TALON METALS CORP.

Consolidated Financial Statements

December 31, 2013 and 2012

(Expressed in Canadian dollars)

Management's Responsibility for Financial Information

Management has prepared the information and representations in these Consolidated Financial Statements. The Consolidated Financial Statements have been prepared in conformity with International Financial Reporting Standards ("IFRS"), and where appropriate, reflect management's best estimates and judgment.

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

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

"Henri van Rooyen" - CEO

"Vincent Conte" - CFO

MNP LLP

Independent Auditor's Report

To the Shareholders of Talon Metals Corp.

We have audited the accompanying consolidated financial statements of Talon Metals Corp., which comprise the balance sheet as at December 31, 2013, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Talon Metals Corp. as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

The consolidated financial statements as at December 31, 2012 and for the year then ended were audited by MSCM LLP of Toronto, Canada, prior to its merger with MNP LLP. MSCM LLP expressed an unmodified opinion on those statements on March 21, 2013.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
March 31, 2014

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Talon Metals Corp.
Consolidated Balance Sheets

(Expressed in Canadian dollars)

	Notes	December 31, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents		$ 14,852,876	$ 16,485,729
Investments	*4a*	284,468	1,447,186
Prepayments		61,074	58,813
Accounts and other receivables		8,672	51,607
		15,207,090	18,043,335
Non-current assets			
Equipment		87,418	105,333
Investment in Tlou Energy	*4b*	2,725,146	6,107,143
Resource properties and deferred expenditures	*5*	18,712,405	18,290,769
Assets held for sale	*6*	100,000	262,400
		$ 36,832,059	$ 42,808,980
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*15*	$ 434,958	$ 556,118
Provision for distribution of Rio Verde shares to option holders	*7*	400,000	516,000
		834,958	1,072,118
Shareholders' equity			
Share capital	*8*	74,106,555	74,106,555
Contributed surplus		15,128,750	14,572,653
Accumulated other comprehensive loss		-	(873,821)
Deficit		(53,238,204)	(46,068,525)
		35,997,101	41,736,862
		$ 36,832,059	$ 42,808,980

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

Approved by the board of directors on March 31, 2014

Signed:

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

Talon Metals Corp.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	Notes	Year ended December 31 2013	Year ended December 31 2012
Revenue			
Interest income		$ 75,538	$ 153,314
Expenses			
Salaries, benefits, consulting and management fees	*9, 15*	656,987	1,149,723
Professional fees	*9*	135,626	250,795
Office and general		490,147	708,503
Listing and filing expense		67,387	94,510
Project evaluation and due diligence	*9*	2,778,002	2,126,135
Property payments and licenses		158,036	314,330
Provision for distribution of Rio Verde shares to option holders	*7*	(116,000)	30,375
Stock option compensation payments	*10*	556,097	1,024,194
Depreciation of equipment		21,991	35,554
Foreign currency translation gain		(439,799)	(788,983)
Loss on investments	*4a*	440,782	1,208,738
Share of loss in Tlou	*4b*	225,470	2,102,070
Loss on investments - Tlou	*4b*	627,231	-
Impairment loss on investment in Tlou	*4b*	-	11,255,843
Impairment loss on resource property	*5b*	540,146	-
Gain on disposal of assets held for sale	*6*	(91,987)	(911,395)
Accretion of present value on long term assets		-	(47,022)
Reclassification of other comprehensive loss upon discontinuation of equity method - Tlou		1,195,101	-
		7,245,217	18,553,370
Net loss		(7,169,679)	(18,400,056)
Items that may be reclassified to profit or loss	*4b*	(321,280)	(150,458)
Reclassification of other comprehensive loss upon discontinuation of equity method - Tlou		1,195,101	-
Net comprehensive loss		$ (6,295,858)	$ (18,550,514)
Basic and diluted net loss per share	*11*	$ (0.08)	$ (0.20)
Weighted average shares outstanding		92,076,687	92,027,577

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

Talon Metals Corp.

Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars)

	Notes	Common shares: Number of shares	Common shares: Amount	Common share purchase warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Shareholders' equity
Balance at January 1, 2013		92,076,687	$ 74,106,555	$ -	$ 14,572,653	$ (873,821)	$ (46,068,525)	$ 41,736,862
Stock option compensation payments	*10*				556,097			556,097
Other comprehensive income - Tlou						(321,280)		(321,280)
Net loss						1,195,101	(7,169,679)	(5,974,578)
Balance at December 31, 2013	*8*	92,076,687	$ 74,106,555	$ -	$ 15,128,750	$ -	$ (53,238,204)	$ 35,997,101
Balance at January 1, 2012		92,001,687	$ 68,501,013	$ 5,546,292	$ 13,577,709	$ (723,363)	$ (27,668,469)	$ 59,233,182
Options exercised		75,000	59,250		(29,250)			30,000
Warrants cancelled			5,546,292	(5,546,292)				-
Stock option compensation payments	*10*				1,024,194			1,024,194
Other comprehensive income - Tlou						(150,458)		(150,458)
Net loss							(18,400,056)	(18,400,056)
Balance at December 31, 2012	*8*	92,076,687	$ 74,106,555	$ -	$ 14,572,653	$ (873,821)	$ (46,068,525)	$ 41,736,862

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

Talon Metals Corp.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended December 31, 2013	Year ended December 31, 2012
Cash flows from operating activities		
Net loss	$ (7,169,679)	$ (18,400,056)
Non-cash adjustments:		
Share-based payments	556,097	1,024,194
Share of net loss in Tlou	225,470	2,102,070
Loss on investments	440,782	1,208,738
Impairment loss on investment in Tlou	-	11,255,843
Loss on investments - Tlou	627,231	-
Provision for distribution of Rio Verde shares to option holders	(116,000)	6,000
Impairment loss on resource property	540,146	-
Gain on sale of equipment	-	(911,395)
Gain on sale and disposal of assets held for sale	(91,987)	
Accretion of present value on long term assets	-	(47,022)
Foreign currency translation gain	-	(439,896)
Depreciation of equipment	21,991	35,554
Reclassification of other comprehensive loss upon discontinuation of equity method - Tlou	1,195,101	-
	(3,770,848)	(4,165,970)
Working capital adjustments:		
(Increase) Decrease in prepayments	(2,261)	35,613
Decrease in accounts and other receivables	42,935	178,287
(Decrease) in accounts payables and accrued liabilities	(121,160)	(543,885)
Net cash flows used in operating activities	(3,851,334)	(4,495,955)
Cash flows from investing activities		
Acquisition of equipment	(4,076)	-
Proceeds on sale of assets held for sale	254,387	911,395
Proceeds on sale of investments	721,935	1,193,321
Proceeds on sale of investments - Tlou	2,208,017	-
Acquisition of resource properties and deferred expenditures	(961,782)	(2,723,449)
Net cash flows provided by (used in) investing activities	2,218,481	(618,733)
Cash flows from financing activities		
Proceeds from share issuance	-	-
Proceeds from exercise of options	-	30,000
Net cash flows provided by financing activities	-	30,000
Net (decrease) in cash and cash equivalents	(1,632,853)	(5,084,688)
Cash and cash equivalents, beginning of the year	16,485,729	21,570,417
Cash and cash equivalents, end of the year	$ 14,852,876	$ 16,485,729

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

1. NATURE OF OPERATIONS

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

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

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

All intercompany accounts and transactions have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

These consolidated financial statements were approved by the Board of Directors on March 31, 2014.

Basis of preparation

These consolidated financial statements are presented in Canadian dollars. The consolidated 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 Consolidated 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 December 31, 2013 and 2012, 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 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Resource properties and deferred exploration and evaluation costs

Interests in mineral exploration properties are recorded at cost. Exploration expenditures, other than those of a general nature, relating to mineral properties in which an interest is retained are deferred and carried as an asset until the results of the projects are known. If the project is unsuccessful or if exploration has ceased because continuation is not economically feasible, the cost of the property and the related exploration expenditures are written off. During 2013 and 2012, the Company only capitalized costs on its core properties and expensed all costs related to properties that were of a secondary focus.

The cost of mineral properties includes the cash consideration paid and the negotiated value of shares issued on the acquisition of properties. Properties acquired under option agreements, whereby option payments are made at the discretion of the Company, are recorded in the consolidated 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 consolidated 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 consolidated statements of loss and comprehensive loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 consolidated 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 consolidated 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial assets and liabilities - continued

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. Investment in 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

Changes in accounting policies

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

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

IFRS 13 Fair Value Measurements: This standard establishes a single source of guidance for all fair value measurements required by other IFRS, clarifies the definition of fair value, and enhances disclosures about fair value measurements. IFRS 13 applies when other IFRS require or permit fair value measurements or disclosures. IFRS 13 specifies how an entity should measure fair value and disclose fair value information. It does not specify when an entity should measure an asset, a liability, or its own equity instrument at fair value. The Company started the application of IFRS 13 in the financial statements effective from January 1, 2013. There were no significant impacts to the consolidated financial statements as a result of adopting this standard.

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

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 consolidated financial statements.

Reclassification

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

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of each reporting period and for the periods then ended, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the valuation of resource properties and the provision for distribution of Rio Verde Minerals Development Corp. (“Rio Verde”) shares to certain option holders.

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

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

4. INVESTMENTS

(a) Temporary investments

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

	December 31, 2013			December 31, 2012		
	Number	**Price**	**Value**	**Number**	**Price**	**Value**
Lago Dourado Minerals Ltd. shares	500,000	$ 0.02	$ 10,000	500,000	$ 0.21	$ 105,000
Brazil Resources Inc. shares	548,936	0.50	274,468	-	-	-
Brazilian Gold Corporation shares	-	-	-	3,191,489	0.20	638,298
Rio Verde Minerals Development Corp. shares	-	-	-	1,804,838	0.39	703,888
			$ 284,468			$ 1,447,186

In 2013, Brazilian Gold Corporation (“Brazilian Gold”) was acquired by Brazil Resources Inc. (“Brazil Resources”) resulting in the Company’s shares in Brazilian Gold being exchanged for shares of Brazil Resources.

(Expressed in Canadian dollars)

4. INVESTMENTS - CONTINUED

(b) Long term investments

Tlou Energy Limited

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

From January 1, 2013 until April 5, 2013, the Company recognized its share of Loss of Tlou Energy of $225,470 and share of comprehensive loss of $321,280, totalling $546,750, as derived from Tlou Energy's statements of loss and other comprehensive loss for the same period. The continuity of the Company's carrying value of Tlou Energy is as follows:

	2013	2012
Investment, beginning of the period	$ 6,107,143	$ 19,615,514
Total comprehensive income (loss) for the period	(546,750)	(2,252,528)
Sale of shares - cost basis	(2,308,517)	-
Unrealized gain (loss)	(526,731)	-
Impairment write-down	-	(11,255,843)
Investment, end of the period	$ 2,725,146	$ 6,107,143

As at December 31, 2013, the Company's investment in Tlou Energy was measured at fair value with the gain or loss for the period after April 5, 2013 recognized in income as an investment gain (loss). In accordance with the rules of the ASX, all of the remaining shares of Tlou Energy held by the Company, namely 14,285,714 shares, are subject to a mandatory two year escrow period which expires on April 9, 2015 (the "ASX Escrow"). The escrow shares were valued at a 35% discount to Tlou Energy's closing price on the ASX as at December 31, 2013 because 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.

	December 31, 2013			December 31, 2012		
	Number	Price	Value	Number	Price	Value
Tlou Energy - escrow shares	14,285,714	$ 0.19	$ 2,725,146	-	$ -	$ -
Tlou Energy - shares	-	-	-	21,857,142	0.28	6,107,143
	14,285,714		$ 2,725,146	21,857,142		$ 6,107,143

(Expressed in Canadian dollars)

4. INVESTMENTS – CONTINUED

(b) Long term investments - continued

Tlou Energy Limited - continued

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

5. RESOURCE PROPERTIES AND DEFERRED EXPENDITURES

The properties on which the Company's subsidiaries carry out exploration and development activities are located in Brazil. Details of the changes for the year ended December 31, 2013 are as follows:

	December 31, 2011	Additions	December 31, 2012	Additions	Write-downs	December 31, 2013
Mineral Properties:						
Trairao Project	$ 14,056,824	$ 2,558,106	$ 16,614,930	$ 943,960	$ -	$ 17,558,890
Inaja South Project	981,965	160,679	1,142,644	10,871	-	1,153,515
Campo Grande Gold Project	528,531	4,664	533,195	6,951	(540,146)	-
	$ 15,567,320	$ 2,723,449	$ 18,290,769	$ 961,782	$ (540,146)	$ 18,712,405

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

(a) Trairão Project and Inajá South Project

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

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

Under the agreement with Barrick Barbados, Talon paid Barrick Barbados a nominal purchase price and is obliged to pay certain production related royalties, at varying levels in respect of specific metals. In the case of the Trairão Project, the royalty payable to Barrick Barbados is US$0.2995 per tonne of iron mined and sold. However, Talon has the right to buy back this royalty for US$599,000 during the 12 month period following the start of commercial production. In the case of the Inajá South Project, Barrick Barbados will receive a net smelter royalty of 0.5% for any base metals sold (sales tonnes) and 1.0% for any precious metals sold (sales tonnes). Talon has the right to buy back the royalty for US$1 million during the 12 month period following the start of commercial production. Barrick Barbados has the right to buy back up to a 50% interest in any future gold mining operation in the event that Talon completes a feasibility study with respect to a deposit which identifies reserves totalling at least three million ounces of gold.

(Expressed in Canadian dollars)

5. RESOURCE PROPERTIES AND DEFERRED EXPENDITURES - CONTINUED

(b) São Jorge Gold Project

Talon entered into an option agreement (the "São Jorge Agreement") dated June 14, 2010 with Brazilian Gold whereby Brazilian Gold was granted an option to purchase a 100% interest in the São Jorge Gold Project. Under the São Jorge Agreement, in order to exercise the option, Brazilian Gold was required to pay Talon a total of $2,250,000 in cash and $2,250,000 in Brazilian Gold shares (calculated as the number of Brazilian Gold shares equal to the dollar amount divided by the twenty day volume-weighted average trading price of Brazilian Gold shares) in three payments of cash and shares. As provided for under the São Jorge Agreement, Brazilian Gold made the first two payments totalling $1.5 million in cash and $1.5 million in Brazilian Gold shares. On February 17, 2012, the Company and Brazilian Gold entered into an amendment agreement ("São Jorge Amendment Agreement") whereby the parties agreed that if the final option payment was made at the time of the São Jorge Amendment Agreement, Talon would accept such payment as $1.5 million in Brazilian Gold shares, instead of $750,000 in cash and $750,000 in Brazilian Gold shares. Given this, Brazilian Gold exercised the option resulting in the Company indirectly transferring to Brazilian Gold its indirect subsidiary Brazilian Resources Mineracao Ltda. which owns a 100% interest in the São Jorge Gold Project. Talon's wholly-owned subsidiary Brazmin retains a 1% net smelter return royalty ("NSR") over the São Jorge Gold Project.

The Company no longer owns the São Jorge Gold Project. In 2013, Brazilian Gold was acquired by Brazil Resources.

(c) Campo Grande Gold Project

The Campo Grande project is located approximately 110 km west of Belo Horizonte, the capital of Minas Gerais State, Brazil. This project consists of one exploration license covering 761 hectares and one exploration license application covering 1,893 hectares (for a total of 2,654 hectares), which are held 100% by Brazmin. An NSR of 1.5% is held by a third party over the exploration license. The Company intended to drop the license associated with the Campo Grande project as the Company was no longer interested in pursuing it. As part of the negotiation of the New Brazil Agreement (defined below) to lower the monthly services fee (see note 15), the Company agreed to transfer the license associated with the Campo Grande project to a company controlled by Luis Azevedo, an officer and director of the Company. The Company, has therefore, written off all previously capitalized costs.

6. ASSETS HELD-FOR-SALE

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

	December 31, 2013	December 31, 2012
Plant and equipment	$ 100,000	$ 262,400

During the second quarter of 2013, certain equipment was sold for proceeds of $254,387 resulting in a gain of $91,987.

During 2012, the Company sold equipment for $911,395 that previously had been written down to nil and recognized a gain on sale of the same amount.

(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 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 were 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 $400,000 (2012 - $516,000) has been recognized for this purpose in the consolidated balance sheets. This provision has been based on a price per Rio Verde share of $0.40, being the price per share at which Rio Verde was acquired by B&A. Previously, the provision was based on the closing share price of Rio Verde on the TSX when it was still a public company. The gross value of the liability has been adjusted downwards to take into account the probability that certain options will not be exercised because they are out-of-the-money and/or expire in the short-term. The recognized liability represents approximately 67% (2012 – 74%) 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 December 31, 2013 and 2012.

As part of a unit financing in 2011, the Company issued warrants. During the fourth quarter of 2012, all the warrants expired and the proceeds attributed to the warrants were reclassified to share capital.

(b) Warrants

Warrant transactions for the years ended December 31, 2013 and 2012 are as follows:

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

(Expressed in Canadian dollars)

9. PROJECT EVALUATION AND DUE DILIGENCE EXPENSES

In the normal course of business and to a greater extent in 2012 and 2013, the Company evaluates new mineral project opportunities. The costs associated with this activity are included in project evaluation and due diligence expenses in the Consolidated Statements of Loss and Comprehensive Loss. A breakdown of these costs for the years ended December 31, 2013 and 2012 are as follows:

	Year ended December 31, 2013	Year ended December 31, 2012
Salaries, benefits, consulting and management fees	$ 2,242,095	$ 1,768,570
Professional fees	80,470	79,684
Travel	406,552	249,333
Geological data and other	48,885	28,548
	$ 2,778,002	$ 2,126,135

10. STOCK OPTION COMPENSATION PAYMENTS – EMPLOYEE SHARE OPTION PLAN

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

A summary of the status of the options outstanding as at December 31, 2013 and 2012 and changes during the years then ended is presented below:

	Year ended December 31, 2013		Year ended December 31, 2012	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding – beginning of the year	12,389,350	$ 0.70	9,489,350	$ 1.00
Granted	2,300,000	0.31	2,800,000	0.45
Cancelled	(86,681)	0.37	465,408	0.37
Cancelled	(50,000)	0.385	1,279,592	0.42
Cancelled	(225,000)	0.40	400,000	0.33
Cancelled	(238,319)	0.415	(500,000)	0.40
Cancelled	(200,000)	0.57	(430,000)	1.58
Cancelled	(250,000)	1.00	(950,000)	1.95
Cancelled	(50,000)	1.58	(60,000)	0.70
Cancelled	(220,000)	1.95	(30,000)	2.12
Cancelled	(20,000)	2.12	-	-
Cancelled	(500,000)	2.48	-	-
Exercised	-	-	(75,000)	0.40
Outstanding – end of the year	12,849,350	$ 0.54	12,389,350	$ 0.70

(Expressed in Canadian dollars)

10. STOCK OPTION COMPENSATION PAYMENTS – EMPLOYEE SHARE OPTION PLAN - CONTINUED

2,733,733 of the 12,849,350 options outstanding have been issued outside of the Plan.

No options were exercised during the year ended December 31, 2013. In 2012, the weighted average share price when options were exercised was $0.37.

As at December 31, 2013, the Company had the following stock options outstanding:

Date of grant	Number of options	Exercisable	Exercise price	Expiry date
June 11, 2009	440,000	440,000	0.39	June 11, 2014
May 21, 2010	3,444,350	3,444,350	0.40	May 21, 2015
October 26, 2010	900,000	900,000	0.70	October 26, 2015
January 17, 2011	255,000	255,000	1.58	January 17, 2016
February 7, 2011	20,000	20,000	2.12	February 7, 2016
May 25, 2011	370,000	370,000	1.95	May 25, 2016
January 31, 2012	1,966,267	1,474,700	0.45	January 31, 2017
April 4, 2012	1,041,273	1,041,273	0.415	April 4, 2017
April 25, 2012	378,727	46,227	0.37	April 25, 2017
February 20, 2013	300,000	262,500	0.30	February 20, 2018
February 28, 2013	100,000	50,000	0.30	February 28, 2018
June 7, 2011	500,000	500,000	1.95	June 7, 2016
January 31, 2012	833,733	625,299	0.45	January 31, 2017
June 15, 2012	400,000	300,000	0.33	June 15, 2017
March 20, 2013	1,000,000	-	0.30	March 20, 2018
August 1, 2013	400,000	300,000	0.30	August 1, 2018
October 1, 2013	500,000	-	0.34	October 1, 2018
	12,849,350	10,029,349	$ 0.60	

A stock option compensation payment expense of $556,097 for the year ended December 31, 2013 (2012 – $1,024,194) was recognized in the consolidated statements of loss and comprehensive loss.

Options Granted in 2013

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

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

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

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.

(Expressed in Canadian dollars)

10. STOCK OPTION COMPENSATION PAYMENTS – EMPLOYEE SHARE OPTION PLAN - CONTINUED

Options Granted in 2012

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

In April 2012, 1,279,592 options were issued to certain of the officers, employees and consultants of the Company. These have a contractual life of 5 years and an exercise price of $0.415. They vest as follows: 491,828 vested on April 4, 2012 and the remainder vest over the next 11 to 18 months with accelerated vesting should the VWAP of the shares reach $1.00 and $1.50.

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

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

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

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

11. LOSS PER SHARE

(a) Basic

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

(b) Diluted

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

(Expressed in Canadian dollars)

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	$	14,852,876
Investments	$	284,468
Level 3		
Investment in Tlou Energy - escrow shares	$	2,725,146

13. FINANCIAL RISK MANAGEMENT

(a) Credit risk management

Certain of the Company’s financial assets are exposed to a degree of credit risk. The Company endeavors to mitigate credit risk by holding its cash and cash equivalents as cash deposits, short-term government treasury bills, money market funds and guaranteed investment certificates (“GICs”) with major commercial banks.

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

(b) Liquidity risk

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

As of December 31, 2013, the Company had a cash and cash equivalents balance of $14,852,876 (December 31, 2012 - $16,485,729) to settle current liabilities of $834,958 (December 31, 2012 - $1,072,118).

(c) Market risk

Market risk is the risk that changes in market prices including foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments. The Company records its investments using the 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 year ended December 31, 2013, by approximately $150,000.

13. FINANCIAL RISK MANAGEMENT - CONTINUED

(d) Foreign exchange risk

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

At December 31, 2013, the Company had net monetary assets and liabilities in foreign currencies, as follows (Canadian dollar equivalent):

United States dollars	$ 7,429,525
Brazilian real	$ 55,804

If foreign exchange rates had changed by 5% on the last day of 2013 with all other facts/assumptions held constant, there would be a change in the net loss of the Company for the year ended December 31, 2013 of approximately $375,000.

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

(e) Interest rate risk

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

14. CAPITAL RISK MANAGEMENT

Capital is comprised of equity which at December 31, 2013 was $35,997,101 (December 31, 2012 - $41,736,862). The Company manages its capital structure and makes adjustments to it, in order to have the funds available to support its exploration, development and operations activities.

The Company's objective when managing capital is to safeguard 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 December 31, 2013 and 2012, the Company had no bank debt.

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the year ended December 31, 2013. The Company is not subject to externally imposed capital requirements.

(Expressed in Canadian dollars)

15. RELATED PARTY TRANSACTIONS AND BALANCES

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

Effective April 1, 2011, the Company entered into a revised administrative and advisory services agreement (the "Tau Agreement") with Tau Capital Corp. ("Tau"). Warren Newfield, the Company's Executive Chairman is a director of Tau. Under the Tau Agreement, Talon agreed to pay Tau a monthly service fee of $58,500. Effective April 1, 2012, the parties agreed to lower the monthly service fee to $25,000, given that Tau would be providing fewer direct services to Talon. On June 1, 2012, the Tau Agreement was terminated by the parties. For the year ended December 31, 2013, fees paid for these services were $nil (2012 - $225,500).

Effective April 1, 2011, Talon entered into a services agreement with a company owned by an officer and director of Talon (Luis Azevedo) (the "Brazil Agreement"). Pursuant to the Brazil Agreement, the company provides Talon with certain accounting, legal and general administrative functions in Brazil. The Brazil Agreement had an initial term of one year and automatically renewed for additional one year terms, until terminated in accordance with its terms. Under the Brazil Agreement, Talon agreed to pay a monthly service fee of US$33,000. Effective May 1, 2012, the parties agreed to lower the monthly service fee to US$23,000 and, on October 1, 2012, the parties agreed to further lower the monthly service fee to US$18,000. Coupled with the revised fee in October 2012, the parties agreed to a one year term for the Brazil Agreement terminating September 30, 2013, unless extended by agreement of the parties. 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 (see note 5c) to a company controlled by Luis Azevedo for no additional consideration. For the year ended December 31, 2013, fees paid amounted to $208,000 (2012 - $309,726).

Accounts payable and accrued liabilities at December 31, 2013 include $17,918 payable under the Brazil Agreement (December 31, 2012 - $1,919 payable to Tau).

The remuneration of directors and officers of the Company for the years ended December 31, 2013 and 2012 was as follows:

	Year ended December 31	
	2013	2012
Cash compensation	$ 1,801,933	$ 1,619,457
Share based compensation	485,877	1,007,676
Aggregate compensation	$ 2,287,810	$ 2,627,133

Included in cash compensation for the year ended December 31, 2013 is severance cost of $nil (year ended December 31, 2012 – $189,000).

15. RELATED PARTY TRANSACTIONS AND BALANCES - CONTINUED

Certain officers and directors of the Company were awarded the following share options during the year ended December 31, 2013:

Date Granted	Number	Exercise Price	Expiration Date
February 20, 2013	200,000	$ 0.30	February 20, 2018
February 20, 2013	75,000	$ 0.30	February 20, 2018
February 28, 2013	100,000	$ 0.30	February 28, 2018
August 1, 2013	300,000	$ 0.30	August 1, 2018
October 1, 2013	500,000	$ 0.34	October 1, 2018

16. INCOME TAXES

The Company is incorporated in the British Virgin Islands. There is no corporate tax in the British Virgin Islands. The Brazilian subsidiaries have loss carry forwards of approximately $9 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 Consolidated Financial Statements.

17. GEOGRAPHIC INFORMATION

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