On September 11, 2013, the Company sold 2,571,428 shares of Tlou Energy for proceeds of $890,110.

From January 1, 2013 until April 5, 2013, the Company recognized an equity loss of $546,750, as derived from Tlou Energy's comprehensive loss for the same period. The continuity of the Company's carrying value of Tlou Energy is as follows:

	2013	2012
Investment, beginning of the year	$ 6,107,143	$ 19,615,514
Total comprehensive income (loss) for the period	(546,750)	(2,252,528)
Sale of shares - cost basis	(2,308,517)	
Unrealized gain (loss)	(371,876)	-
Impairment write-down	-	(11,255,843)
Investment, end of the period	$ 2,880,000	$ 6,107,143

As at September 30, 2013, the Company's investment in Tlou Energy was valued with the gain or loss for the period recognized in income as an investment gain (loss). In accordance with the rules of the ASX, all of the remaining shares of Tlou Energy held by the Company, namely 14,285,714 shares, are subject to a mandatory two year escrow period which expires on April 9, 2015 (the "ASX Escrow"). The escrow shares were valued at a 40% discount to Tlou Energy's closing price on the ASX as at September 30, 2013 because the escrow shares cannot be sold until the ASX Escrow has expired.

	September 30, 2013			December 31, 2012		
	Number	Price	Value	Number	Price	Value
Tlou Energy - escrow shares	14,285,714	0.20	$ 2,880,000	-	-	$ -
Tlou Energy	-	-	-	21,857,142	0.28	6,107,143
Total	14,285,714		$ 2,880,000	21,857,142		$ 6,107,143

Talon also holds options to purchase an aggregate of 4,945,055 Tlou Energy shares at an exercise price of AUD$1.25 each, exercisable until May 9, 2015 (the "Tlou Options"). All of the Tlou Options are subject to the ASX Escrow. Talon may not exercise or transfer any Tlou Options until the ASX Escrow has expired.

(Expressed in Canadian dollars)

5. RESOURCE PROPERTIES AND DEFERRED EXPENDITURES

The properties on which the Company's subsidiaries carry out exploration and development activities are located in Brazil. Details of additions for the nine month period ended September 30, 2013 are as follows:

	December 31, 2012	Additions	September 30, 2013
Mineral Properties:			
Trairao Project	$ 16,614,930	$ 867,509	$ 17,482,439
Inaja South Project	1,142,644	10,871	1,153,515
Campo Grande Gold Project	533,195	6,020	539,215
	$ 18,290,769	$ 884,400	$ 19,175,169

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

(a) Trairão Project and Inajá South 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 with Codelco do Brasil Mineração Ltda. (“Codelco”) and Barrick International (Barbados) Corp. (“Barrick Barbados”).

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.

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 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 the case of the Inajá South Project, Barrick Barbados will receive a net smelter royalty of 0.5% for any base metals sold (sales tonnes) and 1.0% for any precious metals sold (sales tonnes). Talon has the right to buy back the royalty for US$1 million during the 12 month period following the start of commercial production. Barrick Barbados has the right 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 of gold.

(Expressed in Canadian dollars)

(b) São Jorge Gold Project

Talon entered into an option agreement (the "São Jorge Agreement") dated June 14, 2010 with Brazilian Gold Corporation ("Brazilian Gold") whereby Brazilian Gold was granted an option to purchase a 100% interest in the São Jorge Gold Project. Under the São Jorge Agreement, in order to exercise the option, Brazilian Gold was 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 three payments of cash and shares. As provided for under the São Jorge Agreement, Brazilian Gold made the first two payments totalling $1.5 million in cash and $1.5 million in Brazilian Gold shares. On February 17, 2012, the Company and Brazilian Gold entered into an amendment agreement ("São Jorge Amendment Agreement") whereby the parties agreed that if the final option payment was made at the time of the São Jorge Amendment Agreement, Talon would accept such payment as $1.5 million in Brazilian Gold shares, instead of $750,000 in cash and $750,000 in Brazilian Gold shares. Given this, Brazilian Gold has exercised the option resulting in the Company indirectly transferring to Brazilian Gold its indirect subsidiary Brazilian Resources Mineracao Ltda. which owns a 100% interest in the São Jorge Gold Project. Talon's wholly-owned subsidiary Brazmin retains a 1% net smelter return royalty ("NSR") over the São Jorge Gold Project.

The Company no longer owns the São Jorge Gold Project.

(c) 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 one exploration license covering 761 hectares and one exploration license application covering 1,893 hectares (for a total of 2,654 hectares), which are held 100% by Brazmin. An NSR of 1.5% is held by a third party over the exploration license.

6. ASSETS HELD FOR SALE

The Company received 3,191,489 Brazilian Gold shares (valued at $1,500,000 at the time of receipt) during the first quarter of 2012, being the final payment in respect of the "Assets held for sale" relating to the Sao Jorge Gold Project. The difference between the carrying amount at December 31, 2011 of $1,452,978 and the proceeds received of $1,500,000 being, $47,022 was recognized in the first quarter of 2012 on the statement of loss and comprehensive loss as accretion of present value on long-term assets.

Assets held for sale are comprised of the following:

	September 30, 2013	December 31, 2012
Plant and equipment	$ 8,013	$ 262,400

During the second quarter of 2013, certain equipment was sold for proceeds of $254,387 resulting in a gain of nil.

7. PROVISION FOR DISTRIBUTION OF RIO VERDE SHARES TO OPTION HOLDERS

The Company retained shares in Rio Verde, to be distributed in most part, to Talon option holders as of July 27, 2011, upon the future exercise by them of their options, on the basis of one ordinary share of Rio Verde for every four Talon options exercised, in accordance with the Plan of Arrangement as voted on and approved by shareholders. A provision of $478,000 (2012 - $516,000) has been recognized for this purpose in the consolidated balance sheets. This provision has been based on a price per Rio Verde share of $0.40, being the price at which Rio Verde was acquired. Previously, the provision was based on the closing share price of Rio Verde on the TSX when it was still a public company. The gross value of the liability has been adjusted downwards to take into account the probability that certain options will not be exercised because they are out-of-the-money. The recognized liability represents approximately 76% (2012 – 74%) of the potential maximum liability.

(Expressed in Canadian dollars)

8. 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 – 92,076,687 common shares at September 30, 2013 and December 31, 2012.

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 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 consisted 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 "Unit Warrant"). Each Unit Warrant entitled 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 broker warrants were issued on April 29, 2011. These broker warrants expired on October 29, 2012. (The Unit Warrants together with the broker warrants, "Warrants").

The proceeds were prorated to Common Shares and Warrants based on the relative fair value of each component, as follows: Common Shares - $23.5 million; Warrants - $5.2 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 –112%; risk free interest rate – 1.62%; and an expected life of eighteen months.

During the fourth quarter of 2012, all the Warrants expired and the proceeds attributed to the Warrants were reclassified to share capital.

(b) Warrants

Warrant transactions during the nine months ended September 30, 2013 and the year ended December 31, 2012 are as follows:

	Nine months ended September 30, 2013			Year ended December 31, 2012		
	Number of Warrants	Exercise Price	Fair Value	Number of Warrants	Exercise Price	Fair Value
Outstanding – beginning of the year	-	$ -	$ -	6,190,152	$ 3.05	$5,546,292
Expired	-	-	-	(6,190,152)	3.05	(5,546,292)
Outstanding – end of the period	-	$ -	$ -	-	$ -	$ -

(Expressed in Canadian dollars)

9. PROJECT EVALUATION AND DUE DILIGENCE EXPENSES

In the normal course and to a greater extent in 2012 and 2013, the Company evaluates new mineral project opportunities. The costs associated with this activity, as well as costs related to non-core property expenditures where they are not being capitalized, are included in project evaluation and due diligence expenses in the Condensed Consolidated Interim Statements of Loss and Comprehensive Loss. A breakdown of these costs for the three and nine month periods ended September 30 2013 and 2012 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
Salaries, benefits, consulting and management fees	$ 619,701	$ 97,724	$ 1,407,803	$ 702,927
Professional fees	31,037	30,433	60,871	38,104
Travel	128,158	35,975	284,826	203,706
Property payments and licenses	78,770	120,386	158,009	303,511
Other	20,344	18,703	66,131	36,236
	$ 878,008	$ 303,221	$ 1,977,640	$ 1,284,483

10. STOCK OPTION COMPENSATION PAYMENTS – EMPLOYEE SHARE OPTION PLAN

The Company has adopted a stock option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company. The exercise price of each option is determined by the board of directors of Talon but, in any event, is not lower than the closing market price on the TSX on the trading day immediately preceding the date the option is granted. The terms and conditions of the options are determined by the board of directors of the Company pursuant to the rules of the Plan. All options are granted for a term not exceeding ten 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 options outstanding as at September 30, 2013 and December 31, 2012 and changes during the periods ended on those dates is presented below:

	Nine months ended September 30, 2013		Year ended December 31, 2012	
	Number of stock options	**Weighted average exercise price**	**Number of stock options**	**Weighted average exercise price**
Outstanding – beginning of the year	12,389,350	$ 0.70	9,489,350	$ 1.00
Granted	1,800,000	0.30	2,800,000	0.45
Cancelled	(80,013)	0.37	465,408	0.37
Cancelled	(50,000)	0.385	1,279,592	0.42
Cancelled	(225,000)	0.40	400,000	0.33
Cancelled	(219,987)	0.415	(500,000)	0.40
Cancelled	(200,000)	0.57	(430,000)	1.58
Cancelled	(125,000)	1.00	(950,000)	1.95
Cancelled	(50,000)	1.58	(60,000)	0.70
Cancelled	(115,000)	1.95	(30,000)	2.12
Cancelled	(50,000)	2.48		
Cancelled	(250,000)	2.48		
Exercised			(75,000)	0.40
Outstanding – end of the period	12,824,350	$ 0.60	12,389,350	$ 0.70

2,733,733 of the 12,824,350 options outstanding have been issued outside of the Plan.

No options were exercised during the nine months ended September 30, 2013. In 2012, the weighted average share price when options were exercised was $0.37.

(Expressed in Canadian dollars)

As at September 30, 2013, the Company had the following stock options outstanding:

Date of grant	Number of options	Exercisable	Exercise price	Expiry date
June 11, 2009	440,000	440,000	0.39	June 11, 2014
May 21, 2010	3,444,350	3,444,350	0.40	May 21, 2015
October 26, 2010	900,000	900,000	0.70	October 26, 2015
January 17, 2011	255,000	255,000	1.58	January 17, 2016
February 7, 2011	40,000	40,000	2.12	February 7, 2016
March 3, 2011	200,000	200,000	2.48	March 3, 2016
May 25, 2011	475,000	475,000	1.95	May 25, 2016
October 1, 2011	125,000	125,000	1.00	October 1, 2016
January 31, 2012	1,966,267	983,134	0.45	January 31, 2017
April 4, 2012	1,059,605	982,619	0.42	April 4, 2017
April 25, 2012	385,395	47,381	0.37	April 25, 2017
February 20, 2013	300,000	243,250	0.30	February 20, 2018
February 28, 2013	100,000	25,000	0.30	February 28, 2018
June 7, 2011	500,000	500,000	1.95	June 7, 2016
January 31, 2012	833,733	416,867	0.45	January 31, 2017
June 15, 2012	400,000	200,000	0.33	June 15, 2017
March 20, 2013	1,000,000	-	0.30	March 20, 2018
August 1, 2013	400,000	300,000	0.30	August 1, 2018
	12,824,350	9,577,601	$ 0.68	

A stock option compensation payment expense of $462,811 for the nine months ended September 30, 2013 (2012 – $615,631) was recognized in the condensed consolidated interim statements of loss and comprehensive loss.

Options Granted in 2013

In February 2013, 400,000 options were issued to certain employees and consultants of the Company. These have a contractual life of 5 years and an exercise price of $0.30. 200,000 options vested immediately and the remainder vest over the 6 to 24 months following their issuance date. 75,000 options have accelerated vesting should the 5 day volume weighted average price (“VWAP”) of the shares reach $1.00, $1.50 and $2.00.

In March 2013, 1,000,000 options were issued to a consultant of the Company. These have a contractual life of 5 years and an exercise price of $0.30. These options vest when certain performance conditions are met that relate to the acquisition of certain exploration or mining licenses.

In August 2013, 400,000 options were issued to certain employees and a board member of the Company. These have a contractual life of 5 years and an exercise price of $0.30. 300,000 options vested immediately and the remainder vest over the 6 to 24 months following their issuance date.

Options Granted in 2012

In January 2012, 2.8 million options were issued to an officer of the Company. These have a contractual life of 5 years and an exercise price of $0.45. They vest as follows: 700,000 vested on February 9, 2012 and the remainder vest over the next 12 to 24 months with accelerated vesting should the VWAP of the shares reach $1.00, $1.50 and $2.00.

In April 2012, 1,279,592 options were issued to certain of the officers, employees and consultants of the

(Expressed in Canadian dollars)

Company. These have a contractual life of 5 years and an exercise price of $0.415. They vest as follows: 491,828 vested on April 4, 2012 and the remainder vest over the next 11 to 18 months with accelerated vesting should the VWAP of the shares reach $1.00 and $1.50.

Also in April 2012, 465,408 options were issued to certain of the officers, employees and consultants of the Company. These have a contractual life of 5 years and an exercise price of $0.37. They vest as follows: 30,672 vested on April 25, 2012 and the remainder vest over the next 18 to 23 months with accelerated vesting should the VWAP of the shares reach $1.00, $1.50 and $2.00.

In June 2012, 400,000 options were issued to an officer of the Company. These have a contractual life of 5 years and an exercise price of $0.33. They vest as follows: 100,000 vested on June 15, 2012 and the remainder vest over the next 12 to 24 months with accelerated vesting should the VWAP of the shares reach $1.00, $1.50 and $2.00.

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

	2013	2012
Risk-free interest rate	1.7-1.8%	1.4%
Expected life	5 years	5 years
Expected volatility	60%	102-111%
Dividend yield	Nil	Nil

11. LOSS PER SHARE

(a) Basic

Basic loss per share has been calculated using the weighted average number of common shares outstanding during the year.

(b) Diluted

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

12. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, term deposits, accounts and other receivables, investments, accounts payable and accrued liabilities.

The Company has classified its financial assets and liabilities into the following levels (as discussed in Note 2) as follows:

Level 1		
Cash and cash equivalents	$	15,980,010
Investments		329,149
Level 3		
Investment in Tlou Energy - escrow shares	$	2,880,000

13. 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, short-term government treasury bills, money market funds and guaranteed investment certificates ("GICs") 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 and cash equivalents and receivables.

(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 September 30, 2013, the Company had a cash and cash equivalents balance of $15,980,010 (December 31, 2012 - $16,485,729) to settle current liabilities of $984,646 (December 31, 2012 - $1,072,118).

(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 close price at the end of the reporting period. Changes in the close price will affect the fair value of these investments. A 5% change in the value of the Company's investments on the last day of the period with all other facts/assumptions held constant, would have affected net loss of the Company for the nine months ended September 30, 2013, by approximately $160,000.

(d) Foreign exchange risk

The Company is exposed to movements in the United States dollar and the Brazilian real as transfers are made to the Brazilian subsidiaries of the Company in United States dollars and subsequently converted in Brazil to Brazilian reals.

At September 30, 2013, the Company had net monetary assets and liabilities in foreign currencies, as follows (Canadian dollar equivalent):

United States dollars	$ 7,202,687
Brazilian real	$ 138,769

If foreign exchange rates changed by 5% on the last day of the second quarter of 2013 with all other facts/assumptions held constant, there would be a change in the net loss of the Company for the three months ended September 30, 2013 of approximately $370,000.

The Company entered into short-term currency hedging activities during February and March 2012 in order to preserve the value of cash held in Brazilian real.

(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 these investments mature. The Company is exposed to interest rate risk only to the extent of its interest income on Treasury bills and money market funds. These are typically short-term investments with a term of less than ninety days. The Company has no interest bearing debt.

(Expressed in Canadian dollars)

14. CAPITAL RISK MANAGEMENT

Capital is comprised of equity which at September 30, 2013 was $37,657,209 (December 31, 2012 - $41,736,862). 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 September 30, 2013 and December 31, 2012, 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 nine months ended September 30, 2013. The Company is not subject to externally imposed capital requirements.

15. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties include the board of directors of the Company, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

Effective April 1, 2011, the Company entered into a revised administrative and advisory services agreement (the "Tau Agreement") with Tau Capital Corp. ("Tau"). Warren Newfield and Greg Kinross, both directors of Talon are also directors of Tau. Under the Tau Agreement, Talon agreed to pay Tau a monthly service fee of $58,500. Effective April 1, 2012, the parties agreed to lower the monthly service fee to $25,000, given that Tau would be providing fewer direct services to Talon. On June 1, 2012, the Tau Agreement was terminated by the parties. For the nine months ended September 30, 2013, fees paid for these services were $nil (2012 - $225,500).

Effective April 1, 2011, Talon entered into a services agreement with a company owned by an officer and director of Talon (Luis Azevedo) (the "Brazil Agreement"). Pursuant to the Brazil Agreement, the company provides Talon with certain accounting, legal and general administrative functions in Brazil. The Brazil Agreement had an initial term of one year and automatically renewed for additional one year terms, until terminated in accordance with its terms. Under the Brazil Agreement, Talon agreed to pay a monthly service fee of US$33,000. Effective May 1, 2012, the parties agreed to lower the monthly service fee to US$23,000 and, on October 1, 2012, the parties agreed to further lower the monthly service fee to US$18,000. Coupled with the revised fee in October 2012, the parties agreed to a one year term for the Brazil Agreement terminating September 30, 2013, unless extended by agreement of the parties. From October 1, 2013, the parties have agreed to extend the Brazil Agreement on a month-to-month basis. For the nine months ended September 30, 2013, fees paid amounted to $158,000 (2012 - $256,266).

Accounts payable and accrued liabilities at September 30, 2013 include $nil payable to related parties (December 31, 2012 - $1,919 payable to Tau).

The remuneration of directors and officers of the Company for the three and nine months ended September 30, 2013 and 2012 were as follows:

	Three months ended September 30,				Nine months ended September 30,			
		2013		2012		2013		2012
Cash compensation	$	462,775	$	329,375	$	1,304,158	$	1,006,661
Share based compensation		107,205	-	91,908		414,028		494,988
Aggregate compensation	$	569,980	$	237,467	$	1,718,186	$	1,501,649

Included in cash compensation for the nine months ended September 30, 2013 is severance cost of $nil (nine months ended September 30, 2012 – $189,000).

Certain officers and directors of the Company were awarded the following share options during the nine months ended September 30, 2013:

Date Granted	Number	Exercise Price		Expiration Date
February 20, 2013	200,000	$	0.30	February 20, 2018
February 20, 2013	75,000	$	0.30	February 20, 2018
February 28, 2013	100,000	$	0.30	February 28, 2018
August 1, 2013	300,000	$	0.30	August 1, 2018

16. INCOME TAXES

The Company is incorporated in the British Virgin Islands. There is no corporate tax in the British Virgin Islands. The Brazilian subsidiaries have loss carry forwards of approximately $8 million 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 deferred tax asset relating to the losses, and according, no deferred income tax asset has been recognized in these Condensed Consolidated Interim Financial Statements.

17. GEOGRAPHIC INFORMATION

Interest income is earned in Canadian dollars, United States dollars and Brazilian real. Almost all of the Company's equipment is in Brazil and all of the mineral properties are located in Brazil.

18. PRIOR PERIOD ADJUSTMENTS

The consolidated financial statements of the Company as at December 31, 2011 and for the year then ended were adjusted to account for the provision for distribution of Rio Verde shares to option holders in connection with a plan of arrangement as voted on and approved by shareholders of the Company in July 2011.

Before the adjustment, the provision was recognized during the three month period ending March 31, 2012 and it should have been recognized in July 2011. As such, the Condensed Consolidated Interim Statement of Loss and Comprehensive Loss for the nine month period ending September 30, 2012 has been adjusted. The effect of this prior period adjustment was a decrease in expenses and an increase in the opening deficit (retained earnings) of $510,000 for the nine month period ending September 30, 2012.