TALON METALS CORP.

Condensed Consolidated Interim Financial Statements

June 30, 2016 and 2015

(Expressed in Canadian dollars)

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

Talon Metals Corp.
Condensed Consolidated Interim Balance Sheets

(Expressed in Canadian dollars)
(Unaudited)

	Notes	**June 30, 2016**	**December 31, 2015**
Assets			
Current assets			
Cash and cash equivalents		$ 1,361,420	$ 2,014,013
Restricted cash	*5a*	-	20,760,000
Prepayments		56,868	25,554
Accounts and other receivables		21,461	25,910
		1,439,749	22,825,477
Non-current assets			
Equipment and software		63,263	86,387
Investment in Tlou Energy	*4*	-	1,728,514
Resource properties and deferred expenditures	*5*	36,740,399	15,226,360
		$ 38,243,411	$ 39,866,738
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*14*	$ 280,980	$ 489,455
Long-term liabilities			
Unsecured convertible loan	*7b*	18,149,977	19,387,966
		$ 18,430,957	$ 19,877,421
Shareholders' equity			
Share capital	*8a*	$ 80,182,410	$ 80,107,904
Warrants	*8b*	604,483	602,100
Contributed surplus		16,113,774	16,070,178
Deficit		(77,088,213)	(76,790,865)
		19,812,454	19,989,317
		$ 38,243,411	$ 39,866,738

Nature of Operations and 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 August 11, 2016

Signed: *"Gregory S. Kinross"* *"David E. Singer"*

Talon Metals Corp.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

(Unaudited)

	Notes	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenue					
Interest income		$ 426	$ 2,532	$ 598	$ 6,005
Expenses					
Salaries, benefits, consulting and Brazil administration	*14*	175,798	264,478	382,302	548,412
Consulting - financing	*8b*	-	29,543	-	29,543
Professional fees		21,570	42,364	37,285	86,085
Office and general		22,384	61,777	53,715	134,101
Insurance		15,837	31,143	31,465	58,417
Travel		1,559	30,016	9,184	122,695
Listing, filing and shareholder communications		19,280	29,369	54,520	74,237
Provision for distribution of Rio Verde shares to option holders	*6*	-	(70,500)	-	(297,500)
Stock option compensation	*9*	21,856	168,177	43,596	204,206
Depreciation of equipment and software		10,376	14,960	23,124	28,936
Gain on investments		-	-	-	(26,297)
Loss on investments - Tlou	*4*	417,230	714,831	1,150,044	1,230,211
Impairment loss on resource properties	*5*	14,311	-	30,661	-
Loss (gain) on revaluation of unsecured convertible loan	*7b*	1,573,057	-	(1,237,989)	-
Foreign currency translation (gain) loss		(149,386)	5,117	(279,961)	(233,355)
		2,143,872	1,321,275	297,946	1,959,691
Net loss and comprehensive loss		$ (2,143,446)	$ (1,318,743)	$ (297,348)	$ (1,953,686)
Basic and diluted net loss per share	*10*	$ (0.02)	$ (0.01)	$ (0.00)	$ (0.02)
Weighted average shares outstanding		129,609,747	106,832,137	129,209,842	106,832,137

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

Talon Metals Corp.

Condensed Consolidated Interim Statements of Changes in Equity

(Expressed in Canadian dollars)

(Unaudited)

		Common shares		Warrants	Contributed	Deficit	Shareholders'
	Notes	**Number**	**Amount**		**surplus**		**equity**
Balance at January 1, 2016		128,809,937	$ 80,107,904	$ 602,100	$ 16,070,178	$ (76,790,865)	$ 19,989,317
Shares issued	*8a*	835,264	74,506	-	-	-	74,506
Warrants issued	*8b*	-	-	2,383	-	-	2,383
Stock option compensation payments	*9*	-	-	-	43,596	-	43,596
Net loss		-	-	-	-	(297,348)	(297,348)
Balance at June 30, 2016	*8*	129,645,201	$ 80,182,410	$ 604,483	$ 16,113,774	$ (77,088,213)	$ 19,812,454
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	*9*	-	-	-	204,206	-	204,206
Net loss		-	-	-	-	(1,953,686)	(1,953,686)
Balance at June 30, 2015	*8*	106,832,137	$ 77,512,868	$ 563,760	$ 15,692,524	$ (72,441,236)	$ 21,327,916

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)

	Six months ended June 30, 2016	Six months ended June 30, 2015
Cash flows from operating activities		
Net loss	$ (297,348)	$ (1,953,686)
Non-cash adjustments:		
Provision for distribution of Rio Verde shares to option holders	-	(297,500)
Stock option compensation	43,596	204,206
Warrants issued for consulting services	2,383	29,543
Loss on revaluation of unsecured convertible loan	(1,237,989)	-
Gain on investments	-	(26,297)
Loss on investments - Tlou	1,150,044	1,230,211
Impairment loss on resource properties	30,661	-
Foreign exchange loss on short-term loan	-	2,471
Depreciation of equipment and software	23,124	28,936
	(285,529)	(782,116)
Working capital adjustments:		
Increase in prepayments	(31,314)	(12,108)
Decrease in accounts and other receivables	4,449	2,171
(Increase) decrease in accounts payables and accrued liabilities	(208,475)	113,668
Increase in accured interest payable	-	80,692
Net cash flows used in operating activities	(520,869)	(597,693)
Cash flows from investing activities		
Acquisition of equipment and software	-	(2,718)
Proceeds on sale of investments	-	252,820
Proceeds on sale of investments - Tlou	578,470	-
Acquisition of resource properties and deferred expenditures	(21,544,700)	(7,928,562)
Restricted cash invested in resource properties and deferred expenditures	20,760,000	-
Net cash flows used in investing activities	(206,230)	(7,678,460)
Cash flows from financing activities		
Proceeds from issuance of shares, net of costs	74,506	-
Proceeds from short-term loan	-	3,648,462
Net cash flows provided by financing activities	74,506	3,648,462
Net decrease in cash and cash equivalents	(652,593)	(4,627,691)
Cash and cash equivalents, beginning of the year	2,014,013	6,111,069
Cash and cash equivalents, end of the period	$ 1,361,420	$ 1,483,378

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

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 currently holds an 18.45% interest in the Tamarack Project, which was earned pursuant to an Exploration and Option Agreement (the "Tamarack Earn-in Agreement") (as amended) that the Company is a party to with Kennecott Exploration Company ("Kennecott"), a subsidiary of the Rio Tinto Group. The Company's interest in the Tamarack Project is held through its indirect Delaware, USA subsidiary, Talon Nickel (USA) LLC ("Talon Nickel"). The Company also holds a 100% interest in the Trairão iron project (the "Trairão Project") in Brazil which is held 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.

A subsidiary is an entity that is controlled by the Company. 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, 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 maintain an interest in the Tamarack Project, discover 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 the receipt of sufficient proceeds on disposal of the properties.

As at June 30, 2016, the Company had working capital of $1.2 million (December 31, 2015 – $22.3 million) and Shareholders' equity of $19.8 million (December 31, 2015 – $20.0 million). Working capital is defined as current assets less current liabilities. As at December 31, 2015, working capital included $22.8 million of cash, of which $20.8 million (US$15 million) was restricted cash. On January 4, 2016, such restricted cash was paid to Kennecott as part of the Company's earn-in to the Tamarack Project.

These condensed consolidated interim financial statements have been prepared on a going concern 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 as a going concern is dependent on its ability to sell non-core assets, cut costs and/or raise financing. There can be no assurance that the Company will be successful in selling non-core assets, cutting sufficient costs and/or, in compliance with the RCF Loan Agreement (note 7(b)), raising financing to meet the Company's commitments.

These circumstances cast significant 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 12(b) "Liquidity Risk" for more information in this regard.

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"), interpretations as issued by the International Accounting Standards Board ("IASB") and in particular International Accounting Standard ("IAS") 34 (Interim Financial Reporting) as issued by the IASB.

These condensed consolidated interim financial statements were approved by the Audit Committee of the Board of Directors of the Company on August 11, 2016.

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 June 30, 2016, the Company held both cash and cash equivalents.

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 rates:

Office and 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 or written down to the net recoverable amount of the deferred exploration expense.

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

The amounts shown for mineral properties and deferred exploration costs represents cost to date less accumulated impairment, 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.

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 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
Restricted cash	-	Fair value through profit and loss

Investments	-	Fair value through profit and loss
Investment in Tlou Energy	-	Fair value through profit and loss
Accounts and other receivables	-	Loans and receivables
Accounts payable and accrued liabilities	-	Other liabilities
Unsecured convertible loan	-	Fair value through profit and loss

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, restricted cash, and the investment in Tlou Energy Limited ("Tlou Energy") have been measured using Level 1 inputs. The convertible loan has been measured using both Level 1 and Level 3 inputs.

Unsecured convertible loan

In December 2015, the Company issued an unsecured convertible loan (note 7(b)). The Company has designated the unsecured convertible loan at fair value through profit and loss. The Company has used estimates in determining the fair value of the unsecured convertible loan. Inputs used in the models employed in the valuation of the convertible loan as a hybrid financial instrument require subjective assumptions, including the expected price volatility, the price of the Company's shares and credit yield-to-maturity of the Company. Changes in these assumptions and the selected valuation model can materially affect the fair value estimate. The valuation methods and the underlying assumptions used in the re-measurement of the unsecured convertible loan are disclosed in Note 7(b).

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 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

There were no material changes in accounting policies in 2016 compared to 2015.

Future accounting policies

IAS 1, Disclosure Initiative: Amendments to IAS 1 (“IAS 1”), was issued by the IASB on December 18, 2014 as part of its major initiative to improve presentation and disclosure in financial reports (the “Disclosure Initiative”). The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosure. The Company has not yet determined the impact of IAS 1 on its condensed consolidated interim financial statements.

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

Certain 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 valuation of the unsecured convertible loan.

(Expressed in Canadian dollars)

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

The uncertainty in regards to the valuation of the unsecured convertible loan arises a result of certain key inputs such as expected volatility, the price of the Company's shares, the yield-to-maturity or discount rate on the loan portion and the selected valuation methodology.

4. 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). The shares were valued based on Tlou Energy's closing price on the Australian Securities Exchange ("ASX") as at December 31, 2015.

	June 30, 2016			December 31, 2015		
	Number	Price	Value	Number	Price	Value
Tlou Energy - shares	-	$ -	-	14,285,714	$ 0.121	1,728,514
	-		$ -	14,285,714		$ 1,728,514

During Q2 2016, the Company disposed of all its shares of Tlou Energy for net proceeds of $546,196.

Sao Jorge Royalty

During Q3 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 $2,492,054 (US$1.90 million). The Company recognized a gain for the full amount of the net proceeds as the royalty had a carrying cost of zero, as follows:

Proceeds from sale of royalty	$ 2,492,054
Selling expenses	(54,594)
Gain on sale of royalty, net of selling expenses	$ 2,437,460

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 (the Trairão Project). Details of the change for the year ended December 31, 2015 and six months ended June 30, 2016, are as follows:

	December 31, 2014	Additions	Write-downs	December 31, 2015	Additions	Write-downs	June 30, 2016
Tamarack Project	$ 9,743,629	$ 5,482,731	$ -	$ 15,226,360	$ 21,514,039	$ -	$ 36,740,399
Trairao Project	4,000,000	218,926	(4,218,926)	-	30,661	(30,661)	-
Inaja South Project	500,000	12,311	(512,311)	-	-	-	-
	$ 14,243,629	$ 5,713,968	$ (4,731,237)	$ 15,226,360	$ 21,544,700	$ (30,661)	$ 36,740,399

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. In regards to the Trairão Project, the material licenses are in the process of being renewed.

(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 received the right to acquire an interest in the Tamarack Project.

Pursuant to the original terms of the Tamarack Earn-in Agreement, Talon Nickel had the right to acquire a 30% interest in the Tamarack Project over a three year 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 addition, Talon Nickel had agreed to make certain land option payments on behalf of Kennecott, which were payable over the Earn-in Period (and, when payable, are included as part of the Tamarack Earn-in Conditions).

On March 26, 2015, Kennecott and Talon amended the Tamarack Earn-in Agreement to defer the second year option payment in the amount of $2.5 million from June 25, 2015 to December 21, 2015 (the "Deferred Option Payment") and delay further cash calls from being made by Kennecott until October 1, 2015. The Deferred Option Payment was recognized as a liability on June 25, 2015 and subsequently extinguished on December 29, 2015 as part of the Debt Settlement Agreement (note 7(a)). The extinguishment was applied against the resource properties and deferred expenditures balance, which was where the Deferred Option Payment had been previously capitalized.

On November 25, 2015, Kennecott and Talon Nickel entered into a further agreement to amend the Tamarack Earn-in Agreement, to provide, among other things:

- that upon receipt by Kennecott from Talon of US$15 million (which is in addition to previous amounts paid to Kennecott of US$10.52 million), Talon will earn an 18.45% interest in the Tamarack Project and Talon will have no further funding requirements to earn its interest in the Tamarack Project; and

- once Kennecott has spent the funds advanced by Talon on exploration activities in respect of the Tamarack Project, subject to certain self-funding rights by Kennecott during the earn-in period, Kennecott will have 180 days to elect whether to: (a) proceed with a 81.55/18.45 joint venture on the Tamarack Project, with Kennecott owning an 81.55% participating interest, and Talon owning an 18.45% participating interest (the "Tamarack Joint Venture"); or (b) grant Talon the right to purchase Kennecott's interest in the Tamarack Project for a total purchase price of US$114 million (the "Purchase Option"). In the event Kennecott grants Talon the Purchase Option, 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 of US$14 million.

As at December 31, 2015, C$20.76 million (US$15 million) was classified as restricted cash on the balance sheet. On January 4, 2016, Talon Nickel made the US$15 million payment (the restricted cash) to Kennecott to earn an 18.45% interest in the Tamarack Project. There are no further amounts required to be paid to earn the 18.45% interest

The total amount paid to Kennecott to earn the 18.45% interest was US$25.52 million.

(b) Trairão Project and Inajá South Project

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

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

Under the agreement with Barrick Barbados, Talon paid Barrick Barbados a nominal purchase price and is obliged to pay certain production related royalties, at varying levels in respect of specific metals. In the case of the Trairão Project, the royalty payable 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.

On December 31, 2015, the Company determined that the carrying value of the property would not be recoverable and wrote off the carrying value of the property in full. The determination was made taking into consideration the deterioration in projected future iron ore prices, the closing of a local off-taker, the poor and declining condition of roads with little prospect of improvement and current poor general market conditions. The fair value measurement falls within a Level 3 estimate under IFRS.

During Q4 2015, the Company decided to relinquish its license for the Inajá South Project and wrote off the remaining carrying value at that time.

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

In conjunction with the distribution of the shares of Rio Verde Minerals Development Corp. ("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, 2015 - $nil) 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, 2015 – 0%) of the potential maximum liability of $nil (December 31, 2015 – $112,000). The reason for the nil liability as at December 31, 2015 relates to the relatively high strike price of the relevant options compared to the Company's share price as well as the relatively short term of the options. The reason for the nil liability as at June 30, 2016 is all of the relevant options have expired.

7. SHORT-TERM LOAN AND UNSECURED CONVERTIBLE LOAN

(a) Short-term loan (Kennecott Loan)

On March 26, 2015, Kennecott provided Talon and Talon Nickel with an unsecured loan (the "Kennecott Loan") in the principal amount of US$4 million (in July, 2015, the Kennecott Loan was increased to a maximum of up to US$4.5 million). The Kennecott Loan enabled Talon Nickel to meet all of its first year commitments under the Tamarack Earn-in Agreement. The Kennecott Loan was to mature on December 21, 2015 and had an interest rate of 12 month LIBOR plus 8% per annum. Talon drew US$4.44 million of the loan in Q2 and Q3 2015, although the funds were not transferred to Talon, but instead directly invested in the Tamarack Project.

On November 25, 2015, in connection with the RCF Financing (note 7(b)), Talon, Talon Nickel and Kennecott entered into a debt settlement agreement (the "Debt Settlement Agreement"), pursuant to which, among other things, the parties agreed that on the closing of the RCF Financing:

- the principal amount of the Kennecott Loan (US$4.44 million) and Deferred Option Payment (US$2.5 million) would be extinguished (note 5(a)); and

- interest in the aggregate amount of US$349,115 payable to Kennecott by Talon Nickel in respect of the Kennecott Loan and the Deferred Option Payment would be converted into 5,236,717 common shares (the "Kennecott Settlement Shares") at a price per common share of $0.09 based on a fixed US dollar to Canadian dollar exchange rate of 1.35.

In connection with the closing of the RCF Financing on December 29, 2015, the Kennecott Loan and Deferred Option Payment were extinguished and the common shares referred to above were issued. As a result of issuing the common shares at $0.09 per share, being a discount to their fair value of $0.12 per share based on the trading price on the TSX, a loss on settlement of the short-term loan of $179,200 was recognized.

(b) Unsecured convertible loan (RCF Loan)

On November 25, 2015, the Company entered into definitive agreements with Resource Capital Fund VI L.P. ("RCF") whereby RCF agreed to provide US$15 million to the Company (the "RCF Financing") to be used to earn an 18.45% interest in the Tamarack Project. After receipt by the Company of the US$15 million, the entire amount was transferred to Kennecott on January 4, 2016.

The RCF Financing was subject to certain closing conditions, including, the receipt of shareholder approval. The Company held a special meeting of its shareholders on December 29, 2015 where shareholders approved, among other things, the RCF Financing. The material terms of the RCF Financing are as follows:

- RCF provided the Company with US$15 million, as follows: (a) US$1 million via a private placement subscription for 11,540,833 common shares in the capital of the Company at a subscription price of C$0.12 per common share (the "RCF Private Placement"), and (b) US$14 million via an unsecured convertible loan (the "Unsecured Convertible Loan" or "RCF Loan", and the agreement governing the RCF Loan, the "RCF Loan Agreement"). The RCF Loan matures on the maturity date (the "Maturity Date") being the earlier of: (i) November 25, 2018; and (ii) the date upon which RCF elects to accelerate the due date upon the occurrence of certain events, including an event of default.

- The RCF Loan bears interest at the rate of 12% per annum. All interest accrues and become payable on the Maturity Date. The Company may only prepay the RCF Loan (including accrued interest), in full or in part, with the prior approval of RCF.

- Under the terms of the RCF Loan, RCF may elect to convert all or part of the principal amount of the RCF Loan (including all capitalized interest) into common shares of the Company at any time at a conversion price of $0.156 per common share (the "Conversion Price"), representing a 30% premium to the RCF Subscription Price. Interest that has not been capitalized is to be converted at a price equal to the volume weighted average trading price for the five trading days prior to the conversion. Any amount being converted pursuant to RCF's conversion right will be converted from United States dollars into Canadian dollars based on the currency exchange rate as reported by Bloomberg as of 5:00 p.m. (EST) on the first business day preceding the conversion date.

- For as long as the RCF Loan Agreement is in effect or while RCF and its affiliates, on a partially diluted basis, hold common shares of the Company equal to or exceeding 10% of all common shares issued and outstanding, RCF has the right to participate in any equity or debt financings of the Company (other than certain exempt issuances) at the same price and on the same terms, on a pro rata basis, such that RCF may maintain its percentage interest in common shares of the Company on a partially diluted basis, assuming the full exercise of all rights under the RCF Loan to receive common shares, including all rights of conversion.

- At all times, (a) while any obligation remains outstanding under the RCF Loan Agreement, or (b) RCF and its affiliates, on a partially diluted basis, hold common shares of the Company equal to or exceeding 10% of all common shares of the Company issued and outstanding, RCF will have the right to nominate one individual to serve on the Company's board of directors.

- A number of events constitute an event of default under the RCF Loan Agreement, including certain material adverse changes, the delisting of the Common Shares from the TSX, the abandonment or termination of a material portion of the Tamarack Project or a change of control of the Company. Upon an event of default, the principal and interest will become due and payable and interest will accrue at the default interest rate of 17% per annum.

- The Company must adhere, within five percent (5%), to an agreed overhead budget.

- Up to June 30, 2017, the Company may not issue common shares or other securities convertible into common shares of the Company for consideration less than the Conversion Price.

The Unsecured Convertible Loan is denominated in US dollars and convertible into common shares based on the principal and interest balance translated to Canadian dollars. Management determined that the Unsecured Convertible Loan represents a combined instrument that contains an embedded derivative, being the conversion option. As a result of the foreign exchange impact on the conversion factor, the conversion option does not meet the fixed for fixed criteria and therefore represents a derivative liability. In accordance with IAS 39, the Company has designated the entire Unsecured Convertible Loan at fair value through profit or loss. The Unsecured Convertible Loan was initially recorded at fair value and re-valued at period end with changes in fair value being recorded through profit and loss.

The total expenses associated with the RCF Financing totalled $635,996 and were allocated as follows on December 29, 2015:

Common shares	$	42,400
Unsecured convertible loan		593,596
	$	635,996

The fair value of the Unsecured Convertible Loan has been determined using a combination of the Black-Scholes option pricing model for the equity conversion portion and the discounted cash flow method for the loan portion. The following assumptions were used to determine the fair value of the Unsecured Convertible Loan at June 30, 2016 and December 31, 2015:

	June 30, 2016	Dec 31, 2015
Risk-free interest rate	0.57%	0.73%
Expected volatility	60%	60%
Talon share price	$ 0.10	$ 0.12
Expected dividend yield	0%	0%
Effective interest rate on bifurcated loan portion	24.01%	24.01%
Actual interest rate	12.00%	12.00%
Period end foreign CAD/USD foreign exchange rate	1.3009	1.3850

Sensitivity analysis: As at June 30, 2016, the value of the Unsecured Convertible Loan assuming different share prices (being the most critical input variable) as at the end of the current reporting period is as follows:

Valuation date share price	$	0.085	0.10	0.12	0.15
Fair value of Unsecured Convertible Loan					
In US dollars millions	$	13.28	13.95	14.98	16.77
In Canadian dollars millions	$	17.28	18.15	19.49	21.82

A continuity schedule reconciling the change in fair value of the Unsecured Convertible Loan follows:

	Six months ended June 30, 2016		Period ended December 31, 2015	
	USD	CAD	USD	CAD
Fair value - beginnning of period	$ 14,008,646	$ 19,387,966	$ 14,000,000	$ 19,390,000
Expenses	-	-	(428,218)	(593,596)
Interest expense	853,169	1,172,974	9,333	12,937
Fair value adjustment	(909,953)	(2,410,963)	427,531	578,625
Increase (decrease)	(56,784)	(1,237,989)	8,646	(2,034)
Fair value - end of period	$ 13,951,862	$ 18,149,977	$ 14,008,646	$ 19,387,966

As at June 30, 2016, the principal plus accrued interest of the Unsecured Convertible Loan was US$14.86 million or $20.56 million (December 31, 2015 - US$14.01 million or $19.40 million).

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 – 128,809,937 common shares at December 31, 2015 and 129,645,201 at June 30, 2016.

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.

(Expressed in Canadian dollars)

On December 29, 2015, the Company closed the RCF Financing, which included the RCF Private Placement (see note 7(b)). Pursuant to the RCF Private Placement, the Company issued 11,540,833 common shares at a price of $0.12 per share for gross proceeds of C$1,385,000.

On December 29, 2015, in connection with the closing of the RCF Financing, the Company issued 3,325,250 common shares to Haywood Securities Inc. ("Haywood") at a price of $0.12 per share equating to $399,030. The Company also issued warrants to Haywood as described in note 8(b). The common shares and warrants (the "Haywood Compensation") were issued in satisfaction of Haywood's efforts in facilitating the RCF Financing.

On December 29, 2015, pursuant to the terms of the Debt Settlement Agreement (note 7(a)), the Company issued 5,236,717 shares to Kennecott at a price of $0.12 per share, equating to $628,406.

On December 29, 2015, shareholders of the Company approved the issuance of 1,875,000 common shares to Mr. Warren Newfield, the Executive Chairman of Talon, in consideration of his agreement to enter into an amended and restated consulting agreement under which Mr. Newfield agreed to defer and reduce his annual compensation and reduce his entitlement to a termination payment.

During Q2 2016, the Company issued 835,264 shares to settle legal expenses incurred by RCF in connection with the RCF financing.

(b) Warrants

Warrant transactions for the period ended June 30, 2016 and the year ended December 31, 2015 are as follows:

	Period ended June 30, 2016			Year ended December 31, 2015		
	Number of warrants	Exercise price	Fair value	Number of warrants	Exercise price	Fair value
Outstanding – beginning of the year	11,513,052	$ 0.42	$ 602,100	8,513,052	$ 0.43	$ 534,217
Issued	166,666	0.13	2,383	1,000,000	0.30	24,095
Issued	-	-	-	1,000,000	0.65	5,448
Issued	-	-	-	1,000,000	0.156	38,340
Outstanding – end of the period	11,679,718	$ 0.41	$ 604,483	11,513,052	$ 0.42	$ 602,100

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%.

(Expressed in Canadian dollars)

In April 2015, 1,000,000 warrants with an exercise price of $0.30 and 1,000,000 warrants with an exercise price of $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-free interest rate – 0.77%, expected life – 2 years, expected volatility – 60% and dividend yield – 0%. These warrants were expensed.

As part of the Haywood Compensation, the Company issued 1,000,000 warrants at an exercise price of $0.156 to Haywood. These warrants are exercisable until November 25, 2018 and vested immediately. The fair value was determined using the Black-Scholes model using the following estimates: risk-free interest rate – 0.75%, expected life – 2.91 years, expected volatility – 60% and dividend yield – 0%. These warrants were included in the costs associated with the RCF Financing (Note 7(b)) and were deducted from the proceeds of the RCF Private Placement and RCF Loan.

In connection with the termination of an employee, the company issued 166,666 warrants at an exercise price of $0.13, which vested immediately and expire on April 30, 2018. The fair value was determined using the Black-Scholes model using the following estimates: risk-free interest rate – 0.62%, expected life – 1.93 years, expected volatility – 60% and dividend yield – 0%.

As at June 30, 2016 and December 31, 2015, warrants outstanding were as follows:

June 30, 2016			**December 31, 2015**		
Number of warrants	**Exercise price**	**Expiration date**	**Number of warrants**	**Exercise price**	**Expiration date**
250,000	$ 0.37	August 21, 2017	250,000	$ 0.37	August 21, 2017
885,327	0.32	November 6, 2016	885,327	0.32	November 6, 2016
7,377,725	0.45	November 6, 2017	7,377,725	0.45	November 6, 2017
1,000,000	0.30	April 1, 2017	1,000,000	0.30	April 1, 2017
1,000,000	0.65	April 1, 2017	1,000,000	0.65	April 1, 2017
1,000,000	0.156	November 25, 2018	1,000,000	0.156	November 25, 2018
166,666	0.13	April 30, 2018	11,513,052	$ 0.42	
11,679,718	$ 0.41				

9. 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.

(Expressed in Canadian dollars)

A summary of the change in options outstanding during the six months ended June 30, 2016 and the year ended December 31, 2015 is as follows:

	Six months ended June 30, 2016			Year ended December 31, 2015		
	Number of stock options		Exercise price	Number of stock options		Exercise price
Outstanding – beginning of the year	12,179,350	$	0.33	13,994,350	$	0.51
Granted	300,000		0.156	109,350		0.20
Granted	-		-	2,000,000		0.20
Expired	(255,000)		1.58	(3,424,350)		0.40
Expired	(20,000)		2.12	(450,000)		0.70
Expired	(825,000)		1.95			
Cancelled	(45,000)		0.20	(50,000)		0.30
Cancelled	(15,000)		1.95	-		-
Repriced	-		-	(9,755,000)		0.35
Repriced	-		-	9,755,000		0.156
Outstanding – end of the period	11,319,350	$	0.17	12,179,350	$	0.33

2,233,733 of the 11,319,350 options outstanding have been issued outside of the Plan. No options were exercised during the six months ended June 30, 2016 and the year ended December 31, 2015.

As at June 30, 2016, the Company had the following stock options outstanding:

Date of grant	Number of options	Exercise price	Exercisable	Exercise price	Expiry date
January 31, 2012	1,966,267	0.156	1,966,267	0.156	November 25, 2020
January 31, 2012	833,733	0.156	833,733	0.156	November 25, 2020
April 4, 2012	1,033,940	0.156	1,033,940	0.156	November 25, 2020
April 25, 2012	376,060	0.156	376,060	0.156	November 25, 2020
June 15, 2012	400,000	0.156	400,000	0.156	November 25, 2020
February 20, 2013	200,000	0.30	200,000	0.30	February 20, 2018
February 20, 2013	100,000	0.156	100,000	0.156	November 25, 2020
February 28, 2013	100,000	0.156	100,000	0.156	November 25, 2020
March 20, 2013	1,000,000	0.30	-	0.30	March 20, 2018
August 1, 2013	350,000	0.156	350,000	0.156	November 24, 2020
October 1, 2013	500,000	0.156	500,000	0.156	November 25, 2020
May 28, 2014	300,000	0.156	300,000	0.156	November 25, 2020
July 2, 2014	1,795,000	0.156	1,527,500	0.156	November 25, 2020
May 28, 2015	64,350	0.20	64,350	0.20	May 28, 2020
May 28, 2015	2,000,000	0.156	2,000,000	0.156	November 25, 2020
April 12, 2016	300,000	0.156	300,000	0.156	April 12, 2021
Total / weighted average	11,319,350	$ 0.17	10,051,850	$ 0.16	

A stock option compensation expense of $43,596 for the six months ended June 30, 2016 (2015 – $204,206) was recognized in the consolidated statements of loss and comprehensive loss.

Options Granted in 2016

In April 2016, 300,000 options were issued to a director of the Company with a contractual life of 5 years, an exercise price of $0.156 and vesting on the date of grant.

(Expressed in Canadian dollars)

Options Granted in 2015

In May 2015, 2,109,350 options were issued to employees, directors, officers and consultants of the Company with a contractual life of 5 years and an exercise price of $0.20 and vested on the date of grant. Of these options, 2,000,000 were repriced on December 29, 2015 at $0.156 and now expire on November 25, 2020.

Options Repriced in 2015

On December 29, 2015, shareholders approved the repricing and extension of 9,755,000 options, which includes 2,000,000 of the options granted above. The strike price was reduced from an average strike price of $0.35 to $0.156 and the expiry date was extended to November 25, 2020.

In connection with the repriced options, a stock option expense of $343,652 was recognized in 2015 in connection with the change in fair value of previously vested stock options (and $14,990 and $5,443 will be recognized in Q1 and Q2 2016). Valuation assumptions included expected volatility of 60%, a risk-free interest rate of 0.75%, a nil dividend yield and an expected life of 4.91 years, being the period from December 29, 2015 to November 25, 2020.

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

	2016	2015
Risk-free interest rate	0.72%	0.77%
Expected life	5 years	5 years
Expected volatility	60%	60%
Expected dividend yield	Nil	Nil

10. NET LOSS PER SHARE

(a) Basic

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

(b) Diluted

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

11. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, restricted cash (as at December 31, 2015), accounts and other receivables, investment in Tlou Energy, accounts payable, accrued liabilities and the Unsecured Convertible Loan.

The Company has classified its financial assets and liabilities carried at fair value through profit and loss into the following levels (as discussed in Note 2) as follows:

Level 1		
Cash and cash equivalents	$	1,361,420
Level 3		
Unsecured Convertible Loan		18,149,977

12. 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 June 30, 2016, the Company had a cash and cash equivalents balance of $1.4 million, (December 31, 2015 - $22.8 million including restricted cash of $20.8 million, for net cash and cash equivalents of $2.0 million) to settle current liabilities of $0.3 million (December 31, 2015 - $0.5 million).

In order to meet future working capital requirements, the Company may need to sell non-core assets, cut costs and/or raise additional capital (as permitted pursuant to the RCF Loan Agreement). There can be no assurance that the Company will be successful in selling non-core assets, cutting sufficient costs and/or, in compliance with the RCF Loan Agreement (note 7(b)), raising financing to meet the Company's future working capital requirements.

(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. As at June 30, 2016, the Company held no investments other than cash and cash equivalents which management considers to not be materially susceptible to market risks.

(d) Foreign exchange risk

The Company is exposed to movements in the United States dollar and, to a lesser extent, the Brazilian real. Payments made to Kennecott pursuant to the Tamarack Earn-in Conditions were made in United States dollars and any future payments pursuant to the Tamarack Earn-in Agreement (as amended) and the Purchase Option or Tamarack Joint Venture will be in United States dollars. 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 Unsecured Convertible Loan is denominated in United States dollars.

Talon is exposed to movements in the United States dollar as a result of the Unsecured Convertible Loan, which at June 30, 2016 had a fair value of $18.1 million.

(Expressed in Canadian dollars)

At June 30, 2016, the Company had net monetary liabilities in foreign currencies, as follows (Canadian dollar equivalent):

United States dollars	$(18.03 million)
Brazilian real	$ (0.11 million)

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 June 30, 2016 of approximately $910,000.

(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 other short-term notes contained within money market funds.

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 June 30, 2016, the Company had interest bearing debt of $18.1 million (December 31, 2015 - $19.4 million pursuant to the Unsecured Convertible Loan. Interest rate risk on the Company's debt is mitigated by the fixed interest rate of 12% and relatively short term to maturity of approximately 2.4 years (December 31, 2015 - 2.9 years) of the loan.

13. CAPITAL RISK MANAGEMENT

Capital is comprised of equity which at June 30, 2016 was $19.8 million (December 31, 2015 - $20.0 million). The Company manages its capital structure and attempts to make adjustments to it, in order to have the funds available to support its exploration, development and/or operating 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 June 30, 2016 and December 31, 2015, the Company had the Unsecured Convertible Loan (Note 7(b)).

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the six months ended June 30, 2016 and the year ended December 31, 2015. The Company is not subject to externally imposed capital requirements.

For further discussion related to Capital Risk Management, see note 12(b) "Liquidity Risk".

14. 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.

The Company previously entered into a services agreement with a company owned by a director of Talon (Luis Azevedo) (the “Brazil Agreement”) pursuant to which the company provides Talon with certain accounting, legal and general administrative functions in Brazil for a monthly service fee of US$5,000. The Brazil Agreement was terminated on December 31, 2015. For 2016, Talon renegotiated for an expanded bundle of services to be provided by the company owned by Mr. Azevedo in exchange for a reduced fee of $40,000 for the entire year (the “2016 Brazil Agreement”).

For the six months ended June 30, 2016, fees paid under the Brazil Agreement were nil (2015 - $27,000). In addition, under the 2016 Brazil Agreement, $40,000 was paid in Q1 2016.

Accounts payable and accrued liabilities at June 30, 2016 include $1,500 payable to the president and CFO of the Company in connection with of out-of-pocket expenses (December 31, 2015 - $13,500 payable to a company controlled by a director of the Company for legal fees).

The remuneration of directors and officers of the Company for the three and six months ended June 30, 2016 and 2015 was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	**2015**	**2016**	**2015**
Cash compensation	$ 255,000	$ 417,909	$ 517,083	$ 729,860
Share based compensation	21,676	159,934	43,194	69,169
Aggregate compensation	$ 276,676	$ 577,843	$ 560,277	$ 799,029

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 (since extended and repriced to $0.156 – see below) and vested on the date of grant.

On December 29, 2015, shareholders of the Company approved the repricing of certain stock options. A total of 9,755,000 stock options were repriced, of which 9,615,500 were stock options held by directors and executive officers of the Company. The stock options were repriced from an average exercise price of $0.35 to a new exercise price of $0.156 (note 9), and the term was extended from an average remaining term of 2.46 years to 4.91 years (with a new expiry date for each of the stock options of November 25, 2020).

In April 2016, 300,000 options were issued to a director of the Company with a contractual life of 5 years, an exercise price of $0.156 and vesting on the date of grant.

15. INCOME TAXES

Deferred tax assets have not been recognized in respect of deductible temporary differences of $18.9 million which arises from non-capital losses and may be used to offset up to 30% of the Company’s taxable income in Brazil in each future tax period. The non-capital losses of $18.9 million (December 31, 2015 - $16.2 million) may be carried forward indefinitely.

16. GEOGRAPHIC INFORMATION

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