



## **TALON METALS CORP.**

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

**September 30, 2015 and 2014**

**(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)*

	<b>Notes</b>	<b>September 30, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 2,592,548	\$ 6,111,069
Investments	4a	-	226,523
Prepayments		34,032	38,111
Accounts and other receivables		11,240	15,737
		<u>2,637,820</u>	<u>6,391,440</u>
<b>Non-current assets</b>			
Equipment and software		103,427	142,685
Investment in Tlou Energy	4b	1,880,400	2,877,454
Resource properties and deferred expenditures	5	28,367,732	14,243,629
		<u>\$ 32,989,379</u>	<u>\$ 23,655,208</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	15	\$ 324,922	\$ 305,355
Income taxes payable	16a	475,000	-
Provision for distribution of Rio Verde shares to option holders	6	-	302,000
Short-term loan and accrued interest	7	6,155,171	-
Deferred payment - Tamarack Project and accrued interest	5a	3,427,343	-
		<u>\$ 10,382,436</u>	<u>\$ 607,355</u>
<b>Shareholders' equity</b>			
Share capital	8a	\$ 77,512,868	\$ 77,512,868
Warrants	8b	563,760	534,217
Contributed surplus		15,711,153	15,488,318
Deficit		(71,180,838)	(70,487,550)
		<u>22,606,943</u>	<u>23,047,853</u>
		<u>\$ 32,989,379</u>	<u>\$ 23,655,208</u>

**Going Concern - Note 1**

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

Approved by the audit committee of the board of directors on November 12, 2015

Signed:

*"Gregory S. Kinross"*

*"David E. Singer"*

**Talon Metals Corp.**

**Condensed Consolidated Interim Statements of Loss and Comprehensive Loss**

(Expressed in Canadian dollars)

(Unaudited)

		Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
<b>Revenue</b>					
Interest income		\$ 125	\$ 10,550	\$ 6,130	\$ 38,256
<b>Expenses</b>					
Salaries, benefits, consulting and Brazil administration	9, 15	303,003	246,098	851,415	483,660
Consulting - financing	8b	-	33,552	29,543	33,552
Professional fees	9	95,816	110,348	181,901	155,149
Office and general		59,306	89,748	193,407	269,661
Insurance		17,379	36,562	75,796	102,703
Travel	9	44,493	53,094	167,188	64,391
Listing, filing and shareholder communications		4,629	16,385	78,866	65,780
Project evaluation and due diligence	9	-	6,447	-	1,032,669
Property payments and licenses		-	-	-	25,568
Refund of equipment purchase		-	-	-	40,640
Reduction in provision for distribution of Rio Verde shares to option holders	6	(4,500)	(1,000)	(302,000)	(22,000)
Stock option compensation	10	18,629	188,418	222,835	296,466
Depreciation of equipment and software		14,210	10,681	43,146	26,104
Gain on sale of royalty	4b	(2,469,098)	-	(2,469,098)	-
Loss (gain) on investments	4a	-	84,840	(26,297)	(189,628)
Loss (gain) on investments - Tlou	4b	(233,157)	214,873	997,054	(295,622)
Income tax expense	4b	475,000	-	475,000	-
Foreign currency translation loss (gain)		414,017	(213,361)	180,662	(222,215)
		(1,260,273)	876,685	699,418	1,866,878
<b>Net income (loss) and comprehensive income (loss)</b>		<b>\$ 1,260,398</b>	<b>\$ (866,135)</b>	<b>\$ (693,288)</b>	<b>\$ (1,828,622)</b>
<b>Basic and diluted net income (loss) per share</b>	11	<b>\$ 0.01</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>
Weighted average shares outstanding		106,832,137	92,076,687	106,832,137	92,076,687

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

**Talon Metals Corp.**

**Condensed Consolidated Interim Statements of Changes in Equity**

*(Expressed in Canadian dollars)*

*(Unaudited)*

	Notes	Common shares		Warrants	Contributed surplus	Deficit	Shareholders' equity
		Number of shares	Amount				
Balance at January 1, 2015		106,832,137	\$ 77,512,868	\$ 534,217	\$ 15,488,318	\$ (70,487,550)	\$ 23,047,853
Units issued	8a	-	-	-	-	-	-
Warrants issued	8b	-	-	29,543	-	-	29,543
Stock option compensation payments	10	-	-	-	222,835	-	222,835
Net loss		-	-	-	-	(693,288)	(693,288)
<b>Balance at September 30, 2015</b>	<b>8</b>	<b>106,832,137</b>	<b>\$ 77,512,868</b>	<b>\$ 563,760</b>	<b>\$ 15,711,153</b>	<b>\$ (71,180,838)</b>	<b>\$ 22,606,943</b>
Balance at January 1, 2014		92,076,687	\$ 74,106,555	\$ -	\$ 15,128,750	\$ (53,238,204)	\$ 35,997,101
Options exercised		-	-	-	-	-	-
Warrants issued	8b	-	-	33,552	-	-	33,552
Warrants cancelled		-	-	-	-	-	-
Stock option compensation payments	10	-	-	-	296,466	-	296,466
Net loss		-	-	-	-	(1,828,622)	(1,828,622)
<b>Balance at September 30, 2014</b>	<b>8</b>	<b>92,076,687</b>	<b>\$ 74,106,555</b>	<b>\$ 33,552</b>	<b>\$ 15,425,216</b>	<b>\$ (55,066,826)</b>	<b>\$ 34,498,497</b>

*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, 2015	Nine months ended September 30, 2014
<b>Cash flows from operating activities</b>		
Net loss	\$ (693,288)	\$ (1,828,622)
<b>Non-cash adjustments:</b>		
Stock option compensation	222,835	296,466
Warrants issued for consulting services	29,543	33,552
Gain on sale of royalty	(2,469,098)	-
Loss (gain) on investments	(26,297)	(189,628)
Loss (gain) on investments - Tlou	997,054	(295,622)
Provision for distribution of Rio Verde shares to option holders	(302,000)	(22,000)
Depreciation of equipment and software	43,146	26,104
	<u>(2,198,105)</u>	<u>(1,979,750)</u>
<b>Working capital adjustments:</b>		
Decrease (increase) in prepayments	4,079	(3,175)
Decrease (increase) in accounts and other receivables	4,497	(5,985)
Increase in accounts payables and accrued liabilities	19,567	48,671
Increase in income taxes payable	475,000	-
Increase in accrued interest payable	282,334	-
<b>Net cash flows used in operating activities</b>	<u>(1,412,628)</u>	<u>(1,940,239)</u>
<b>Cash flows from investing activities</b>		
Acquisition of equipment and software	(3,888)	(64,538)
Proceeds on sale of royalty	2,469,098	-
Proceeds on sale of investments	252,820	-
Acquisition of resource properties and deferred expenditures	(10,501,801)	(5,409,023)
<b>Net cash flows used in investing activities</b>	<u>(7,783,771)</u>	<u>(5,473,561)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of shares	-	-
Proceeds from issuance of units	-	-
Proceeds from short-term loan	5,677,878	-
<b>Net cash flows provided by financing activities</b>	<u>5,677,878</u>	<u>-</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(3,518,521)</u>	<u>(7,413,800)</u>
Cash and cash equivalents, beginning of the year	6,111,069	14,852,876
<b>Cash and cash equivalents, end of the period</b>	<u>\$ 2,592,548</u>	<u>\$ 7,439,076</u>

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

# Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three and nine months ended September 30, 2015 and 2014  
(Expressed in Canadian dollars)

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Talon Metals Corp. (“Talon” or the “Company”) is a mineral exploration company focused on the exploration and development of the Tamarack nickel-copper-PGE project (the “Tamarack Project”) in Minnesota, USA (which is comprised of the Tamarack North Project and the Tamarack South Project). The Company also holds a 100% interest in the Trairão iron project (the “Trairão Project”) and the Inajá South iron project (“Inajá South 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 Inajá 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.

The Company has not earned any revenue to date from its operations. It, and its partner Kennecott Exploration, are in the process of exploring the Tamarack Project and the Company has not yet determined whether the Tamarack Project contains ore reserves that are economically recoverable. The recoverability of the Company’s properties’ carrying values and of the related deferred exploration expenditures depends on the Company’s ability to earn and maintain an interest in the Tamarack Project, discovering economically recoverable reserves and on the Company’s ability to obtain necessary financing to complete the development and to establish profitable production in the future, or else on receiving sufficient proceeds from disposing of the properties. The Company’s management is actively pursuing additional sources of financing, and while it has been successful in doing so in the past, no assurance exists it will be able to do so in the future.

As at September 30, 2015, the Company had a working capital deficiency of \$7.8 million (December 31, 2014 – working capital of \$5.8 million) and Shareholders’ equity of \$22.6 million (December 31, 2014 – \$23.0 million). Working capital is defined as current assets less current liabilities. Included in the working capital deficiency is a total of \$6.2 million comprising the Kennecott Loan and accrued interest (defined below) and an option payment of \$3.4 million including interest under the Tamarack Earn-in Agreement (defined below) which are both due and payable on December 21, 2015.

These condensed consolidated interim financial statements have been prepared on a basis which contemplates that the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue to do so is dependent on its ability to raise financing. Although the Company was successful in raising additional funds in the past, given the current climate, the ability to raise funds has been and may continue to be difficult. The Company has been pursuing capital raising options since early 2015 and, to date, has not been successful, although it is in advanced discussions with a party to raise capital with the goal to conclude same in December. There can be no assurance that these discussions will be successfully concluded or that, in any event, adequate or sufficient funding will be available to the Company to meet the Company’s commitments.

These circumstances cast substantial doubt on the Company’s ability to continue as a going concern and ultimately on the appropriateness of the use of accounting principles applicable to a going concern.

Please see note 13(b) “Liquidity Risk” for more information in this regard.

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Expressed in Canadian dollars)

These condensed consolidated interim financial statements do not give effect to any adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in particular International Accounting Standard ("IAS") 34 (Interim Financial Reporting) as issued by the International Accounting Standards Board.

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

These Condensed Consolidated Interim Financial Statements were approved by the Audit Committee of the Board of Directors of the Company on November 12, 2015.

#### 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 consolidated statements of loss and comprehensive loss.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash deposits in banks, certificates of deposit, money market funds and short-term investments with remaining maturities of three months or less at the time of acquisition. At September 30, 2015 and December 31, 2014, 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

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Expressed in Canadian dollars)

estimated recoverable amount if there is evidence of impairment. Such impairment is recorded in the 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 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 and software at the following annual rate:

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

### Resource properties and deferred exploration and evaluation costs

Interests in mineral exploration properties are recorded at cost. Exploration and development expenditures, including an allocation of salaries, benefits and consulting fees, 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 2015 and 2014, 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



# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Expressed in Canadian dollars)

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 consolidated statement 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 consolidated statement of loss and comprehensive loss.

### **Asset retirement obligations**

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

### **Deferred taxes**

The Company uses the asset and liability method of accounting for income taxes, under which deferred 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 consolidated statements of loss and comprehensive loss. Financial assets classified as available-for-sale are

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Expressed in Canadian dollars)

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 profit or 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
Short-term loan	-	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); and
- 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 investments 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.

The carrying amount of the short-term loan approximates fair value due to its near-term maturity date.

### 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

The Company's shareholder-approved stock option plan allows employees, directors and consultants of the Company to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, and includes directors and most consultants of the Company. The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted.

### Loss per share

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

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Expressed in Canadian dollars)

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 in the USA and Brazil. Substantially all working capital, equipment, software and investments are held at head office while the segmentation of resource properties and deferred expenditures by mineral property and hence country are presented in note 5.

### Changes in accounting policies

IAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities ("IAS 32"): 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 intends to adopt the standard on its effective date and 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 estimates and judgments 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

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Expressed in Canadian dollars)

and the selection of market-participant assumptions used to determine fair value.

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

### 4. INVESTMENTS

#### (a) Temporary investments

Temporary investments have been valued based on the closing price on the TSX Venture Exchange.

	September 30, 2015			December 31, 2014		
	Number	Price	Value	Number	Price	Value
Lago Dourado Minerals Ltd. shares	-	\$ -	\$ -	500,000	\$ 0.01	\$ 5,000
Brazil Resources Inc. shares	-	-	-	381,936	0.58	221,523
			<u>\$ -</u>			<u>\$ 226,523</u>

#### (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, were subject to a mandatory two year escrow period which expired on April 9, 2015 (the "ASX Escrow"). The shares were valued based on Tlou Energy's closing price on the ASX as at September 30, 2015 (December 31, 2014 – 15% discount to Tlou Energy's closing price on the ASX given that the escrow shares were subject to the ASX Escrow). The amount of the discount was based on a previous sale of similar shares by the Company, typical market-participant discounts for lack of marketability and management's judgment.

	September 30, 2015			December 31, 2014		
	Number	Price	Value	Number	Price	Value
Tlou Energy - escrow shares	-	\$ -	\$ -	14,285,714	\$ 0.191	\$ 2,725,146
Tlou Energy - shares	14,285,714	0.132	1,880,400	-	-	-
	<u>14,285,714</u>		<u>\$ 1,880,400</u>	<u>14,285,714</u>		<u>\$ 2,725,146</u>

##### Sao Jorge Royalty

On August 25, 2015, the Company completed the sale of a 1% net smelter returns royalty that the Company held over the São Jorge Gold Project in Pará State, Brazil for approximately \$2.5 million. In connection with the sale, the Company recognized an estimated tax expense of \$475,000.

### 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 the USA (the Tamarack Project) and Brazil (Trairão Project and Inajá South Project). Details of the change for the year ended December 31, 2014 and the nine month period ended

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Expressed in Canadian dollars)

September 30, 2015, are as follows:

	December 31, 2013			December 31, 2014			September 30, 2015
	Additions	Write-downs		Additions	Write-downs		
Tamarack Project	\$ -	\$ 9,743,629	\$ -	\$ 9,743,629	\$ 13,916,164	\$ -	\$ 23,659,793
Trairao Project	17,558,890	473,563	(14,032,453)	4,000,000	195,628	(14,032,453)	4,195,628
Inaja South Project	1,153,515	20,599	(674,114)	500,000	12,311	(674,114)	512,311
	\$ 18,712,405	\$ 10,237,791	\$ (14,706,567)	\$ 14,243,629	\$ 14,124,103	\$ (14,706,567)	\$ 28,367,732

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 North 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 Nickel 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	Committed
Second Anniversary	US\$4,000,000	Talon's Option
<b>Total</b>	<b>US\$7,500,000</b>	

\*The payment date has been deferred to December 21, 2015 as discussed below and recognized as a liability and as part of the resource properties asset along with accrued interest at the rate of 12-month LIBOR plus 8% per annum.

#### Exploration Expenditures to be funded by Talon

Payment Period	Payments to be Made	Term of Payment	Amount Paid (as of September 30, 2015)
Year 1	US\$10,000,000	Committed	US\$10,000,000
Year 2	US\$10,000,000	US\$2.5 million committed**	US\$ 1,559,872
Year 3	US\$10,000,000	Talon's Option	-
<b>Total</b>	<b>US\$30,000,000</b>		<b>US\$11,559,872</b>

\*\*On May 15, 2015, the Company exercised its right to fund exploration expenditures for the second year of

## **Talon Metals Corp.**

### **Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Expressed in Canadian dollars)**

the Tamarack Earn-in Agreement. As such, under the terms of the Tamarack Earn-in Agreement, the Company is committed to funding the first US\$2.5 million of exploration expenditures during the second year.

In addition to the above, Talon Nickel 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, 2015, Talon has paid US\$2.4 million related to land option payments.

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).

On March 26, 2015, Kennecott agreed to amend the Tamarack Earn-in Agreement to: (1) defer a US\$2,500,000 option payment due by Talon on June 26, 2015 until December 21, 2015; and (2) not make any cash calls from Talon beyond the amount of the Kennecott Loan (as defined and explained in Note 7) until the fourth quarter of 2015.

#### **(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.

On December 31, 2014, the Company recognized an impairment loss on the carrying value of the Trairão Project, primarily due to, (i) the decline in the spot and long-term forecast prices of iron ore, (ii) delays in the development of previously announced infrastructure improvements in the region that would positively affect the development of the Trairão Project, and (iii) the closure of the potential local off-taker with which the Company had previously signed a letter of intent and the closure of other potential off-takers/smelters in the region.

The quantum of the impairment loss on the Trairão Project was based on the Company's assessment of the fair value, taking into account various approaches to valuation including the income, cost and market

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approaches. The fair value measurement falls within a Level 3 estimate under IFRS (see note 2). Key unobservable inputs related to the income approach include a long-term forecast of the China delivered price of US\$80/tonne and an after-tax discount rate in a range of 15% to 18%.

On December 31, 2014, the Company also recognized an impairment loss on the carrying value of the Inajá South Project, primarily due to, (i) the decline in the spot and long-term forecast prices of iron ore, and (ii) delays in the development of previously announced infrastructure improvements in the region that would positively affect the development of the Inajá South Project.

The quantum of the impairment loss on the Inajá South Project was based on the Company's assessment of the fair value, taking into account various approaches to valuation including the cost and market approaches. The fair value measurement falls within a Level 3 estimate under IFRS (see note 2).

### 6. PROVISION FOR DISTRIBUTION OF RIO VERDE SHARES TO OPTION HOLDERS

In conjunction with the distribution of Rio Verde to shareholders on July 28, 2011, the Company retained shares in Rio Verde, to be distributed in the 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 \$nil (December 31, 2014 - \$302,000) 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 significantly out-of-the-money and/or expire in the short-term. The recognized liability represents approximately 0% (December 31, 2014 – 61%) of the potential maximum liability. The reason for the nil liability relates to the significant difference between the strike price of the relevant options and the Company's share price as well as the relatively short term of the options.

### 7. SHORT-TERM LOAN

On March 26, 2015, Kennecott provided Talon with an unsecured loan in the principal amount of US\$4,000,000 (the "Kennecott Loan"). The Kennecott Loan matures on December 21, 2015 and bears interest at the rate of 12-month LIBOR plus 8% per annum (the "Interest Rate"). In July 2015, the parties amended the Kennecott Loan to include an additional US\$500,000 for a new total principal amount under the Kennecott Loan of US\$4.5 million.

The Kennecott Loan has been used to fund exploration expenditures and land option payments at the Tamarack Project in accordance with the terms of the Tamarack Earn-in Agreement, with interest accruing at the Interest Rate as of the date of each draw-down. The proceeds from the Kennecott Loan may only be used by Kennecott to fund exploration expenditures at the Tamarack Project, and for certain pre-determined land option payments.

As of September 30, 2015, a total of US\$4.44 million has been drawn under the Kennecott Loan and interest of US\$151,927 has been accrued.



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## Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Expressed in Canadian dollars)

### 8. SHARE CAPITAL AND OTHER EQUITY

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

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

Issued and outstanding – 106,832,137 common shares at September 30, 2015 and December 31, 2014.

On November 6, 2014, the Company closed a bought deal private placement offering (the “Offering”) by which 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 and net proceeds of \$3,906,978.

Each Unit consisted of one common share of the Company 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 Toronto Stock Exchange 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”).

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. 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.

#### (b) Warrants

Warrant transactions for the nine months ended September 30, 2015 and the year ended December 31, 2014 are as follows:

	Nine months ended September 30, 2015			Year ended December 31, 2014		
	Number of Warrants	Exercise Price	Fair Value	Number of Warrants	Exercise Price	Fair Value
Outstanding – beginning of the year	8,513,052	\$ 0.43	\$ 534,217	-	\$ -	\$ -
Issued	1,000,000	0.30	24,095	250,000	0.37	33,552
Issued	1,000,000	0.65	5,448	7,377,725	0.45	435,975
Issued	-	-	-	885,327	0.32	64,690
Outstanding – end of the period	10,513,052	\$ 0.44	\$ 563,760	8,513,052	\$ 0.43	\$ 534,217

In July 2014, 250,000 warrants were issued to representatives of 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 using the following estimates: risk-free interest rate – 1.6%, expected life – 3 years, expected volatility – 60% and dividend yield – 0%.

As discussed in note 8(a), the Company issued Warrants and Compensation Warrants as part of the Offering. The Warrants have a contractual life of 3 years, an exercise price of \$0.45 and were valued using the Black-Scholes model using the following estimates: risk-free interest rate – 1.11%, expected life – 3 years, expected volatility – 60% and dividend yield – 0%. The Compensation Warrants have a contractual life of 2 years, an exercise price of \$0.32 and were valued using the Black-Scholes model using the following estimates: risk-free interest rate – 1.0%, expected life – 2 years, expected volatility – 60% and dividend yield – 0%.

In April 2015, 1,000,000 warrants at \$0.30 and 1,000,000 warrants at \$0.65 were issued to a corporate advisor for capital raising services in lieu of cash compensation. These have a contractual life of 2 years and vested immediately. The fair value was determined using the Black-Scholes model using the following estimates: risk-



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## Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Expressed in Canadian dollars)

free interest rate – 0.77%, expected life – 2 years, expected volatility – 60% and dividend yield – 0%.

### 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 statements of loss and comprehensive loss. A breakdown of these costs for the three and nine months ended September 30, 2015 and 2014 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Salaries, benefits, consulting and management fees	\$ -	\$ 1,763	\$ -	\$ 772,463
Professional fees	-	-	-	14,069
Travel	-	4,530	-	229,031
Geological data and other	-	154	-	17,106
	<u>\$ -</u>	<u>\$ 6,447</u>	<u>\$ -</u>	<u>\$ 1,032,669</u>

The Company stopped evaluating new projects in Q2 2014 once it entered into the Tamarack Earn-in Agreement and so project evaluation and due diligence expenses from approximately July 1, 2014 onwards are negligible.

### 10. STOCK OPTION COMPENSATION – EMPLOYEE SHARE OPTION PLAN

The Company has adopted a stock option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company. The exercise price of each option is determined by the board of directors of Talon but, in any event, is not lower than the closing market price on the TSX on the trading day immediately preceding the date the option is granted. The terms and conditions of the options are determined by the board of directors of the Company pursuant to the rules of the Plan. All options are granted for a term not exceeding ten years from the grant date. The total number of options that can be granted is limited to 12.5% of the issued and outstanding share capital of the Company.

A summary of the status of the options outstanding as at September 30, 2015 and December 31, 2014 and changes during the periods ended on those dates is presented below:

	Nine months ended September 30, 2015		Year ended December 31, 2014	
	Number of stock options	Exercise price	Number of stock options	exercise price
Outstanding – beginning of the year	13,994,350	\$ 0.51	12,849,350	\$ 0.54
Granted	2,109,350	0.20	300,000	0.30
Granted	-	-	1,795,000	0.37
Expired	(3,424,350)	0.40	-	-
Cancelled	(50,000)	0.30	(2,667)	0.37
Cancelled	-	-	(440,000)	0.385
Cancelled	-	-	(20,000)	0.40
Cancelled	-	-	(7,333)	0.415
Cancelled	-	-	(450,000)	0.70
Cancelled	-	-	(30,000)	1.95
Outstanding – end of the period	<u>12,629,350</u>	<u>\$ 0.49</u>	<u>13,994,350</u>	<u>\$ 0.51</u>

2,733,733 of the 12,629,350 options outstanding have been issued outside of the Plan. No options were exercised during the nine months ended September 30, 2015 and the year ended December 31, 2014.

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As at September 30, 2015, the Company had the following stock options outstanding:

<u>Date of grant</u>	<u>Number of options</u>	<u>Exercise price</u>	<u>Exercisable</u>	<u>Exercise price</u>	<u>Expiry date</u>
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
June 7, 2011	500,000	1.95	500,000	1.95	June 7, 2016
January 31, 2012	1,966,267	0.45	1,966,267	0.45	January 31, 2017
January 31, 2012	833,733	0.45	833,733	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
June 15, 2012	400,000	0.33	400,000	0.33	June 15, 2017
February 20, 2013	300,000	0.30	300,000	0.30	February 20, 2018
February 28, 2013	100,000	0.30	100,000	0.30	February 28, 2018
March 20, 2013	1,000,000	0.30	-	0.30	March 20, 2018
August 1, 2013	350,000	0.30	350,000	0.30	August 1, 2018
October 1, 2013	500,000	0.34	375,000	0.34	October 1, 2018
May 28, 2014	300,000	0.30	150,000	0.30	May 28, 2019
July 2, 2014	1,795,000	0.37	1,260,000	0.37	July 2, 2019
May 28, 2015	2,109,350	0.20	2,109,350	0.20	May 28, 2020
	<u>12,629,350</u>	<u>\$ 0.49</u>	<u>10,819,350</u>	<u>\$ 0.52</u>	

A stock option compensation expense of \$222,835 for the nine months ended September 30, 2015 (2014 – \$296,466) was recognized in the condensed consolidated statements of loss and comprehensive loss.

### Options Granted in 2015

In May 2015, 2,109,350 options were issued to employees, directors, officers and consultants of the Company. These have a contractual life of 5 years and an exercise price of \$0.20 and vested on the date of grant.

### 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.

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

	<u>2015</u>	<u>2014</u>
Risk-free interest rate	0.77%	1.6%-1.8%
Expected life	5 years	5 years
Expected volatility	60%	60%
Dividend yield	Nil	Nil

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### 11. NET INCOME OR LOSS PER SHARE

#### (a) Basic

Basic 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, investments, accounts payable, accrued liabilities and the Kennecott Loan.

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	\$	2,592,548
Investment in Tlou Energy		1,880,400

### 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, 2015, the Company had a cash and cash equivalents balance of \$2,592,548 (December 31, 2014 - \$6,111,069) to settle current liabilities of \$10,382,436 (December 31, 2014 - \$607,355).

In order to meet future funding of the Tamarack Earn-in Conditions and for working capital, including salaries, the Kennecott Loan 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. In addition, on March 26, 2015, Kennecott provided Talon with an unsecured loan (see Note 7). The Company expects to raise capital in the second 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,

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which may continue to be characterized by significant reductions in liquidity and access to capital.

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 must raise additional capital in the fourth quarter of 2015. The Company must also repay all draw-downs from the Kennecott Loan (principal and interest) and the Deferred Option Payment by December 21, 2015. If the Company is unsuccessful in raising sufficient additional capital, the Company may not be able to fund continuing operations beyond December 21, 2015 (the date which the Kennecott Loan becomes due and payable).

One or more capital raisings may be completed in a number of ways, including but not limited to, selling equity capital, a combination of strategic partnerships, debt finance, offtake financing, royalty financing and other capital markets alternatives. In the current state of the metals capital markets, any significant capital raising(s) will likely be very dilutive to the Company's potential interest in the Tamarack Project and/or to current shareholders' interests in the Company. Although the Company was successful in raising additional funds in the past, given the current climate, the ability to raise funds has been and may continue to be difficult. The Company has been pursuing capital raising options since early 2015 and, to date, has not been successful, although it is in advanced discussions with a party to raise capital with the goal to conclude same in December. There can be no assurance that these discussions will be successfully concluded or that, in any event, adequate or sufficient funding will be available to the Company to meet the Company's commitments. Such uncertainty casts doubt on the Company's ability to continue as a going concern. Failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis, which would differ from the going concern basis.

### (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 loss of the Company for the period ended September 30, 2015, by approximately \$90,000.

### (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. In addition, the Kennecott Loan is denominated in United States dollars.

At September 30, 2015, the Company had net monetary assets and liabilities in foreign currencies, as follows (Canadian dollar equivalent):

United States dollars (net monetary liability)	\$ (7,620,000)
Brazilian real	\$ (520,000)

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 loss of the Company for the period ended September 30, 2015 of approximately \$410,000.

### (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 Company is exposed to interest rate risk in regards to its interest income on Treasury Bills and money market funds and the floating interest rate on the Kennecott Loan, which is based on 12-month LIBOR plus 8%.

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The risk of investing cash equivalents into fixed interest rate investments is mitigated by the short terms in which these investments mature. The investments are typically short-term investments with a term of less than ninety days. As of September 30, 2015, the Company had interest bearing debt of \$5,951,680 pursuant to the Kennecott Loan and a deferred payment in regards to the Tamarack Project of \$3,348,500. Interest rate risk on the Company's debt is mitigated by the relatively small amount of interest expense and the short term to maturity of the loan.

### 14. CAPITAL RISK MANAGEMENT

Capital is comprised of equity which at September 30, 2015 was \$22,606,943 (December 31, 2014 - \$23,047,853). 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 short-term loans 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, 2015, the Company had a short-term loan, namely the Kennecott Loan (see Note 6) and a deferred payment related to the Tamarack Project.

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the period ended September 30, 2015 and the year ended December 31, 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 directors and officers 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. 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, 2015, fees paid under the New Brazil Agreement amounted to \$39,000 (2014 - \$47,000).

Accounts payable and accrued liabilities at September 30, 2015 include \$78,636 payable to certain directors of the Company (December 31, 2014 - \$15,500).

# Talon Metals Corp.

## Notes to the Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Expressed in Canadian dollars)

The remuneration of directors and officers of the Company for the three and nine months ended September 30, 2015 and 2014 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Cash compensation	\$ 425,202	\$ 500,910	\$ 1,280,718	\$ 1,230,770
Share based compensation	18,213	186,088	213,286	255,257
Aggregate compensation	\$ 443,415	\$ 686,998	\$ 1,494,004	\$ 1,486,027

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.

In May 2015, 1,965,000 options were issued to directors and officers of the Company. These have a contractual life of 5 years and an exercise price of \$0.20 and vested on the date of grant.

## 16. INCOME TAXES

### (a) Reconciliation of income tax at statutory rate to income tax provision

The reconciliation of income taxes attributable to operations computed at the statutory tax rate of 0% (2014 - 0%) in the British Virgin Islands to the income tax provision recorded in the Condensed Consolidated Interim Financial Statements is as follows:

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Net income (loss) before income taxes	\$ 1,735,398	\$ (866,135)	\$ (218,288)	\$ (1,828,622)
Expected income tax (recovery) expense	-	-	-	-
Difference in foreign tax rates	524,655	79,891	526,962	75,495
Non-deductible expenses	1,148	2,622	5,388	7,631
Change in tax benefits not recognized	(50,803)	(82,513)	(57,350)	(83,126)
Income tax (recovery) expense	\$ 475,000	\$ -	\$ 475,000	\$ -

### (b) Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	September 30, December 31,	
	2015	2014
Non-capital losses carried forward - Brazil	\$ 6,600,000	\$ 9,300,000
Resource properties and deferred expenditures	5,800,000	8,900,000

Brazilian non-capital losses may be carried forward indefinitely, and may be used to offset up to 30% of a company's taxable income in each future tax period. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets should be recognized under IFRS only if it is probable that future taxable profit will be available against which the group can utilize the benefits from the deductible differences. Deferred tax assets have not been recognized in respect of the above items because it is not

## **Talon Metals Corp.**

**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2015 and 2014**  
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probable that future taxable profit will be available against which the group can utilize the benefits from the deductible differences.

### **17. GEOGRAPHIC INFORMATION**

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