TALON METALS CORP

TALON METALS CORP.

Condensed Consolidated Interim Financial Statements

September 30, 2011 and 2010

(Unaudited)

(Expressed in Canadian Dollars)

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

Talon Metals Corp.
Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

	Notes	As at September 30, 2011	As at December 31, 2010	As at January 1, 2010
Assets			*(Note 20)*	*(Note 20)*
Current assets				
Cash and cash equivalents		$ 28,310,151	$ 12,345,677	$ 2,807,195
Term deposits		-	3,503,928	1,500,000
Investments	*6*	2,143,556	1,137,426	528,112
Prepayments		230,215	291,734	22,500
Accounts and other receivables		280,153	672,616	21,388
		30,964,075	17,951,381	4,879,195
Non-current assets				
Equipment		190,526	184,371	72,840
Resource properties and deferred expenditures	*7*	12,638,779	10,950,914	9,417,920
Loan receivable	*8*	-	-	5,000,000
Investment in Tlou Energy	*6*	18,471,230	20,937,027	-
Assets held for sale	*9*	1,398,439	3,915,488	-
Total assets		$ 63,663,049	$ 53,939,181	$ 19,369,955
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities		$ 2,181,871	$ 2,139,930	$ 920,069
Shareholders' Equity				
Share capital	*11*	66,136,856	41,990,775	22,320,031
Common share purchase warrants	*11*	7,734,941	1,388,815	-
Contributed surplus		13,137,548	7,864,955	5,263,836
Accumulated other comprehensive loss		(361,537)	(37,918)	-
Deficit		(25,166,630)	(12,763,346)	(9,133,981)
		61,481,178	38,443,281	18,449,886
Non-controlling interest	*11*	-	13,355,970	-
Total equity		61,481,178	51,799,251	18,449,886
Total liabilities and equity		$ 63,663,049	$ 53,939,181	$ 19,369,955

See accompanying notes to the condensed consolidated interim financial statements.

Approved by the Board on November 14, 2011.

Signed:

s/ Gregory S. Kinross *s/ Jonathan M. Schneider*

Talon Metals Corp.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
(Unaudited)

	Notes	For the three months ended September 30, 2011	For the three months ended September 30, 2010 (Note 20)	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010 (Note 20)
Continuing operations					
Revenue					
Interest income		$ 3,457	$ 3,892	$ 10,061	$ 6,096
Gain on sale of projects	7 (A) 4	989,158	903,907	1,089,158	903,907
		992,615	907,799	1,099,219	910,003
Expenses					
Office and general		438,114	191,943	723,223	494,884
Professional fees		194,674	358,051	654,660	817,482
Personnel expenses and share-based payments		574,980	65,785	5,563,297	2,059,089
Consulting fees		258,708	118,285	612,742	374,912
Management fees		175,500	119,161	450,000	288,031
Travel		162,192	145,975	467,654	332,310
Listing and filing expense		46,722	9,122	250,676	77,580
Interest and bank charges		43,283	7,800	92,907	23,258
Write down of advances		-	138,313	-	138,313
Write down of projects		620,898	99,035	724,803	2,128,772
Amortization of equipment		7,192	5,000	17,440	15,000
		2,522,263	1,258,470	9,557,402	6,749,631
Loss before the following		(1,529,648)	(350,671)	(8,458,183)	(5,839,628)
Foreign currency translation loss		69,322	84,373	360,398	163,696
Share of loss in Tlou		320,493	-	2,142,178	-
Unrealized loss on investments		1,182,444	-	827,740	-
Accretion of present value on long term assets		(198,439)	-	(198,439)	-
Loss (gain) on disposal of assets held for sale	9	-	-	(1,717)	-
Gain on sale of investments	6	-	-	(262,185)	(223,448)
		1,373,820	84,373	2,867,975	(59,752)
Net loss for the period from continuing operations		(2,903,468)	(435,044)	(11,326,158)	(5,779,876)
Net gain (loss) from discontinued operations	5	458,572	-	(962,391)	-
Net loss for the period		(2,444,896)	(435,044)	(12,288,549)	(5,779,876)
Share of other comprehensive income (loss) - Tlou		(325,792)	-	(323,619)	-
Net loss and comprehensive loss for the period		$ (2,770,687)	$ (435,044)	$ (12,612,168)	$ (5,779,876)
Net gain (loss) from discontinued operations attributable to:					
Shareholders of Talon		$ 889,519	$ -	$ 235,303	$ -
Non-controlling interests in Rio Verde		(430,947)	-	(1,197,694)	-
		$ 458,572	$ -	$ (962,391)	$ -
Net loss attributable to:					
Shareholders of Talon		$ (2,013,948)	$ (435,044)	$ (11,090,855)	$ (5,779,876)
Non-controlling interests in Rio Verde		(430,947)	-	(1,197,694)	-
		$ (2,444,896)	$ (435,044)	$ (12,288,549)	$ (5,779,876)
Basic and diluted loss per share from:	13				
Continuing operations		$ (0.03)	$ (0.01)	$ (0.13)	$ (0.11)
Discontinued operations		$ -	$ -	$ (0.01)	$ -
Continuing and discontinued operations		$ (0.03)	$ (0.01)	$ (0.14)	$ (0.11)
Basic and diluted loss per share from discontinued operations attributable to:	13				
Shareholders of Talon		$ 0.01	$ -	$ -	$ -
Non-controlling interests in Rio Verde		$ -	$ -	$ (0.01)	$ -

See accompanying notes to the condensed consolidated interim financial statements.

Talon Metals Corp.

Condensed Consolidated Interim Statements of Changes in Equity

(Expressed in Canadian Dollars)

(Unaudited)

	Notes	Capital stock: Number of shares	Capital stock: Amount	Common share purchase warrants	Subscription receipts	Contributed surplus	Accumulated other comprehensive loss	Deficit	Sub-total equity	Non-controlling interest in Rio Verde (Note 12)	Total equity
Balance at January 1, 2011		74,609,275	$41,990,775	$ 1,388,815	$ -	$ 7,864,955	$ (37,918)	$(12,763,346)	$ 38,443,281	$ 13,355,970	$ 51,799,251
Options exercised		569,650	447,768	-		(220,944)			226,824		226,824
Warrants exercised		5,323,162	4,582,712	(1,388,815)					3,193,897		3,193,897
Share-based payments	*12*					5,493,537			5,493,537		5,493,537
Share issuance on private financing	*11*	11,274,600	21,156,676	7,593,533					28,750,209		28,750,209
Brokers warrants issued on private financing			(643,150)	643,150					-		-
Brokers fees and other costs on financing			(1,397,925)	(501,742)					(1,899,667)		(1,899,667)
Subscription receipts issued on financing	*11*				10,414,261				10,414,261		10,414,261
Share issuance by Rio Verde								285,977	285,977	1,169,023	1,455,000
Compensation									-	481,100	481,100
Share of other comprehensive loss - Tlou							(323,619)		(323,619)		(323,619)
Net loss								(11,090,855)	(11,090,855)	(1,197,694)	(12,288,549)
Distribution of Rio Verde shares:											
Dividend								(11,460,791)	(11,460,791)		(11,460,791)
Net deconsolidation effect on equity					(10,414,261)			9,862,385	(551,876)	(13,808,399)	(14,360,275)
Balance at September 30, 2011	*11*	91,776,687	$66,136,856	$ 7,734,941	$ -	$13,137,548	$ (361,537)	$(25,166,630)	$ 61,481,178	$ -	$ 61,481,178
Balance at January 1, 2010		27,054,222	$22,320,031	$ -	$ -	$ 5,263,836	$ -	$ (9,133,981)	$ 18,449,886	$ -	$ 18,449,886
Shares issued on acquisition of net assets of Saber		36,823,728	16,202,439						16,202,439		16,202,439
Fair value of options granted						1,940,451			1,940,451		1,940,451
Net loss								(5,779,876)	(5,779,876)		(5,779,876)
Balance at September 30, 2010	*20*	63,877,950	$38,522,470	$ -	$ -	$ 7,204,287	$ -	$(14,913,857)	$ 30,812,900	$ -	$ 30,812,900

See accompanying notes to the condensed consolidated interim financial statements.

Talon Metals Corp.
Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited)

	For the nine months ended September 30, 2011	2010
		(Note 20)
Cash flows from continuing operating activities		
Net loss before tax for the period from continuing operations	$ (11,326,158)	$ (5,779,876)
Adjustments to reconcile net loss to net cash flows:		
Non-cash adjustments:		
Share-based payments	5,493,537	1,940,451
Write down of projects	724,803	2,128,772
Share of net loss in Tlou	2,142,178	-
Rehabilitation provision	-	3,827
Gain on sale of investments	(262,185)	(223,448)
Gain on sale of projects	(1,089,158)	(903,907)
Unrealized loss on investments	827,740	-
Gain on sale and disposal of assets held for sale	(1,717)	-
Accretion of present value on long term assets	(198,439)	-
Amortization of equipment	17,440	15,000
	(3,671,959)	(2,819,181)
Working capital adjustments:		
Decrease in prepayments	61,519	662,200
Decrease (increase) in accounts and other receivables	616,020	(1,057,640)
(Decrease) increase in accounts payables and accrued liabilities	(305,159)	471,355
Cash flows from continuing operations	(3,299,579)	(2,743,266)
Cash flows from discontinued operations	(1,398,732)	-
Net cash flows used in operating activities	(4,698,311)	(2,743,266)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(23,595)	(33,823)
Proceeds from sale of Saber assets held for sale	1,346,154	1,137,743
Proceeds on maturity of term deposit	3,503,928	1,500,000
Proceeds on sale of project	2,514,881	-
Investment in Rio Verde subscription receipts	(500,500)	-
Cash assumed from Saber	-	587,563
Transaction costs -Saber	-	(67,303)
Proceeds on sale of investments	1,366,335	1,740,006
Resource properties and deferred expenditures	(11,233,827)	(1,288,361)
Cash balance deconsolidated on distribution of Rio Verde shares	(13,356,080)	-
Cash flows from continuing operations	(16,382,704)	3,575,825
Cash flows from discontinued operations	(5,011,437)	-
Net cash flows (used in) from investing activities	(21,394,141)	3,575,825
Cash flows from financing activities		
Proceeds from exercise of options	226,824	-
Proceeds from exercise of warrants	3,193,857	-
Proceeds from private placements	26,850,542	-
Repayment of loan receivable	-	190,224
Cash flows from continuing operations	30,271,223	190,224
Cash flows from discontinued operations	11,785,703	-
Net cash flows from financing activities	42,056,926	190,224
Net increase in cash and cash equivalents	15,964,474	1,022,783
Cash and cash equivalents, beginning of the period	12,345,677	2,807,195
Cash and cash equivalents, end of the period	$ 28,310,151	$ 3,829,978

See accompanying notes to the condensed consolidated interim financial statements.

1. NATURE OF OPERATIONS

Talon Metals Corp. ("Talon" or "the Company") is engaged in the acquisition, evaluation, exploration and development of mineral properties. The Company has three subsidiaries incorporated in Brazil, Brazilian Resources Mineracao Ltda. ("BRM"), Brazmin Ltda. ("BRAZ LTDA") and Talon Iron Mineracao Ltda ("TIML").The Company, through its subsidiaries BRM and BRAZ LTDA, has acquired rights ranging from a 65% to 100% interest in a number of prospective gold mining projects situated in Brazil. The Company, through its subsidiary TIML holds a 100% interest in various iron ore projects situated in Brazil. The Company's head office address is Craigmuir Chambers, P. O. Box 71, Road Town, Tortola, British Virgin Islands.

The Company also has a subsidiary, Saber Energy Inc. ("Saber"), incorporated in Barbados. Saber, through its various wholly-owned subsidiaries, held exploration licenses for the exploration of coal bed methane and organic shale gas fields in Botswana during the year ended December 31, 2010.

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

All intercompany accounts and transactions have been eliminated.

2. GOING CONCERN

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

These unaudited condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard 34 ("IAS 34"), "Interim reporting" and IFRS 1, "First-time adoption" and their interpretations adopted by the International Accounting Standards Board ("IASB").

They do not include all of the information required for full annual financial statements.

These financial statements have been prepared in accordance with IFRS with a changeover date of January 1, 2011 and a transition date of January 1, 2010. Previously, the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The disclosures required by the provisions of IFRS 1, "First-time adoption of International Financial Reporting Standards", explaining how the transition to IFRS has affected the reported loss and comprehensive loss, cash flows, changes of equity and financial position of the Company, are presented in note 20.

The accounting policies set out below have been applied consistently to all periods presented in preparing the opening balance sheet at January 1, 2010 (note 20) for purposes of transition to IFRS.

There were no changes in accounting policies from previously reported financial statements for the period ended September 30, 2011.

(b) Basis of preparation

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

(c) Share-based payments

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

(d) Deferred taxes

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

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

(e) Equipment

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

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

Office and computer equipment	20% declining balance 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 have been initiated; the sale of the assets is probable and their transfer is expected to qualify for recognition as a completed sale within one year; the assets are being actively marketed at reasonable prices in relation to their fair value; and it is unlikely that significant changes will be made to the plan to sell the assets or that the plan will be withdrawn.

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

(f) Resource properties and deferred exploration and evaluation costs

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

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

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

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

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

(g) Impairment of non-financial assets

At each financial position reporting date the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. 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 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. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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

(h) Foreign currencies

Functional and presentation currency

The Canadian dollar is the functional currency of the Company.

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

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

(i) Financial assets and liabilities

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

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

The Company has classified its financial instruments as follows:

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

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

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

At September 30, 2011, cash and cash equivalents, term deposits and investment in marketable securities have been measured using level 1 inputs and the investment in share purchase warrants of publicly traded companies using level 2 inputs (refer to Note 6(a) for a summary of the inputs used in the Black-Scholes calculation).

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

For all other financial assets objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

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

(j) Cash and cash equivalents

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

(k) Investments in associates

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

(l) Asset retirement obligations

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

(m) Interest and other income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. The proceeds from options granted on properties are credited to the cost of the related property, but where the proceeds exceed the property's carrying value, any excess proceeds are credited to income.

(n) Loss per share

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

(o) Segment reporting

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

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

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

IFRS 7, *Financial Instruments - Disclosures* ("IFRS 7"), was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company is currently assessing the impact on its consolidated financial statements.

IFRS 10, Consolidated Financial Statements and IFRS 12, Disclosure of Interests in Other Entities - In May 2011, the International Accounting Standards Board ("IASB") issued IFRS 10, Consolidated Financial Statements ("IFRS 10") and IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"). IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in an entity's consolidated financial statements. IFRS 10 sets out three elements of control: a) power over the investee; b) exposure, or rights, to variable returns from involvement with the investee; and c) the ability to use power over the investee to affect the amount of the investors return. IFRS 10 sets out the requirements on how to apply the control principle. IFRS 12 outlines the disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity's financial position, financial performance and cash flows. IFRS 10 and IFRS 12 supersede IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation – Special Purpose Entities.

IFRS 10 and IFRS 12 are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted if adopted along with IFRS 11, IFRS 12, IAS 27 (revised) and IAS 28 (revised). The Company is currently assessing the impact of these standards on the financial statements.

IFRS 11, Joint Arrangements - In May 2011, the IASB issued IFRS 11, Joint Arrangements ("IFRS 11"), which provides guidance on accounting for joint arrangements. If an arrangement has joint control, IFRS 11 classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved.

A joint operation is an arrangement where the jointly controlling parties have rights to the assets and obligations in respect of the liabilities relating to the arrangement. An entity accounts for a joint operation by recognizing its portion of the assets, liabilities, revenues and expenses. A joint venture is an arrangement where the jointly controlling parties have rights to the net assets of the arrangement. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

The Company is currently assessing the impact that IFRS 11 will have on the consolidated financial statements.

IFRS 13, Fair Value Measurement **-** In May 2011, the IASB issued IFRS 13, Fair Value Measurement ("IFRS 13"). This standard defines fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements about fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement so assumptions that market participants would use should be applied in measuring fair value.

IFRS 13 is effective for annual periods on or after January 1, 2013, with earlier application permitted. This IFRS is to be applied prospectively as of the beginning of the annual period in which it is initially applied and the disclosure requirements do not need to be applied in comparative periods before initial application. The Company is currently assessing the impact of this standard on the financial statements.

Other Comprehensive Income - In June 2011, the IASB and the Financial Accounting Standards Board (FASB) issued amendments to standards to align the presentation requirements for other comprehensive income ("OCI"). The IASB issued amendments to IAS 1, Presentation of Financial Statements ("IAS 1") to require companies preparing financial statements under IFRS to group items within OCI that may be reclassified to the profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statements or two consecutive statements.

The amendments to IAS 1 set out in Presentation of Items of Other Comprehensive Income and are effective for fiscal years beginning on or after July 1, 2012. The Company is currently assessing the impact of these amendments on the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

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

(Presented in Canadian dollars)

5. ACQUISITIONS AND SPIN OFF

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

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

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

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

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

Rio Verde dilution

Subsequent to the effective date of the Company's acquisition and prior to December 31, 2010, Rio Verde issued 5,550,000 common shares to third parties (non-controlling interests or NCI) for proceeds of approximately $2.8 million thereby diluting Talon's ownership interest from 54% to 49%.

Subsequent to December 31, 2010 Rio Verde issued 2,910,000 common shares to non-controlling interests for proceeds of approximately $1.45 million thereby diluting Talon's ownership interest from 49% to 44%. The Company retained effective control over Rio Verde until July 27, 2011 (see "Distribution of Rio Verde shares"). Under applicable accounting guidance, changes in a parent's ownership interest after control is obtained that do not result in a change in control of the subsidiary are accounted for as equity transactions. As the Company continued to control Rio Verde until July 27, 2011, the Company has adjusted the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in Rio Verde. In April 2011 the Company's shareholding in Rio Verde was further reduced by a distribution of one million shares. As a result of the foregoing, the Company recorded in the 9 months ended September 30, 2011 financial statements:

(Presented in Canadian dollars)

(i) An increase of $883,376 to NCI; and
(ii) A dilution adjustment of $285,977 as a reduction of deficit.

Distribution of Rio Verde shares

On July 27, 2011 the Company completed the distribution of Rio Verde shares to Talon shareholders (the "RV Distribution"). Talon shareholders of record at the close of business on Wednesday July 27, 2011 were entitled to receive shares in Rio Verde on the basis of one ordinary share of Rio Verde for every four common shares of Talon.

The RV Distribution has been accounted for as a non-reciprocal distribution of ownership interests in Rio Verde to the Company's shareholders pursuant to the guidance set out in IFRIC Interpretation 17, Distributions of Non-cash Assets to Owners. The Company de-consolidated the accounts of Rio Verde effective July 27, 2011. The deconsolidation resulted in a net gain of $1,187,929 being the difference between the fair value of Rio Verde shares distributed and Talon's share of the carrying value of Rio Verde net assets in Talon's consolidated financial statements and the retained investment in Rio Verde shares. The RV Distribution also resulted in a direct adjustment to deficit in the amount of $9,862,385 resulting from the deconsolidation of the Rio Verde equity accounts.

Rio Verde Discontinued operations:

The RV Distribution has been presented as discontinued operations.

Net loss from discontinued operations amounted to $962,391 which is comprised of a de-consolidation gain of $1,187,929 and net loss from operations of Rio Verde for the period from January 1, 2011 to July 27, 2011 in the amount of $2,150,320.
The following table presents the condensed statement of operations of Rio Verde for the above period.

Expenses		
Office and administration		$ 1,076,486
Professional fees		836,574
Share-based payments		194,700
Amortization		11,832
		2,119,592
Net loss before the following		2,119,592
Interest income		(33,218)
Write-down of equipment		63,946
Net loss and comprehensive loss		$ 2,150,320

The following table presents the condensed cash flows attributable to the operating, investing and financing activities of Rio Verde operations for the above period.

(Presented in Canadian dollars)

Cash flows from operating activities			
Net loss for the period		$	(2,150,320)
Amortization			11,832
Write-down of equipment			63,946
Share-based payments			194,700
			(1,879,842)
Net change in non-cash working capital:			
Sundry receivables			81,371
Prepaid expenses			(39,226)
Accounts payable and accrued liabilities			438,965
			(1,398,732)
Cash flows from investing activities			
Mineral property expenditures			(2,988,353)
Acquisition of equipment			(59,214)
Deposit			(1,963,870)
			(5,011,437)
Cash flows from financing activities			
Proceeds of issuance of share capital, net of issuance costs			11,785,703
			11,785,703
Change in cash and cash equivalents			5,375,534
Cash and cash equivalents, beginning of the period			7,980,546
Cash and funds in trust, end of the period		$	13,356,080
Cash and funds held in trust, consist of:			
Cash balances		$	2,941,819
Funds held in trust			10,414,261
		$	13,356,080

(b) Saber Energy Corp.

On March 24, 2010 the Company and Saber Energy Corp completed a merger pursuant to the pre-merger agreement entered into on September 1, 2009. The resulting company (“MergeCo”) is governed by the provisions of the BVI Act and retains the corporate name, “Talon Metals Corp.”. The MergeCo common shares continue to be listed and posted for trading on the Toronto Stock Exchange under the symbol “TLO”.

The merger was effected as follows:

(a) each outstanding Talon share was converted into one MergeCo share;

(Presented in Canadian dollars)

(b) each outstanding Talon option, without exchange of the option certificate or agreement, becomes exercisable to purchase one MergeCo share at an exercise price per MergeCo share equal to the exercise price of the Talon Option so exercised;

(c) each outstanding value warrant issued by Saber to Talon was cancelled;

(d) each outstanding Saber share was exchanged for 0.17685 of a MergeCo share;

For accounting purposes the Company determined that the transaction represents an acquisition of Saber's net assets and has designated an effective date of March 24, 2010. The measurement of the purchase consideration is based on the closing market price of the Talon common shares on the effective acquisition date.

The acquisition cost of $16.4 million has been assigned to the acquired assets and liabilities, as follows:

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

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

6. INVESTMENTS

(a) Temporary investments

	September 30, 2011	December 31, 2010	January 1, 2010
Beadell Resources Limited	$ -	$ -	$ 528,112
Lago Dourado Minerals Ltd.	258,000	516,353	-
Brazilian Gold Corporation	562,500	621,073	-
Rio Verde Minerals Corp.	1,323,056	-	-
	$ 2,143,556	$ 1,137,426	$ 528,112

At January 1, 2010 the Company held 2,450,000 shares of Beadell Resources Limited with a fair value of

(Presented in Canadian dollars)

$528,112. All of these shares were sold by the Company during the first quarter of 2010 for gross proceeds of $724,006.

The Company holds 500,000 shares in Lago Dourado Minerals Ltd. ("Lago") with a fair value of $210,000. The Company also has 500,000 warrants in Lago with a fair value of $48,000. The Company has valued the warrants using the Black-Scholes option pricing model with the following assumptions: expected life of 0.95 years (December 31, 2010 –1.7 years), risk-free interest rate of 1.4% (December 31, 2010 – 2%), dividend rate of 0% (December 31, 2010 – 0%), and volatility of 91% (December 31, 2010 – 100%). These warrants have an exercise price of $0.50 per warrant and expire on July 13, 2012.

During the prior period the Company sold its investment in Brazilian Gold Corporation ("Brazilian") consisting of 985,830 shares for gross proceeds of $1,366,335. At September 30, 2011 the Company holds a total of 1,147,961 Brazilian shares. These shares were received in this period in terms of project sale agreements.

At September 30, 2011 the Company holds a total of 3,467,927 common shares and 770,000 share purchase warrants of Rio Verde. Concurrently with the completion of RV Distribution described in note 5, the Company exercised the subscription receipts in exchange for 770,000 common shares and 770,000 share purchase warrants of Rio Verde. The Company has fair valued the warrants at an amount of $282,590 using the Black-Scholes option pricing model with the following assumptions: expected life of 5 years, risk-free interest rate of 2.35%, dividend rate of 0%, and volatility of 110%. These warrants have an exercise price of $0.85 per warrant and expire on June 27, 2016.

(b) Long term investments

Tlou Energy

	September 30, 2011	December 31, 2010	January 1, 2010
Tlou Energy Limited	$ 18,471,230	$ 20,937,027	$ -

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

The Company's investment in Tlou Energy at September 30, 2011 amounted to $18,471,230 (December 31, 2010 - $20,937,027) and is comprised of the initial cost of $21,080,850, less a 30% share of net loss in Tlou Energy for the month ended December 31, 2010 and the nine-month period ended September 30, 2011. The Company's share of Tlou's net assets at the date of acquisition is approximately $10 Million. The difference will be tested for impairment on an annual basis.

The Company took up all of its rights in the Tlou rights offering held in October 2011, thereby acquiring another 2,571,428 shares (to add to its existing holding of 19 285,714 shares), for a cost of approximately $1,542,000. The Company's share in Tlou after this transaction is 31%, and therefore the Company will continue to account for this investment on the equity basis.

(Presented in Canadian dollars)

7. RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS

The properties on which the Company's subsidiaries carry out exploration and development activities are located in Brazil. Details of additions and impairments for the nine-month period ended September 30, 2011 and cumulative resource properties and deferred exploration expenditures are comprised as follows:

	January 1, 2010	2010 Additions	2010 Dispositions and write downs	December 31, 2010	2011 Additions	2011 Dispositions and write downs	September 30, 2011
Mineral Properties:							
Iron Ore Projects	$ -	$ 606,006	$ -	$ 606,006	$11,536,608	$ (23,421)	$ 12,119,193
Rio Verde Projects (including Sergipe)	751,687	7,357,254	-	8,108,941	3,065,648	(11,174,589)	-
Sao Jorge Gold Project	6,129,137	-	(6,129,137)	-	-	-	-
Agua Branca Gold Project	1,313,768	-	(194,864)	1,118,904	44,319	(1,163,223)	-
Campo Grande Gold Project	512,491	7,095	-	519,586	-	-	519,586
Other Projects	710,837	-	(113,360)	597,477	-	(597,477)	-
	$ 9,417,920	$ 7,970,355	$(6,437,361)	$ 10,950,914	$14,646,575	$(12,958,710)	$ 12,638,779

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

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

A decision was made by management during the third quarter that no future work will be done on certain Other Projects. As a result Other Projects were written down by $597,477.

(A) <u>Mineral properties</u>

1. Iron Ore Project

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

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

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

There are also provisions for Talon to buy back the base metal royalty and for Barrick Barbados to buy back up to a 50% interest in any future gold mining operation, which exceeds a reserve of three million ounces.

2. Rio Verde Projects (including Sergipe)

Effective July 27, 2011 the Company completed the RV Distribution and ceased to consolidate the accounts of Rio Verde. The following information with respect to Rio Verde projects has been presented for periods prior to the RV Distribution (see note 5).

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

Rio Verde's Sergipe Potash project comprises ten onshore and two offshore potash prospects in the Sergipe and Alagoas States of Brazil. Rio Verde holds exploration licenses for a total area of 107,987 hectares (266,840 acres) and applications for licenses are pending for a further 4,982 hectares (12,311 acres).

3. São Jorge Gold Project (see note 9)

On June 15, 2010, Talon announced that it had concluded an agreement with Brazilian Gold Corporation ("Brazilian Gold") (TSXV:BGC) whereby Brazilian Gold has been granted an option to purchase a 100% interest in São Jorge, a 57,420 hectare property in Pará State, Brazil. Under the terms of this agreement, Brazilian Gold is required to pay Talon a total of $2,250,000 in cash and $2,250,000 in Brazilian Gold shares (calculated as the number of Brazilian Gold shares equal to the dollar amount divided by the twenty day volume-weighted average trading price of Brazilian Gold shares).

In October 2010, Brazilian Gold made an initial payment of $1,000,000 in cash and $500,000 in Brazilian Gold shares. In July 2011 Brazilian Gold made a second payment of $500,000 in cash and $1,000,000 in shares. Brazilian Gold is required to make a final payment of $750,000 in cash and $750,000 in shares which is due by May 2012. This agreement is subject to a 1% net smelter return royalty payable to Talon upon commencement of commercial production.

Since this agreement has closed, the related project amounts remain classified under Assets Held for Sale, as at September 30, 2011.

4. Água Branca Gold Project

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

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

Under the terms of this agreement, Talon received an initial payment of US$60,000 immediately and a further US$60,000 was received during the second quarter of 2010, upon the transfer of the licences to Brazauro. In December 2010, the Company received a further US$130,000. Brazauro exercised the option on September 29, 2011 by making a final payment to Talon of US$1,870,000 (for total aggregate payments pursuant to the option agreement of US$2,120,000) and by completing certain other expenditures and technical milestones. A gain of $751,658 has been taken to the statement of loss and comprehensive loss in this period, and this amount represents the difference between the book value of the project and the final payment received.

(Presented in Canadian dollars)

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

5. Campo Grande Gold Project

The Campo Grande project is located approximately 110 km west of Belo Horizonte, the capital of Minas Gerais State, Brazil. This project consists of three exploration licenses covering 2,611 hectares, which are owned 100% by Company subsidiaries. An NSR of 1.5% is held by a third party on one of the three licenses.

(B) Oil and gas properties

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

8. LOAN RECEIVABLE

	September 30, 2011	December 31, 2010	January 1, 2010
Saber Energy Corp.	$ -	$ -	$ 5,000,000

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

As at March 24, 2010, the loan receivable from Saber (net of a repayment of $190,224 during the first quarter), was cancelled pursuant to the terms of the merger agreement. The Company received 6,000,000 Saber warrants (the "Value Warrants") in September 2009, in accordance with the terms of the loan agreement, upon completion by Saber of a round of financing. The warrants' exercise price was US$0.06 per common share of Saber. The warrant expiry date was the date that is 2 years following the date of the closing of a Saber going public transaction. The Company has determined that the value of the warrants was not material. These warrants were cancelled upon the closing of the merger in March 2010.

9. ASSETS HELD FOR SALE

During the nine month period ended September 30, 2011 the Company disposed of substantially all of the exploration equipment located at the Botswana project sites for net proceeds of approximately $1.4 million, resulting in a net gain on disposition of $174,759, net of transaction and related costs and has written down the remaining miscellaneous equipment to $nil.

(Presented in Canadian dollars)

The remainder of the "Assets held for sale" relate to its Sao Jorge project, and are measured at the lower of carrying value and fair value less costs to sell.

Assets held for sale are comprised of the following:

	September 30, 2011	December 31, 2010	January 1, 2010
Saber plant and equipment	$ -	$ 1,215,488	$ -
Sao Jorge project	1,398,439	2,700,000	-
	$ 1,398,439	$ 3,915,488	$ -

10. ASSET RETIREMENT OBLIGATIONS

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

The Company has no asset retirement obligations as of September 30, 2011 and December 31, 2010.

11. SHARE CAPITAL AND OTHER EQUITY

(a) Authorized, issued and outstanding common shares

Authorized – 100,000,000,000 common shares, no par value
Issued and outstanding - 91,776,687 and 74,609,275 shares as at September 30, 2011 and December 31, 2010, respectively.

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

On April 29, 2011 the Company completed a bought deal prospectus offering of 9,804,000 units (each a "Unit") at a price of $2.55 per unit for gross proceeds of $25,000,200 (the "Offering"). The Underwriters exercised their full overallotment option to acquire 1,470,600 additional Units for additional gross proceeds of $3,750,030. In total, 11,274,600 Units were sold for gross proceeds of $28,750,230. Each Unit consists of one common share in the capital of the Company (each a "Common-Share") and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Subject to acceleration of the expiry time in certain circumstances, each Warrant entitles the holder thereof to purchase one Common Share at a price of $3.10 at any time up to October 29, 2012. In addition, 552,852 Brokers warrants were issued on April 29, 2011. These warrants expire on October 29, 2012 and have an exercise price of $2.55 each.

(Presented in Canadian dollars)

The proceeds have been prorated to Common Shares and Warrants based on the relative fair value of each component, as follows: Common Shares - $21.1 million; Warrants - $7.6 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.

(b) Warrants

Common share purchase warrants transactions during the periods ending September 30, 2011 and December 31, 2010 are as follows:

	September 30, 2011			December 31, 2010			January 1, 2010		
	Number of Warrants	Weighted average exercise price	Fair Value	Number of Warrants	Weighted average exercise price	Fair Value	Number of Warrants	Weighted average exercise price	Fair Value
Outstanding – beginning of the year	5,323,163	$0.60	$ 1,388,815	-	-	-	-	-	-
Issued	5,637,300	3.10	7,593,533	5,323,163	$0.60	$ 1,388,815	-	-	-
Issued	552,852	2.55	643,150						
Cost of issuance			(501,742)						
Exercised	(5,323,163)	0.60	(1,388,815)	-	-	-	-	-	-
Outstanding – end of the period	6,190,152	$3.05	$ 7,734,941	5,323,163	$0.60	$ 1,388,815	-	-	-

(c) Non-controlling interest

Effective July 27, 2011 the Company completed the RV Distribution and ceased to consolidate the accounts of Rio Verde. The following information with respect to Rio Verde projects has been presented for periods prior to the RV Distribution (see note 5).

In connection with the acquisition of Rio Verde the Company recognized a non-controlling interest (“NCI”) (see note 5). During the period from January 1, 2011 to July 27 30, 2011 NCI was adjusted by the following amounts (i) $1,169,023 with respect to NCI’s share of proceeds from share issuance by Rio Verde, (ii) $481,100 with respect to distribution by the Company to third party investors and (iii) $(1,197,694) with respect to NCI share of net loss during the period. The entire balance was eliminated effective July 27, 2011.

12. SHARE - BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN

The Company has adopted a stock option plan (the "Plan") for its directors, officers and employees to acquire common shares of the Company at a price determined by the fair market value of the shares at the date immediately preceding the date on which the option is granted. The terms and conditions of the options are determined by the Board of Directors. All options are granted for a term of five years from the grant date. The total number of options that can be granted is limited to 12.5% of the issued and outstanding share capital of the Company.

A summary of the status of the Plan as at September 30, 2011 and as at December 31, 2010, and changes during the period ended on those dates is presented below:

(Presented in Canadian dollars)

	September 30, 2011			December 31, 2010		
	Number of stock options		Weighted average exercise price	Number of stock options		Weighted average exercise price
Outstanding – beginning of the year	6,739,000	$	0.45	3,185,000	$	1.04
Granted	1,435,000		1.85	5,984,500		0.45
Granted	2,085,000		1.95			
Cancelled	(25,000)		0.70	(850,500)		1.27
Expired	-		-	(1,495,000)		1.25
Exercised	(46,000)		0.39			
Exercised	(93,650)		0.40			
Exercised	(430,000)		0.40	(85,000)		0.40
Outstanding – end of the period	9,664,350	$	1.00	6,739,000	$	0.45

As at September 30, 2011, the Company had stock options issued to directors, officers and employees of the Company outstanding as follows:

Date of grant	Number of options	Exercisable	Exercise price	Expiry date
February 18, 2008	200,000	200,000	$0.57	February 18, 2013
June 11, 2009	553,500	553,500	$0.385	June 11, 2014
May 21, 2010	4,405,850	4,405,850	$0.40	May 21, 2015
October 26, 2010	985,000	985,000	$0.70	October 26, 2015
January 17, 2011	835,000	835,000	$1.58	January 17, 2016
February 7, 2011	70,000	70,000	$2.12	February 7, 2016
March 3, 2011	530,000	530,000	$2.48	March 3, 2016
May 25, 2011	2,085,000	985,000	$1.95	May 25, 2016
	9,664,350	8,564,350		

A share-based payment cost of $5,493,537 for the options granted in the nine months ended was recognized in the nine-month period ended September 30, 2011 (2010 - $1,940,451).

In March 2011 the Company issued 530,000 options to certain of its officers and employees. In May 2011, the Company issued 2,085,000 options to certain of its officers and employees. Other than as mentioned below, these options vested immediately; have a contractual life of 5 years and an exercise price of $2.48 and $1.95 respectively. 1,000,000 of the May 2011 options vest in equal amounts after 6 months, 12 months, 18 months and 24 months. 50,000 of the May 2011 options vest in equal amounts immediately, after 6 months and after 12 months.

(Presented in Canadian dollars)

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

	2011	2010
Risk-free interest rate	2.6%	2.0-2.6%
Expected life	5 years	5 years
Expected volatility	218-235%	179-207%
Dividend yield	Nil	Nil

13. LOSS PER SHARE

(a) Basic

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

Continuing operations:

	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Net loss for the period	$ (2,903,468)	$ (435,044)	$ (11,326,158)	$ (5,779,876)
Weighted average number of ordinary shares in issue	91,746,361	63,877,950	85,496,007	51,603,374
Basic loss per share from continuing operations	$ (0.03)	$ (0.01)	$ (0.13)	$ (0.11)

Discontinued operations:

	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Net gain (loss) for the period	$ 458,572	$ -	$ (962,391)	$ -
Weighted average number of ordinary shares in issue	91,746,361	63,877,950	85,496,007	51,603,374
Basic earnings (loss) per share from discontinued operations	$ 0.00	$ -	$ (0.01)	$ -

(b) Diluted

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

(Presented in Canadian dollars)

14. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, term deposits, accounts and other receivables, loan receivable, investments and accounts payable and accrued liabilities. The fair value of these financial instruments approximates carrying value.

Fair Value Hierarchy

The fair value hierarchy establishes three levels to classify inputs to the valuation techniques used to measure fair value. Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly, such as prices, or indirectly (derived from prices). Level 3 inputs are unobservable (supported by little or no market activity), such as non-corroborative indicative prices for a particular instrument provided by a third party.

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

Level 1	
Cash and cash equivalents	$28,310,151
Investments	$1,812,966
Accounts and other receivables	$280,153
Accounts payable and accrued liabilities	$2,181,871
Level 2	
Lago Dourado warrants (included in investments)	$48,000
Rio Verde warrants (included in investments)	$282,590

15. FINANCIAL RISK MANAGEMENT

(a) Credit risk management

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

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

(b) Liquidity risk

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

As of September 30, 2011, the Company had a cash balance of $28,310,151 (December 31, 2010 - $12,345,677) to settle current accounts payable and accrued liabilities of $2,181,871 (December 31, 2010 - $2,139,930).

(c) Market risk

Market risk is the risk that changes in market prices including foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments. The Company records its investments using the year end bid price. Changes in the bid price will affect the fair value of these investments. A 5% change in the value of its investments, will affect net income of the Company for the nine-month period ended September 30, 2011 by about $90,000.

(d) Foreign exchange risk

The Company is minimally exposed to movements in the United States dollar, the Brazilian real, South African Rand, Australian dollar, British pound, Euro and the Botswana Pula as transfers are made to subsidiaries in United States dollars and then converted by them into domestic currencies.

At September 30, 2011, the Company had net monetary assets and liabilities denominated in U.S. dollars, as follows:

Cash	$525,503

If foreign exchange rates changed by 5%, there would be an insignificant change in the net income of the Company the nine-month period ended September 30, 2011.

The Company does not undertake currency hedging activities.

(e) Interest rate risk

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

(f) Fair value of financial assets and liabilities

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

(Presented in Canadian dollars)

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

	As at September 30, 2011		As at December 31, 2010		As at January 1, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	$ 28,310,151	$ 28,310,151	$ 12,345,677	$ 12,345,677	$ 2,807,195	$ 2,807,195
Term deposits	-	-	3,503,928	3,503,928	1,500,000	1,500,000
Investments	2,143,556	2,143,556	1,137,426	1,137,426	528,112	528,112
Accounts and other receivables	280,153	280,153	672,616	672,616	21,388	21,388
Loan receivable	-	-	-	-	5,000,000	5,000,000
Accounts payable and accrued liabilities	(2,181,871)	(2,181,871)	(2,139,930)	(2,139,930)	(920,069)	(920,069)
Unrecognized (losses) / gains		$ -		$ -		$ -

(g) Estimation of fair values

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

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

16. CAPITAL RISK MANAGEMENT

The Company defines capital as Shareholders' equity which at September 30, 2011 was $61,481,178 (December 31, 2010 - $51,799,251).The Company manages its capital structure and makes adjustments to it, in order to have the funds available to support its exploration, development and operations activities.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its mineral properties and maximize shareholder returns. The Company satisfies its capital requirements through careful management of its cash resources and by utilizing bank indebtedness or equity issues, as necessary, based on the prevalent economic conditions of both the industry and the capital markets and the underlying risk characteristics of the related assets. As at September 30, 2011, the Company had no bank debt.

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the nine-month period ended September 30, 2011. The Company is not subject to externally imposed capital requirements.

17. INCOME TAXES

As the Company is incorporated under the BVI Business Companies Act, 2004, it is exempt from tax in the British Virgin Islands. The Brazilian subsidiaries have loss carry forwards of approximately $1,486,000 which are available to shelter future taxable income. These losses have no expiry date but can only be offset against taxable income to the extent of 30% in a year. The South African subsidiary has unrecognized tax losses of approximately $1,000,000 on its operations. These losses have no expiry date.

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

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

18. RELATED PARTY TRANSACTIONS

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

The Company has entered into an administrative service agreement (the “Tau Agreement”) with Tau Capital Corp. (“Tau”). The Tau Agreement terminated on March 31, 2011. A new agreement has been entered into between Talon and Tau. This agreement became effective on April 1, 2011 and has an initial term of one year, which can be renewed. Under this agreement, Talon has agreed to pay Tau a monthly service fee of $58,500. For the nine months ended September 30, 2011, fees paid to Tau for these services were $450,000 (2010 - $297,000).

Consulting fees paid to officers of the Company for the nine months ended September 30, 2011 were $337,493 (2010 - $183,140). In addition an amount of $196,071 (2010 - $114,291) 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 nine months ended September 30, 2011 were $254,575 (2010 - $124,395).

Prepayments at September 30, 2011 include $58,500 paid to Tau for management fees for October 2011 (2010 - $33,000).

Accounts payable at September 30, 2011 include $15,000 payable to an officer of the Company for consulting fees (2010 - $21,688).

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

The remuneration of directors and officers of the Company for the nine months ended September 30, 2011 and 2010 was as follows.

	2011	2010
Aggregate compensation	$1,351,827	$1,114,302
Share based compensation	$815,334	$908,700

The directors and officers were awarded the following share options under the share option plan during the nine months ended September 30, 2011:

Date of grant	Number of options	Exercise price	Expiry
January 17, 2011	410,000	$1.58	January 2016
May 25, 2011	1,000,000	$1.95	May 2016

19. GEOGRAPHIC INFORMATION

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

20. TRANSITION TO IFRS

The accounting policies set out in note 3 have been applied in preparing the financial statements for the nine-month period ended September 30, 2011, the comparative information presented in these financial statements for the three and nine months ended September 30, 2010 and twelve months ended December 31, 2010, respectively, and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

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

IFRS Exemptions and Choices

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

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

- To apply IFRS 2 Share based Payments only to equity instruments that were issued after November 7, 2002 and had not vested by the Transition Date.

- To apply IFRS 3 Business Combinations prospectively from the Transition Date, therefore not restating business combinations that took place prior to the Transition Date.

- Property, plant and equipment - IFRS 1 provides a one-time choice of measuring property, plant and equipment at its fair value as deemed cost at the date of transition and using those amounts as deemed cost or using the historical valuation under the prior GAAP. For the purpose of subsequent measurement, the Company has elected to apply the cost model for property, plant & equipment rather than the fair value model available under IFRS. The Company has elected not to use fair value as historical cost bases under Canadian GAAP have been determined to be substantially the same under IFRS at transition date of January 1, 2010.

- Leases Exemption - IFRS 1 provides a first-time adopter with an option to not apply certain requirements under IAS 17 *Leases* retrospectively. The Company has availed itself of this option.

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

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

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

(Presented in Canadian dollars)

Reconciliation of equity:

	January 1, 2010			September 30, 2010			December 31, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets									
Current assets									
Cash and cash equivalents	$ 2,807,195	$ -	$ 2,807,195	$ 3,829,978	$ -	$ 3,829,978	$ 12,345,677	$ -	$ 12,345,677
Term deposits	1,500,000	-	1,500,000	-	-	-	3,503,928	-	3,503,928
Investment	528,112	-	528,112	261,000	-	261,000	1,137,426	-	1,137,426
Prepayments	22,500	-	22,500	237,574	-	237,574	291,734	-	291,734
Accounts receivable	21,388	-	21,388	886,754	-	886,754	672,616	-	672,616
	4,879,195	-	4,879,195	5,215,306	-	5,215,306	17,951,381	-	17,951,381
Equipment	72,840	-	72,840	90,582	-	90,582	184,371	-	184,371
Resource properties and deferred expenditures	9,417,920	-	9,417,920	4,054,414	-	4,054,414	10,950,914	-	10,950,914
Loan receivable	5,000,000	-	5,000,000	-	-	-	-	-	-
Investment in Tlou Energy	-	-	-	-	-	-	20,937,027	-	20,937,027
Assest held for sale	-	-	-	23,507,619	-	23,507,619	3,915,488	-	3,915,488
Total assets	$19,369,955	$ -	$19,369,955	$ 32,867,921	$ -	$32,867,921	$ 53,939,181	$ -	$ 53,939,181
Liabilities and Shareholders' Equity									
Current liabilities									
Accounts payable and accrued liabilities	$ 920,069	$ -	$ 920,069	$ 1,518,250	$ -	$ 1,518,250	$ 2,139,930	$ -	$ 2,139,930
Liabilities held for sale	-	-	-	536,771	-	536,771	-	-	-
	920,069	-	920,069	2,055,021	-	2,055,021	2,139,930	-	2,139,930
Shareholders' Equity									
Share capital	22,320,031	-	22,320,031	38,522,470	-	38,522,470	41,990,775	-	41,990,775
Common share purchase warrants	-	-	-	-	-	-	1,388,815	-	1,388,815
Contributed surplus	5,263,836	-	5,263,836	7,204,287		7,204,287	7,864,955		7,864,955
Accumulated other comprehensive income (loss)	-	-	-	-		-	(37,918)		(37,918)
Deficit	(9,133,981)	-	(9,133,981)	(14,913,857)	-	(14,913,857)	(12,763,346)	-	(12,763,346)
Total equity	18,449,886	-	18,449,886	30,812,900	-	30,812,900	38,443,281	-	38,443,281
Non-controlling interest	-	-	-	-	-	-	13,355,970	-	13,355,970
Total liabilities and equity	$19,369,955	$ -	$19,369,955	$ 32,867,921	$ -	$32,867,921	$ 53,939,181	$ -	$ 53,939,181

(Presented in Canadian dollars)

Reconciliation of loss and comprehensive loss for the three and nine-month period ended September 30, 2010 and the year ended December 31, 2010:

	For the three-month period ended September 30, 2010			For the nine-month period ended September 30, 2010			For the year ended December 31, 2010		
	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS
Continuing operations									
Gain on sale of projects and equipment	$ 903,907	$ -	$ 903,907	$ 903,907	$ -	$ 903,907	$ 4,234,594	$ -	$ 4,234,594
Expenses									
Office and general	191,943	-	191,943	494,884	-	494,884	1,214,193	-	1,214,193
Professional fees	358,051	-	358,051	817,482	-	817,482	853,563	-	853,563
Consulting fees	118,285	-	118,285	374,912	-	374,912	1,520,768	-	1,520,768
Personnel expenses	65,785	-	65,785	118,638	-	118,638	-	-	-
Management fees	119,161	-	119,161	288,031	-	288,031	366,870	-	366,870
Share-based payments	-	-	-	1,940,451	-	1,940,451	2,633,769	-	2,633,769
Travel	145,975	-	145,975	332,310	-	332,310	166,812	-	166,812
Listing and filing expense	9,122	-	9,122	77,580	-	77,580	103,386	-	103,386
Interest and bank charges	7,800	-	7,800	23,258	-	23,258	28,464	-	28,464
Interest and other income	(3,892)	-	(3,892)	(6,096)	-	(6,096)	(73,511)	-	(73,511)
Write down of advances	138,313	-	138,313	138,313	-	138,313	-	-	-
Write down of projects	99,035	-	99,035	2,128,772	-	2,128,772	2,128,772	-	2,128,772
Amortization of equipment	5,000	-	5,000	15,000	-	15,000	23,116	-	23,116
	1,254,578	-	1,254,578	6,743,535	-	6,743,535	8,966,202	-	8,966,202
Loss before the following	(350,671)	-	(350,671)	(5,839,628)	-	(5,839,628)	(4,731,608)	-	(4,731,608)
Foreign currency translation loss	84,373	-	84,373	163,696	-	163,696	18,903	-	18,903
Share of net loss of Tlou	-	-	-	-	-	-	105,905	-	105,905
Unrealized gain on investments	-	-	-	-	-	-	(314,426)	-	(314,426)
Gain on sale of investments	-	-	-	(223,448)	-	(223,448)	(195,894)	-	(195,894)
	84,373	-	84,373	(59,752)	-	(59,752)	(385,512)	-	(385,512)
Net loss for the period	(435,044)	-	(435,044)	(5,779,876)	-	(5,779,876)	(4,346,096)	-	(4,346,096)
Share of other comprehensive loss - Tlou	-	-	-	-	-	-	(37,918)	-	(37,918)
Total comprehensive loss for the period	$ (435,044)	$ -	$ (435,044)	$(5,779,876)	$ -	$(5,779,876)	$(4,384,014)	$ -	$(4,384,014)
Net loss per share:									
Basic and diluted loss per share	$ (0.01)		$ (0.01)	$ (0.11)		$ (0.11)	$ (0.08)		$ (0.08)