TALON METALS CORP.

Condensed Consolidated Interim Financial Statements

September 30, 2014 and 2013

(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, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		$ 7,439,076	$ 14,852,876
Investments	*4a*	474,096	284,468
Prepayments		64,249	61,074
Accounts and other receivables		14,657	8,672
		7,992,078	15,207,090
Non-current assets			
Equipment and software		125,852	87,418
Investment in Tlou Energy	*4b*	3,020,768	2,725,146
Resource properties and deferred expenditures	*5*	24,884,469	18,712,405
Assets held for sale	*6*	100,000	100,000
		$ 36,123,167	$ 36,832,059
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*15*	$ 1,246,670	$ 434,958
Provision for distribution of Rio Verde shares to option holders	*7*	378,000	400,000
		1,624,670	834,958
Shareholders' equity			
Share capital	*8a*	74,106,555	74,106,555
Warrants	*8b*	33,552	-
Contributed surplus		15,425,216	15,128,750
Deficit		(55,066,826)	(53,238,204)
		34,498,497	35,997,101
		$ 36,123,167	$ 36,832,059

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

Approved by the audit committee of the board of directors on November 11, 2014

Signed:

"Gregory S. Kinross" *"John D. Kaplan"*

Talon Metals Corp.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

(Unaudited)

	Notes	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenue					
Interest income		$ 10,550	$ 19,623	$ 38,256	$ 59,489
Expenses					
Salaries, benefits, consulting and management fees	*9, 15*	246,098	210,921	483,660	559,538
Consulting - financing	*8b*	33,552	-	33,552	-
Professional fees	*9*	110,348	17,155	155,149	105,567
Office and general		89,748	71,655	269,661	245,921
Insurance		36,562	36,451	102,703	107,285
Listing and filing		16,385	9,188	65,780	64,141
Project evaluation and due diligence	*9*	6,447	793,949	1,032,669	1,819,631
Travel	*9*	53,094	-	64,391	-
Property payments and licenses		-	57,445	25,568	158,009
Provision for Brazilian tax		-	-	-	(60,000)
Refund of equipment purchase		-	-	40,640	-
Provision for distribution of Rio Verde shares to option holders	*7*	(1,000)	-	(22,000)	(38,000)
Stock option compensation payments	*10*	188,418	134,761	296,466	462,811
Depreciation of equipment		10,681	5,425	26,104	16,341
Foreign currency translation loss (gain)		(213,361)	160,639	(222,215)	(184,710)
Loss (gain) on investments	*4a*	84,840	73,830	(189,628)	396,101
Share of loss in Tlou	*4b*	-	-	-	225,470
Loss (gain) on investments - Tlou	*4b*	214,873	(966,910)	(295,622)	465,694
Reclassification of other comprehensive loss upon discontinuation of equity method - Tlou	*4b*	-	-	-	1,195,101
		876,685	604,509	1,866,878	5,538,900
Net loss		(866,135)	(584,886)	(1,828,622)	(5,479,411)
Items that may be reclassified to profit or loss	*4b*	-	-	-	(321,280)
Reclassification of other comprehensive loss upon discontinuation of equity method - Tlou	*4b*	-	-	-	1,195,101
Net comprehensive loss		$ (866,135)	$ (584,886)	$ (1,828,622)	$ (4,605,590)
Basic and diluted net loss per share	*11*	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.06)
Weighted average 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)

		Common shares		Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Shareholders' equity
	Notes	**Number of shares**	**Amount**					
Balance at January 1, 2014		92,076,687	$ 74,106,555	$ -	$ 15,128,750	$ -	$ (53,238,204)	$ 35,997,101
Warrants issued				33,552				33,552
Stock option compensation payments	*10*				296,466			296,466
Net loss							(1,828,622)	(1,828,622)
Balance at September 30, 2014	*8*	92,076,687	$ 74,106,555	$ 33,552	$ 15,425,216	$ -	$ (55,066,826)	$ 34,498,497
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						1,195,101	(5,479,411)	(4,284,310)
Balance at September 30, 2013	*8*	92,076,687	$ 74,106,555	$ -	$ 15,035,464	$ -	$ (51,547,936)	$ 37,594,083

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, 2014	Nine months ended September 30, 2013
Cash flows from operating activities		
Net loss	$ (1,828,622)	$ (5,479,411)
Non-cash adjustments:		
Share-based payments	296,466	462,811
Warrants issued for consulting services	33,552	-
Share of net loss in Tlou	-	225,470
Loss (gain) on investments	(189,628)	396,101
Loss (gain) on investments - Tlou	(295,622)	465,694
Provision for distribution of Rio Verde shares to option holders	(22,000)	(38,000)
Depreciation of equipment	26,104	16,341
Reclassification of other comprehensive loss upon discontinuation of equity method - Tlou	-	1,195,101
	(1,979,750)	(2,755,893)
Working capital adjustments:		
(Increase) decrease in prepayments	(3,175)	(40,574)
(Increase) decrease in accounts and other receivables	(5,985)	37,287
Increase (Decrease) in accounts payables and accrued liabilities	48,671	(49,472)
Net cash flows used in operating activities	(1,940,239)	(2,808,652)
Cash flows from investing activities		
Acquisition of equipment	(64,538)	(3,688)
Proceeds on sale of assets held for sale	-	254,387
Proceeds on sale of investments	-	721,935
Proceeds on sale of investments - Tlou	-	2,214,699
Acquisition of resource properties and deferred expenditures	(5,409,023)	(884,400)
Net cash flows provided by (used in) investing activities	(5,473,561)	2,302,933
Cash flows from financing activities		
Proceeds from share issuance	-	-
Proceeds from exercise of options	-	-
Net cash flows provided by financing activities	-	-
Net (decrease) in cash and cash equivalents	(7,413,800)	(505,719)
Cash and cash equivalents, beginning of the year	14,852,876	16,485,729
Cash and cash equivalents, end of the period	$ 7,439,076	$ 15,980,010

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 Tamarack nickel-copper-platinum project (the "Tamarack Project") in Minnesota, USA and the Trairão iron project (the "Trairão Project") in Brazil. The Company and Kennecott Exploration Company ("Kennecott"), a subsidiary of the Rio Tinto Group, entered into an Exploration and Option Agreement (the "Tamarack Earn-in Agreement"), pursuant to which Talon has the right to acquire a 30% interest in the Tamarack Project. The Company's interest in the Tamarack Project is held through its indirect Delaware, USA subsidiary, Talon Nickel (USA) LLC ("Talon Nickel"). The Company holds a 100% interest in the Trairão Project and Inaja South Project through its indirect Brazilian subsidiary, Talon Ferrous Mineração Ltda.

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 condensed consolidated interim financial statements and do not include all of the disclosures included in the Company's annual condensed consolidated interim financial statements. Accordingly, these should be read in conjunction with the Company's most recent annual condensed consolidated interim financial statements.

These condensed consolidated interim financial statements were approved by the Audit Committee of the Board of Directors on November 11, 2014.

Basis of preparation

These condensed consolidated interim financial statements are presented in Canadian dollars. The condensed consolidated interim 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. At September 30, 2014 and December 31, 2013, the Company held both cash and cash equivalents.

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 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 the condensed consolidated statements of loss and comprehensive 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 2014 and 2013, 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 condensed consolidated interim 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 condensed consolidated interim statements of loss and comprehensive 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 the condensed consolidated interim statements of loss and comprehensive loss.

Asset retirement obligations

A provision is recognized on the consolidated balance sheets 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 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 tax bases. Deferred 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 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 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 in 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 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).

Cash and cash equivalents and investment in marketable securities have been measured using level 1 inputs. The Company's investment in Tlou Energy Limited ("Tlou Energy") has been measured using Level 1 and Level 3 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 shareholders 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.

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 and geographically, substantially all of its assets, other than working capital and investments, are located in Brazil and the Company's mineral properties are located in Brazil and the USA.

Changes in accounting policies

IAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities ("IAS 32"): In December 2011, the IASB issued certain amendments to IAS 32, which establishes disclosure requirements that are intended to help clarify for financial statement users the effect or potential effect of offsetting arrangements on a company's financial position. These amendments were effective for annual periods commencing on or after January 1, 2014. The Company has assessed the impact and determined that the application of the amendments to IAS 32 did not have any impact on the condensed consolidated interim financial statements.

Future 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 effective date of IFRS 9 is January 1, 2018. The Company has not yet evaluated the impact on the condensed consolidated interim financial statements.

Reclassification

Amounts in the condensed consolidated interim financial statements from the prior year have been reclassified to conform to the current year's presentation.

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 condensed consolidated interim 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.

(Expressed in Canadian dollars)

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 TSX Venture Exchange.

	September 30, 2014			December 31, 2013		
	Number	Price	Value	Number	Price	Value
Lago Dourado Minerals Ltd. shares	500,000	$ 0.015	$ 7,500	500,000	$ 0.02	$ 10,000
Brazil Resources Inc. shares	548,936	0.85	466,596	548,936	0.50	274,468
			$ 474,096			$ 284,468

(b) Long term investments

Tlou Energy Limited

The Company's investment in Tlou Energy has been measured at fair value with the gain or loss for the period recognized in income as an investment gain (loss). In accordance with the rules of the Australian Securities Exchange ("ASX"), all of the 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 20% discount to Tlou Energy's closing price on the ASX as at September 30, 2014 (December 31, 2013 – 35%) given that the escrow shares cannot be sold until the ASX Escrow has expired. The amount of the discount was determined based on a previous sale of similar shares by the Company, typical market-participant discounts for lack of marketability and management's judgement. A 5% change in the discount would have affected net loss by approximately $0.2 million.

For a portion of 2013, the Company accounted for its investment in Tlou Energy using the equity method in accordance with IFRS. This resulted in the recognition of equity income in the amount of $225,470.

	September 30, 2014			December 31, 2013		
	Number	Price	Value	Number	Price	Value
Tlou Energy - escrow shares	14,285,714	$ 0.211	$ 3,020,768	14,285,714	$ 0.191	$ 2,725,157
Tlou Energy - shares	-	-	-	-	-	-
	14,285,714		$ 3,020,768	14,285,714		$ 2,725,157

Talon also holds options to purchase an aggregate of 4,945,055 Tlou Energy shares (the "Tlou Options") at an exercise price of AUD$1.25 each, exercisable until May 9, 2015. 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.

5. RESOURCE PROPERTIES AND DEFERRED EXPENDITURES

The properties on which the Company's subsidiaries carry out exploration activities or hold an interest in an exploration project are located in Brazil and the USA. Details of the changes for the year ended December 31, 2013 and the nine month period ended September 30, 2014, are as follows:

(Expressed in Canadian dollars)

	December 31, 2012	Additions	Write-downs	December 31, 2013	Additions	September 30, 2014
Mineral Properties:						
Trairao Project	$ 16,614,930	$ 943,960	$ -	$ 17,558,890	$ 343,742	$ 17,902,632
Inaja South Project	1,142,644	10,871	-	1,153,515	12,538	1,166,053
Tamarack Project	-	-	-	-	5,815,784	5,815,784
Campo Grande Gold Project	533,195	6,951	(540,146)	-	-	-
	$ 18,290,769	$ 961,782	$ (540,146)	$ 18,712,405	$ 6,172,064	$ 24,884,469

Although the Company believes it has taken reasonable measures to ensure proper title to its mineral properties and those which it has an interest in, there is no guarantee that title to any of these 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 or Kennecott (in respect of the Tamarack Project) may be unable to operate their properties as permitted or to enforce their rights with respect to its properties. In order to help mitigate this risk, Talon purchased title insurance in July 2014 over certain lands that form part of the Tamarack Project. Talon further expanded the area covered by the title insurance policy in October 2014.

(a) Tamarack Project

On June 25, 2014, Talon's wholly owned indirect subsidiary, Talon Nickel, entered into the Tamarack Earn-in Agreement with Kennecott, pursuant to which Talon has the right to acquire a stake in the Tamarack Project.

Pursuant to the Tamarack Earn-in Agreement, Talon has the right to acquire a 30% interest in the Tamarack Project over a three year period (the "Earn-in Period") by making US$7.5 million in installment payments to Kennecott, and incurring US$30 million in exploration expenditures (the "Tamarack Earn-in Conditions"), in accordance with the following schedules:

Talon Payments to Kennecott

Payment Date	Amount	Term of Payment
Upon Signature	US$1,000,000	Paid
First Anniversary	US$2,500,000	Talon's Option
Second Anniversary	US$4,000,000	Talon's Option
Total	**US$7,500,000**	

Exploration Expenditures to be funded by Talon

Payment Period	Payments to be Made	Term of Payment	Amount paid or accrued as of September 30, 2014	Amount paid or accrued as of November 14, 2014
Year 1	US$10,000,000	Committed	US$2,500,000	US$4,600,000
Year 2	US$10,000,000	Talon's Option	–	–
Year 3	US$10,000,000	Talon's Option	–	–
Total	**US$30,000,000**			

In addition to the above, Talon has agreed to make certain land option payments on behalf of Kennecott, which may also be payable over the Earn-in Period (and, if payable, are included as part of the Tamarack Earn-in Conditions). As of September 30, 2014, Talon accrued $0.8 million related to land option payments.

(Expressed in Canadian dollars)

If at any point prior to expending the total earn-in funds pursuant to the Tamarack Earn-in Conditions, Talon elects not to continue with the Tamarack Project, it will earn no interest in the Tamarack Project and all funds expended will not be refunded.

During the Earn-in Period, Kennecott will continue to be the operator of the Tamarack Project.

Upon Talon completing the Tamarack Earn-in Conditions and Kennecott having spent the funds advanced by Talon within the time period provided for under the Tamarack Earn-in Agreement, Kennecott will elect whether to: (a) proceed with a 70/30 joint venture on the Tamarack Project, with Kennecott holding a 70% participating interest, and Talon owning a 30% participating interest; or (b) grant Talon the right to purchase Kennecott's interest in the Tamarack Project for a purchase price of US$107.5-million. In the event Kennecott grants Talon the right to purchase its interest in the Tamarack Project, and Talon elects to proceed with the purchase option, Talon will have up to 18 months to close the transaction, provided it makes an upfront non-refundable payment to Kennecott of US$7.5-million (thereby reducing the purchase price to US$100-million).

(b) 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.

6. ASSETS HELD-FOR-SALE

Assets held-for-sale are comprised of the following:

	September 30, 2014	December 31, 2013
Plant and equipment	$ 100,000	$ 100,000

(Expressed in Canadian dollars)

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 of the Company. In 2013, Rio Verde was acquired for cash by B&A Mineracao S.A. ("B&A"). Prior to the acquisition by B&A, Rio Verde was a public company trading on the Toronto Stock Exchange ("TSX"). During that time, the Company intended to deliver Rio Verde shares to Talon option holders in satisfaction of this liability when the appropriate number of Talon options was exercised. Given that the Company no longer holds shares in Rio Verde as it was acquired by B&A, the Company intends to deliver cash to satisfy the liability. A provision of $378,000 (December 31, 2013 - $400,000) 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 per share at which Rio Verde was acquired by B&A. 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 and/or expire in the short-term. The recognized liability represents approximately 76% (December 31, 2013 – 67%) of the potential maximum liability.

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, 2014 and December 31, 2013.

(b) Warrants

Warrant transactions during the nine months ended September 30, 2014 and the year ended December 31, 2013 are as follows:

	Nine months ended September 30, 2014			Year ended December 31, 2013		
	Number of Warrants	Exercise Price	Fair Value	Number of Warrants	Exercise Price	Fair Value
Outstanding – beginning of the year	-	$ -	$ -	-	$ -	$ -
Issued	250,000	0.37	33,552			
Expired	-	-	-	-	-	-
Outstanding – end of the period	250,000	$ 0.37	$ 33,552	-	$ -	$ -

In July 2014, 250,000 warrants were issued to a consultant in lieu of cash compensation. These have a contractual life of 3 years, an exercise price of $0.37 and vested immediately. The fair value was determined using the Black-Scholes model with the following estimates: risk-free interest rate – 1.6%, expected life – 3 years, expected volatility – 60% and dividend yield – 0%.

(Expressed in Canadian dollars)

9. PROJECT EVALUATION AND DUE DILIGENCE EXPENSES

Prior to entering into the Tamarack Earn-in Agreement, the Company evaluated numerous new mineral project opportunities. The costs associated with this activity 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 months ended September 30, 2014 and 2013 is as follows:

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Salaries, benefits, consulting and management fees	$ 1,763	$ 592,184	$ 767,779	1,407,803
Professional fees	-	31,747	14,069	60,871
Travel	2,259	124,974	231,290	284,826
Geological data and other	154	45,044	17,260	66,131
	4,176	793,949	1,030,398	1,819,631

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.

(Expressed in Canadian dollars)

A summary of the status of the options outstanding as at September 30, 2014 and December 31, 2013 and changes during the periods ended on those dates is presented below:

	Nine months ended September 30, 2014		Year ended December 31, 2013	
	Number of stock options	**Weighted average exercise price**	**Number of stock options**	**Weighted average exercise price**
Outstanding – beginning of the year	12,849,350	$ 0.54	12,389,350	$ 0.70
Granted	-	-	2,300,000	0.31
Granted	300,000	0.30	-	-
Granted	1,795,000	0.37	-	-
Cancelled	(2,667)	0.37	(86,681)	0.37
Cancelled	(440,000)	0.385	(50,000)	0.385
Cancelled	(20,000)	0.40	(225,000)	0.40
Cancelled	(7,333)	0.415	(238,319)	0.415
Cancelled	-	-	(200,000)	0.57
Cancelled	(450,000)	0.70	-	0.70
Cancelled	-	-	(250,000)	1.00
Cancelled	-	-	(50,000)	1.58
Cancelled	(30,000)	1.95	(220,000)	1.95
Cancelled	-	-	(20,000)	2.12
Cancelled	-	-	(500,000)	2.48
Outstanding – end of the period	13,994,350	$ 0.51	12,849,350	$ 0.54

2,733,733 of the 13,994,350 options outstanding have been issued outside of the Plan.

No options were exercised during the nine months ended September 30, 2014.

(Expressed in Canadian dollars)

As at September 30, 2014, the Company had the following stock options outstanding:

Date of grant	Number of options	Exercise price	Exercisable	Exercise price	Expiry date
May 21, 2010	3,424,350	$ 0.40	3,424,350	$ 0.40	May 21, 2015
October 26, 2010	450,000	0.70	450,000	0.70	October 26, 2015
January 17, 2011	255,000	1.58	255,000	1.58	January 17, 2016
February 7, 2011	20,000	2.12	20,000	2.12	February 7, 2016
May 25, 2011	340,000	1.95	340,000	1.95	May 25, 2016
January 31, 2012	1,966,267	0.45	1,966,267	0.45	January 31, 2017
April 4, 2012	1,033,940	0.42	1,033,940	0.42	April 4, 2017
April 25, 2012	376,060	0.37	376,060	0.37	April 25, 2017
February 20, 2013	300,000	0.30	293,750	0.30	February 20, 2018
February 28, 2013	100,000	0.30	75,000	0.30	February 28, 2018
June 7, 2011	500,000	1.95	500,000	1.95	June 7, 2016
January 31, 2012	833,733	0.45	833,733	0.45	January 31, 2017
June 15, 2012	400,000	0.33	400,000	0.33	June 15, 2017
March 20, 2013	1,000,000	0.30	-	0.30	March 20, 2018
August 1, 2013	400,000	0.30	337,500	0.30	August 1, 2018
October 1, 2013	500,000	0.34	125,000	0.34	October 1, 2018
May 28, 2014	300,000	0.30	-	0.30	May 28, 2019
July 2, 2014	1,795,000	0.37	700,000	0.37	July 2, 2019
	13,994,350	0.51	11,130,600	0.56	

A stock option compensation payment expense of $296,466 for the nine month period ended September 30, 2014 (2013 – $462,811) was recognized in the condensed consolidated interim statements of loss and comprehensive loss.

Options Granted in 2014

In May 2014, 300,000 options were issued to a director of the Company. These have a contractual life of 5 years, an exercise price of $0.30 and vest over the 6 to 24 months following their issuance date.

In July 2014, 1,795,000 options were issued to employees, directors and officers of the Company. These have a contractual life of 5 years and an exercise price of $0.37. Of the total, 700,000 vested immediately and the remainder vest over the 6 to 24 months following their issuance date.

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 director 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.

(Expressed in Canadian dollars)

In October 2013, 500,000 options were issued to an officer of the Company. These have a contractual life of 5 years and an exercise price of $0.34. These options vest over 6 to 24 months following their issuance date and have accelerated vesting should the 5 day 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:

	2014	2013
Risk-free interest rate	1.6%-1.8%	1.7%-1.8%
Expected life	5 years	5 years
Expected volatility	60%	60%
Dividend yield	Nil	Nil

11. NET INCOME OR LOSS PER SHARE

(a) Basic

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

(b) Diluted

Diluted net 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	$	7,439,076
Investments	$	474,096
Level 3		
Investment in Tlou Energy - escrow shares	$	3,020,768

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.

As of September 30, 2014, the Company had a cash and cash equivalents balance of $7,439,076 (December 31, 2013 - $14,852,876) to settle current liabilities of $1,602,670 (December 31, 2013 - $834,958).

In order to meet future funding of the Tamarack Earn-in Conditions and for working capital, including salaries and other administrative/overhead costs, the Company will need to raise additional capital. On November 6, 2014, the Company completed a private placement for aggregate gross proceeds of $4.4 million. The Company expects to raise capital in the first half of 2015. Although the Company has been successful in raising additional funds to date, there can be no assurance that adequate or sufficient funding will be available or available on terms acceptable to the Company to meet the Company's commitments. Historically, the Company's main source of funding has been the issuance of equity securities for cash. The Company's access to such funding is always uncertain and this is particularly true in the current uncertain global financial markets, which may continue to be characterised by significant reductions in liquidity and access to capital.

(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 closing price at the end of the reporting period. Changes in the closing 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 income (loss) of the Company for the three month period ended September 30, 2014, by approximately $175,000.

(d) Foreign exchange risk

The Company is exposed to movements in the United States dollar and the Brazilian real. Payments made to Kennecott pursuant to the Tamarack Earn-in Conditions are made in United States dollars and transfers made to the Brazilian subsidiaries of the Company are made in United States or Canadian dollars and subsequently converted in Brazil to Brazilian reals.

At September 30, 2014, the Company had net monetary assets and liabilities in foreign currencies, as follows (Canadian dollar equivalent):

United States dollars	$ 3,578,695
Brazilian real	$ 47,182

If foreign exchange rates had changed by 5% on the last day of the period with all other facts/assumptions held constant, there would be a change in the net income (loss) of the Company for the nine months ended September 30, 2014 of approximately $180,000.

(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.

14. CAPITAL RISK MANAGEMENT

Capital is comprised of equity which at September 30, 2014 was $34,505,892 (December 31, 2013 - $35,997,101). 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 its ability to continue as a going concern in order to pursue the exploration of its mineral properties and maximize shareholders 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, 2014 and December 31, 2013, 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, 2014. The Company is not subject to externally imposed capital requirements.

For further discussion related to Capital Risk Management, see note 13(b) "Liquidity Risk".

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, 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. The parties agreed to extend the Brazil Agreement from September 30, 2013 while they renegotiated a new agreement. On January 1, 2014, the parties entered into an amended and restated services agreement (the "New Brazil Agreement") pursuant to which the parties agreed to lower the monthly service fee to US$5,000 for a term of one year, unless extended by agreement of the parties. As part of the negotiation of the New Brazil Agreement which resulted in the lower monthly services fee, the Company agreed to transfer the Campo Grande license to a company controlled by Luis Azevedo for no additional consideration. For the nine months ended September 30, 2014, fees paid under the Brazil Agreement amounted to $47,000 (2013 - $158,000). In addition, the Company paid additional fees outside of the New Brazil Agreement in the normal course of $57,000 related to fees for additional legal work in Brazil and assistance with permitting matters.

Accounts payable and accrued liabilities at September 30, 2014 include $31,000 payable pursuant to additional fees outside of the New Brazil Agreement and $5,000 payable pursuant to the New Brazil Agreement (December 31, 2013 - $17,918 payable under the Brazil Agreement).

The remuneration of directors and officers of the Company for the nine months ended September 30, 2014 and 2013 was as follows:

	Three months ended September 30		Nine months ended September 30	
	2014	**2013**	**2014**	**2013**
Cash compensation	$ 500,910	$ 462,775	$ 1,230,770	$ 1,304,158
Share based compensation	186,088	107,205	255,257	414,028
Aggregate compensation	$ 686,998	$ 569,980	$ 1,486,027	$ 1,718,186

In May 2014, 300,000 options were issued to a director of the Company. These have a contractual life of 5 years, an exercise price of $0.30 and vest over the 6 to 24 months following their issuance date.

In July 2014, 1,765,000 options were issued to directors and officers of the Company. These have a contractual life of 5 years and an exercise price of $0.37. Of the total, 700,000 vested immediately and the remainder vest over the 6 to 24 months following their issuance date.

16. INCOME TAXES

The Company is incorporated in the British Virgin Islands. There is no corporate tax in the British Virgin Islands. The Brazilian subsidiary, Talon Ferrous Mineração Ltda., has loss carry forwards of approximately $2 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 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 the mineral properties are located in Brazil and the USA.

18. SUBSEQUENT EVENT

On November 6, 2014, the Company closed a bought deal private placement offering (the “Offering”). Pursuant to the Offering, the Company issued a total of 14,755,450 units (the “Units”) at a price of $0.30 per Unit, for gross proceeds of $4,426,635.

Each Unit consists of one common share of the Company (a “Common Share”) and one-half of one common share purchase warrant (each full warrant, a “Warrant”). Each Warrant entitles the holder thereof to acquire one Common Share at a price of $0.45 for a period of 36 months following the closing date of the Offering. If the price of the Common Shares on the TSX (following the expiry of the required statutory hold period) closes at a minimum of $0.60 for a period of 20 consecutive trading days, the Company may accelerate the expiry date of the Warrants to the date which is 30 days following the date upon which notice of the accelerated expiry date is provided by the Company to the holders of the Warrants (the “Warrant Acceleration”).

The Company intends to use the net proceeds of the Offering to meet the Company’s funding commitments in respect of the Tamarack Project and for general working capital purposes.

In connection with the Offering, the Underwriters received a cash commission equal to 6.0% of the gross proceeds of the Offering. The Underwriters also received warrants ("Compensation Warrants") equal to 6.0% of the Units sold pursuant to the Offering or 885,327 Compensation Warrants. Each Compensation Warrant entitles the holder thereof to acquire one Common Share at a price of $0.32 until the date that is 24 months from the closing date of the Offering. The Compensation Warrants are also subject to the Warrant Acceleration.