Talon Metals Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2012

Dated: March 22, 2013

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*This Management's Discussion and Analysis ("**MD&A**") of the consolidated financial position for the year ended December 31, 2012, should be read in conjunction with the consolidated financial statements of Talon Metals Corp. ("**Talon**" or the "**Company**") and notes thereto for the year ended December 31, 2012.*

Unless otherwise indicated, all monetary statements in this document are in Canadian dollars.

FORWARD-LOOKING INFORMATION

This MD&A contains certain "forward-looking information". All information, other than information pertaining to historical fact, which addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future, including, among other things, estimates in respect of mineral resource quantities, mineral resource qualities, the preparation of mineral resource estimates and the timing thereof, the Company's targets, goals, objectives and plans (including the Company's plans regarding further mineralogical, metallurgical and flow sheet test work and the timing thereof), the potential for lump and sinter at the Trairão Project (defined below), the potential for further metallurgical and mineralogical results on the basis of further testing, the Company's business plans, priorities and budget, including those associated with the Trairão Project, the Company's plans to actively look for new projects that could generate near-term cash flow for the Company and to review the use and allocation of its existing financial resources, projections in respect of capital expenditures, plans and expectations concerning the period following implementation of IFRS (defined below), the Company's liquidity and capital resources (including any plans to dispose of marketable securities), information relating to the plans and objectives of Tlou Energy (defined below), including Tlou Energy's intention to pursue a listing on the Australian Securities Exchange and the timing thereof.

Forward-looking information reflects the current expectations or beliefs of the Company based on information currently available to the Company. With respect to forward-looking information contained in this MD&A, the Company has made assumptions regarding, among other things, future currency and interest rates, the regulatory framework (including tax and trade laws and policies) in the countries in which the Company conducts its business, and the Company's ability to obtain suitably qualified staff and equipment in a timely and cost-efficient manner to meet the Company's needs.

Forward-looking information is subject to significant risks and uncertainties and other factors that could cause the actual results to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: failure to establish estimated mineral resources and any reserves; the grade, quality and recovery of mineral resources varying from estimates; risks related to the exploration stage of the Company's properties; the possibility that future exploration results and metallurgical testing will not be consistent with the Company's expectations (including identifying additional and/or more extensive mineralization and/or recovery); changes in iron-ore prices; delays in obtaining or failures to obtain necessary regulatory permits and approvals from government authorities, including approval of applications for licences required to conduct field based programs on Talon's iron ore projects and approval of environmental impact assessment applications; failure of Tlou Energy to obtain a listing on the Australian Securities Exchange or to advance the development of its projects through further investment and exploration; availability of new projects suitable for Talon; uncertainties involved in interpreting drilling results, and the beneficiation process and other geological and product related data; changes in the anticipated demand for iron and steel; changes in equity and debt markets; inflation; changes in exchange rates; declines in U.S., Canadian and/or global economies; uncertainties relating to the availability and costs of financing needed to complete exploration activities and demonstrate the feasibility of the Company's projects; exploration costs varying significantly from estimates; delays in the exploration, mineral processing and development of, and/or commercial production from the properties Talon has an interest in; equipment failure; unexpected geological or hydrological conditions; political risks arising from operating in Brazil; delays or cancellation to proposed infrastructure upgrades in Brazil; imprecision in preliminary resource estimates; success of future exploration and development initiatives; the existence of undetected or unregistered interests or claims, whether in contract or in tort, over the property of Talon; changes in government regulations and policies (including proposed changes to Brazilian mining legislation); risks relating to labour; other exploration, development and operating risks; liability and other claims asserted against Talon; volatility in prices of publicly traded securities; and other risks involved in the mineral exploration and development industry and risks specific to the Company, including the risks discussed in this MD&A under *"Risks and Uncertainties"*.

Forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

The mineral resource figures referred to in this MD&A are estimates, and no assurances can be given that the indicated levels of iron ore will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results, beneficiation tests and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource estimates included in this MD&A are well established, by their nature, resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company.

Mineral resources are not mineral reserves and do not have demonstrated economic viability. Inferred mineral resources are estimated on limited information not sufficient to verify geological and grade continuity or to allow technical and economic parameters to be applied. Inferred mineral resources are too speculative geologically to have economic considerations applied to them to enable them to be categorized as mineral reserves. There is no certainty that mineral resources can be upgraded to mineral reserves through continued exploration.

Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2012, is available on SEDAR *at www.sedar.com.*

SUMMARY OF ANNUAL RESULTS

	Year ended Dec 31, 2012 (audited)	Year ended Dec 31, 2011 (audited)	Year ended Dec 31, 2010 (audited)
Total revenue	$153,314	$405,199	$46,007
Net gain/(loss) from continuing operations attributable to Talon shareholders	(18,400,058)	(13,807,997)	(4,299,421)
Net gain/(loss) from continuing operations per share attributable to Talon shareholders – basic and diluted	(0.20)	(0.16)	(0.08)
Total assets	42,808,978	60,843,185	53,939,181
Total non-current financial liabilities	-	-	-
Dividends	-	-	-

REVIEW OF ANNUAL RESULTS

The Company's quarterly financial results were reported under IFRS for the first time in the first quarter of 2011, and the Company's annual financial results were first reported under IFRS for the year ended Dec 31, 2011. Prior to that, the Company reported its financial results under Canadian GAAP. The IFRS conversion did not have a material impact on the Company's financial statements.

REVENUE

Revenue is comprised solely of interest income on the Company's cash and cash equivalents balance. The amount for 2012 of $153,314 decreased compared to 2011 ($405,199). This decrease was mainly due to a smaller cash and cash equivalents balance held by the Company, resulting in less interest income being received on such balances.

EXPENSES

Office and general expenses decreased to $1,021,798 in 2012 compared to $1,567,220 in 2011, mainly as a result of the Company's concerted effort to decrease costs wherever possible. No one expense or group of related expenses accounted for a large portion of the decrease in 2012, but rather the decrease was as a result of moderate decreases across many different items comprising office and general expenses.

Professional fees decreased considerably in 2012 to $339,479, compared to 2011 ($1,032,557). Legal fees are the major portion of the professional fees expense. There are two main factors driving this decrease in 2012. Firstly, in 2011 the company undertook a number of corporate transactions which required extensive advice from outside legal counsel, including a prospectus financing (which also resulted in an increase in listing and filing expense in 2011) and the majority of work on the distribution of shares in Rio Verde Minerals Development Corp. ("**Rio**

Verde") to shareholders of the Company ("**Rio Verde Transaction**"). Secondly, the Company has made a concerted effort in 2012 to preserve cash and reduce expenses wherever possible. In this regard, the Company has performed more legal work in-house and, when possible, expects to continue to do so going forward.

Stock option compensation payments were lower in 2012 ($1,024,194), compared to 2011 ($6,020,178). Stock option compensation payments are largely dependent on the number of options granted and vested in a particular period, as well as the number of unvested options that are cancelled in that period. The large stock option compensation amounts in 2011 are directly related to (i) an increase in the number of people employed with or consulting for the Company who were issued stock options as part of their compensation arrangements, and (ii) the higher price of the Company's shares in 2011. In addition, in 2012, a large percentage of option grants were subject to vesting over a two year period, resulting in a lower recognized expense, whereas in 2011, the majority of option grants vested at the time of issuance.

Salaries, benefits, consulting and management fees increased to $2,918,293 in 2012, from an amount of $1,662,358 in 2011. A large component of the increase in 2012 related to (i) severance payments made during the year and costs associated with the transition to a new management team, (ii) an increase in dedicated full-time employees as opposed to part-time consultants, and (iii) portions of employee salaries and consultants fees that were expensed as opposed to being capitalized, as some work undertaken related to the Company's search for new opportunities rather than the Trairão Project. Slightly offsetting the overall increase was a decrease in the management fee component of the expense in 2012. Specifically, the amount paid to Tau (defined below) decreased from an amount of $625,500 in 2011 to an amount of $225,500 in 2012. The reduction resulted from a decrease in the monthly fee payable under the Tau Agreement (defined below) in April 2012 and the subsequent termination of the Tau Agreement in June 2012. In addition, the re-negotiation of the Brazil Agreement (defined below) to a lower monthly fee also added to the decrease in the management fee portion of the expense in 2012. See "*Related Party Transactions*" below for further information in respect of the Tau Agreement and Brazil Agreement.

Travel expenses decreased significantly in 2012 to $278,916 as compared to $1,101,331 in 2011, also as a result of the Company's efforts in 2012 to reduce costs.

INVESTMENTS

Foreign currency translation gains/losses in 2012 amounted to a gain of $788,983 compared to a loss of $373,692 in 2011. This was mainly a result of an increase in U.S. dollars and U.S dollar denominated investments and a weakening of the Brazilian Real.

The share of loss in Tlou Energy Limited ("**Tlou Energy**") remained relatively consistent in 2012 at $2,102,070 compared to 2011 when the loss was $2,192,199.

The Company has written-down the value of Tlou Energy on the Company's balance sheet. The write-down was based on the Company's assessment of the fair value of its interest in Tlou Energy, taking into account various approaches to valuation, including the income, cost and market approaches, but primarily the market approach. A number of important factors were considered, including discussions management had with market participants in connection with the price at which Tlou Energy might raise capital in the near term and the general challenging market conditions associated with the ability for junior exploration companies to raise capital. In addition, the Company also took into account, that if Tlou Energy became listed on the Australian Securities Exchange ("**ASX**") (which had been Tlou Energy's stated intention), certain of the Company's shares of Tlou Energy would be subject to a mandatory escrow period under the rules of the ASX and, as such, the value of these shares has been further reduced on the Company's balance sheet by a liquidity discount.

There were decreases in the share prices of Brazilian Gold Corporation and Lago Dourado Minerals Ltd. that were offset by an increase in the share price of Rio Verde in 2012. As such, the Company recognized realized and unrealized gains totalling $1,208,738 during the year.

NET LOSS

Net loss for the year ended December 31, 2012 was $18.4 million or $0.20 per share (basic and diluted), which was primarily due to the write-down to the carrying value of Tlou Energy and the Company's share of loss in Tlou Energy. The loss was partially offset by a gain of approximately $911,000 on the sale of certain old equipment in Botswana that had previously been written off. This compares to a net loss of $4.9 million or $0.06 per share (basic and diluted) in 2011, which was primarily due to administration expenses[1], share of loss in Tlou Energy and stock option compensation payments.

PRIOR YEAR ADJUSTMENTS

When the Company distributed most of its Rio Verde shares to its shareholders on July 28, 2011 pursuant to the plan of arrangement approved by shareholders of the Company, the Company retained certain of these shares with the intention to distribute them to its optionholders as at that date, upon the future exercise of their options on the basis of one Rio Verde share for every four Talon options exercised. As the Rio Verde Transaction occurred in 2011, an associated liability and expense should have been recognized in 2011 in respect of these retained Rio Verde shares for the benefit of optionholders. Therefore, the Company is adjusting the 2011 financial statements in order to recognize a liability and expense as at and for the year ended December 31, 2011, in the amount of $510,000. This provision is based on the closing share price of Rio Verde on December 30, 2011 (the last trading day of the period) and a probability adjustment to take into account that certain of the Talon options are out-of-the-money.

Also in connection with the Rio Verde Transaction, the consolidated financial statements of the Company as at December 31, 2011 have been adjusted to account for a portion of the gain in connection with the distribution of the shares of Rio Verde to Talon shareholders. A portion of the gain, amounting to $9,862,385, was previously credited directly to retained earnings where it should have reported as a gain in the consolidated statement of loss and comprehensive loss. The gain was non-cash in nature. Under IFRS, when shares are distributed to shareholders, a gain or loss equal to the difference between the fair value of the distribution and the carrying value must be presented on the income statement. There is no impact to the net book value of the Company (i.e. Shareholders' Equity) as a result of the adjustment.

[1] "administration expenses" include the following expenses: Office and General; Professional Fees; Salaries, Benefits, Consulting and Management Fees; Distribution of Rio Verde Shares to Option holders; Travel; Listing and Filing Expense; and Depreciation of Equipment.

The net effect of the two prior period adjustments to the 2011 reported amounts is an increase to net income of $9,352,385 and a decrease in net book value of $510,000.

For a further discussion of Talon's significant investee, Tlou Energy, see *"Significant Equity Investees – Tlou Energy"* below.

SUMMARY OF QUARTERLY RESULTS

The following table provides selected quarterly consolidated financial information for the periods ending as indicated. It is derived from the unaudited interim consolidated financial statements and the audited annual consolidated financial statements of the Company. All numbers below are unaudited.

	2012				2011			
	Dec 31	**Sept 30**	**June 30**	**March 31(2)**	**Dec 31(2)**	**Sept 30(2)**	**June 30(1)**	**March 31(1)**
Total revenues	19,740	15,843	24,207	93,524	367,868	3,615	25,175	8,541
Net gain/(loss) from continuing operations	(13,679,032)	(691,255)	(2,763,338)	(1,266,433)	(1,317,629)	(3,413,468)	(5,917,928)	(3,158,972)
Net gain/(loss) from continuing operations per share – basic and diluted	(0.15)	(0.01)	(0.03)	(0.01)	(0.01)	(0.04)	(0.07)	(0.04)
Net gain/(loss) and comprehensive gain/(loss)	(13,738,423)	(854,110)	(2,701,842)	(1,256,141)	(1,920,552)	6,581,698	(5,917,928)	(3,158,972)
Net gain/(loss) and comprehensive gain/(loss) per share – basic and diluted	(0.15)	(0.01)	(0.03)	(0.01)	(0.02)	0.07	(0.07)	(0.04)

Note:
(1) These numbers include the accounts of Rio Verde which were deconsolidated from Talon's accounts in July 2011.
(2) Takes into account the two prior year adjustments discussed under "*Review of Annual Results – Prior Year Adjustments*" above.

Quarterly trends in total revenues reflect in most part interest received on cash balances. Trends in quarterly expenses are driven primarily by office and general expenses and salaries, benefits, consulting and management fees. The most variable component of total expenses generally over the past eight quarters has been stock option compensation payment expense.

REVIEW OF QUARTERLY RESULTS

Revenues were higher in the first quarter of 2012 and the fourth quarter of 2011, as compared to other quarters, mainly due to the fact that a larger balance of cash was held in Brazil during that time where interest rates are higher than those where the Company historically keeps its cash and cash equivalents.

The large net loss from continuing operations in the fourth quarter of 2012 was principally the result of the write-down to the carrying value of Tlou Energy (see "*Review of Annual Results – Investments*"). The relatively higher net loss from continuing operations in the second quarter of 2012 was mainly the result of larger unrealized losses on investments. In 2011, the net losses from continuing operations were largely impacted by stock option compensation payment expenses.

The 2012 and 2011 net losses and comprehensive losses by quarter largely follow the net losses from continuing operations, with the exception of the third quarter of 2011. During this quarter, the Company recognized the non-cash gain on the distribution of Rio Verde shares to shareholders of the Company pursuant to the Rio Verde Transaction.

COMPANY OVERVIEW

The Company is a mineral exploration company focused on the exploration and development of its iron projects in Brazil. As of the date hereof, the only material property of the Company is the Trairão iron project (the "**Trairão Project**").

In September 2010, Talon acquired 100% of the rights to the Trairão Project, as well as to another iron ore project, the Inajá South iron project (the "**Inajá South Project**"), both situated in Pará State, Brazil. Talon acquired these projects pursuant to agreements with Codelco do Brasil Mineração Ltda and Barrick International (Barbados) Corp.

Pará State is one of the more recently developed iron ore producing districts in Brazil. The principal iron ore mines in the region are at Carajás, about 150 kilometres to the north of the Trairão Project. Exploration for iron ore by other companies continues both to the south and north of the Trairão Project.

The initial RC and diamond drilling programs have been completed at the Trairão Project. Pursuant to this initial drilling campaign, a total of 444 RC drill holes comprising 24,215 metres were drilled (346 of the RC drill holes were on Target Areas comprising the updated mineral resource estimate reported below) and a total of 92 diamond drill holes comprising 13,335 metres were drilled.

In March 2012, Talon reported an updated inferred mineral resource estimate and an initial indicated mineral resource estimate for Target Areas 1 to 6 as well as for Target Area 8 on the Trairão Project of approximately 1.4 Bt at an average grade of 34.27% Fe (using a 25% Fe cut-off) in the indicated category and approximately 1.2 Bt at an average grade of 29.48% Fe (using a 25% Fe cut-off) in the inferred category (see table below).

Trairao Resources (Total Aggregated Resources) Cut Off Grade: 25% Fe									
Resource Class	**Tonnes (Mt)**	**Fe (%)**	**SiO_2 (%)**	**Al_2O_3 (%)**	**Mn (%)**	**P (%)**	**LOI (%)**	**FeO (%)**	**CaO (%)**
Grand Total									
Indicated	1404.3	34.27	35.79	8.87	0.116	0.036	5.50	1.05	0.018
Inferred	1211.8	29.48	41.60	7.00	0.129	0.034	6.66	8.79	0.342
The effective date of this resource estimate is March 2, 2012									

Talon's independent technical consultants, Coffey Mining Pty Ltd. ("**Coffey**"), under the supervision of Mr. Porfírio Cabaleiro Rodriguez, who is a "qualified person" under National Instrument 43-101 ("**NI 43-101**"), prepared a NI 43-101 compliant technical report incorporating these results entitled "Fourth Independent Technical Report on Mineral Resources" dated March 30, 2012 (the "**Trairão Technical Report**").

Please refer to Talon's March 2, 2012 press release entitled "Talon Metals Announces Substantial Increase to Mineral Resources at the Trairão Iron Project, Brazil" as well as the Trairão Technical Report for further information on the Trairão Project. The press release and the Trairão Technical Report are available under Talon's SEDAR profile at www.sedar.com.

On September 27, 2012 and November 22, 2012, the Company issued press releases entitled "Talon Metals Provides Operational Update on its Trairão Iron Project" and "Talon Metals Reports Positive Metallurgical Results for the Trairão Iron Project, Brazil" (the "**Update Press Releases**") which, among other things, provided updates on the recent work completed by the Company on the Trairão Project, including further mineralogical and metallurgical test work. Please refer to the Update Press Releases for further information.

As required under Brazilian law, in October 2011, in connection with the expiry of three of Talon's exploration licences (the "**Expiring Trairão Licenses**"), the Company submitted a Final Exploration Report to the Departamento Nacional de Produção Mineral ("**DNPM**") in respect of the Expiring Trairão Licenses. Subsequently, the Company applied for and, on October 3, 2012, received a favorable decision by the DNPM to suspend the agency's review and approval of the Final Exploration Report (the "**Extension Decision**"). The final step in the Extension Decision process is the official publication of the Extension Decision by the Setor de Controle de Títulos Minerários and the Divisão de Fiscalização in Brazil. On March 19, 2013, the Extension Decision was officially published. The suspension lasts for a period of three years from the date of publication. During such time, the Company may further evaluate the technical and economic feasibility of the area the subject of the Expiring Trairão Licenses and resubmit its revised conclusions to the DNPM by the end of the period.

During Q1 and Q2 of this year, the Company intends to:

- complete the evaluation of samples from the Company's recent auger drilling program on the surficial deposit at the Trairão Project; and
- work with various consultants on flow sheet test work of samples from the surficial deposit at the Trairão Project,

in an effort to determine whether there is potential for lump and sinter production from the Trairão Project. See also "*Outlook*" below.

The Company has budgeted to spend approximately $0.6 million in the first and second quarters of 2013 on the Trairão Project.

A total of approximately $2.6 million and $0.3 million was spent by Talon on the Trairão Project during the year ended December 31, 2012 and the three months ended December 31, 2012, respectively, compared to approximately $14 million and $2.5 million spent during the same periods last year.

Talon holds equity investments in a number of other public and private companies, including approximately 3.2 million common shares in Brazilian Gold and 500,000 common shares in Lago Dourado, both of which are listed on the TSX Venture Exchange. Subsequent to December 31, 2012, Talon sold its remaining shareholding in Rio Verde and any remaining shares that were being held for the benefit of optionholders (see *"Review of Annual Results – Prior Year Adjustments"*) were cancelled in exchange for $0.40 per share pursuant to Rio Verde's merger (in essence a take-over) with B&A Fertilizers Limited which closed on March 13, 2013.

Talon also holds approximately 21.9 million shares in Tlou Energy, an unlisted Australian company. Tlou Energy anticipates completing its listing on the ASX during April of this year. In the event that Tlou Energy becomes listed on the ASX, certain of the Company's shares of Tlou Energy would be subject to a mandatory escrow period under the rules of the ASX.

Qualified Persons

Mauricio Prado, past Vice President, Resource Modelling of Talon and currently a consultant to Talon is a "Qualified Person" within the meaning of NI 43-101. Mr. Prado has reviewed, approved and verified the data disclosed in this MD&A (other than the mineral resource estimates), including sampling, analytical and test data underlying the technical information.

The "Qualified Person", as such term is defined in NI 43-101, who is responsible for the Trairão Technical Report is Porfírio Cabaleiro Rodriguez, who is a mining engineer, independent of Talon and an employee of Coffey. Mr. Rodriguez is responsible for the mineral resource estimates in this MD&A and has reviewed, approved and verified the data disclosed in this MD&A relating to the mineral resource estimates (including sampling, analytical and test data underlying the mineral resource estimates).

CAPITAL EXPENDITURES ON EXPLORATION PROJECTS

The deferred exploration and development expenditures for the Company's properties, including the Trairão Project, are comprised as follows:

	Dec 31, 2011	2012 Additions	Dec 31, 2012
Mineral properties			
Trairão Project	$14,056,824	$2,558,106	$16,614,930
Inaja South Project	981,965	160,679	1,142,644
Campo Grande Gold Project	528,531	4,664	533,195
	$15,567,320	$2,723,449	$18,290,769

Amounts incurred on exploration of mineral properties for the three months ended December 31, 2012 and 2011, amounted to approximately $0.3 million and $2.9 million, respectively.

Exploration expenditures incurred for the three months ended December 31, 2012 are primarily a result of spending on the Trairão Project. The above amount represents a decrease in quarterly spending compared to spending on the Trairão Project in the same period of last year.

FINANCIAL INSTRUMENTS

	Dec 31, 2012	Dec 31, 2011
Held for trading, measured at fair value:		
Cash and cash equivalents	$16,485,729	$21,570,417
Investments	1,447,186	1,898,300

Talon is exposed to various risks related to its financial assets and liabilities. The most significant of these risks are discussed below and are managed on an ongoing basis

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 GIC's 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.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due or at reasonable cost. 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, 2012, the Company had a cash and cash equivalents balance of $16,485,729 (December 31, 2011 - $21,570,417) to settle current liabilities of $1,072,118 (December 31, 2011 - $1,610,003).

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.

Talon revalues its marketable securities using the quarter end bid price and as such, values are subject to change. The Company monitors on an ongoing basis changes in bid prices associated with the Company's marketable securities and makes buy/sell/hold determinations based on a number of factors, including the Company's current treasury position, the internal valuation associated with the company in question and market outlook.

A 5% change in the value of the Company's investments on the last day of the year with all other facts/assumptions held constant, would have affected net loss of the Company for the year ended December 31, 2012, by approximately $72,359.

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. Talon manages its foreign exchange risk, to the extent possible, by only undertaking currency exchanges on an as-needed basis.

At December 31, 2012, the Company had net monetary assets and liabilities in foreign currencies, as follows (Canadian dollar equivalent):

United States dollars	\$6,696,049
Brazilian Real	\$167,262

If foreign exchange rates changed by 5% on the last day of the year 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, 2012 of approximately \$343,165.

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

Interest Rate Risk

The Company is exposed to interest rate risk only to the extent of its interest income on holding of government treasury bills, money market funds and GIC's. These are typically short-term investments with a term of less than ninety days. It is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The Company mitigates its risk by holding its short-term investments in instruments low in risk and highly rated with reputable financial institutions. The Company has no interest bearing debt.

The carrying values of the Company's financial instruments approximate their fair values unless otherwise noted.

The Company's financial instruments are classified as current assets or liabilities on the statement of financial position of the Company. For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

Fair Value Hierarchy

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

The Company has classified its financial assets and liabilities as follows:

Level 1
Cash and cash equivalents $16,485,729
Investments $1,447,186

Level 2
None

Level 3
None

A loss on investments in 2012 of $1,208,738 (2011 - $1,072,996) has been recognized in the Company's statement of loss and comprehensive loss for the period. This relates to the revaluation of investments based on the closing bid price of the investments at the end of each quarter.

FINANCIAL CONDITION, CASH FLOW, LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Highlights

	Year ended Dec 31, 2012	**Year ended Dec 31, 2011**
Operating activities	$(4,484,904)	$(6,554,844)
Investing activities	(629,784)	(26,366,369)
Financing activities	30,000	42,145,953
Increase/(decrease) in cash & cash equivalents	(5,084,688)	9,224,740
Beginning cash & cash equivalent balance	21,570,417	12,345,677
Ending cash & cash equivalents balance	16,485,729	21,570,417

Operating Activities

Operating activities for the year ended December 31, 2012 consumed $4.5 million of cash primarily due to operating expenses, including office and general expenses; salaries, benefits, consulting and management fees; travel expenses and professional fees. This compares to utilization of $6.6 million during 2011 which was primarily due to the same operating expenses. See *"Review of Annual Results*" for a discussion of operating expenses.

Investing Activities

Investing activities for year ended December 31, 2012 utilized $0.6 million primarily due to capitalized exploration costs less proceeds on the sale of investments and equipment. This compares to a utilization of $26.4 for the year ended December 31, 2011 primarily due to capitalized exploration costs and cash deconsolidated on the distribution of Rio Verde shares.

In the short term, the Company may dispose of certain marketable securities.

Financing Activities

Financing activities for the year ended December 31, 2012 were $30,000. This can be compared to $42.1 million in 2011, which was primarily due to the proceeds from a prospectus offering completed in April 2011 and a financing completed by Rio Verde during the period in which Rio Verde's accounts were consolidated with those of Talon.

The Company evaluates possible financing activities on an ongoing basis taking into account the Company's short and long term budgets in respect of its projects and working capital requirements, as well as the availability and costs associated with raising additional capital.

Liquidity and Capital Resources

Cash and cash equivalents were approximately $16.5 million as at December 31, 2012. The Company has sufficient liquidity to continue expected operations into the medium-term.

All cash equivalents are held in government treasury bills, money market funds and Canadian Guaranteed Investment Certificates with major commercial banks.

Historically, Talon's main source of funding has been the issuance of equity securities for cash. The Company's access to such funding is always uncertain and there can be no assurance of continued access to equity funding if required in order for the Company to meet its planned long-term business objectives. This is particularly true in the current uncertain global financial markets, which may continue to be characterised by significant reductions in liquidity.

A summary of Contributed Surplus for the period from January 1, 2010 to December 31, 2012 is as follows:

Balance	Jan 1, 2010	$5,263,836
Options	Exercised	(32,650)
Options	Granted 2010	2,633,769
Balance	Dec 31, 2010	7,864,955
Options	Exercised	(307,424)
Options	Granted 2011	6,020,178
Balance	December 31, 2011	13,577,709
Options	Granted 2012	1,024,194
Options	Exercised 2012	(29,250)
Balance	December 31, 2012	$14,572,653

SIGNIFICANT EQUITY INVESTEES – TLOU ENERGY

Talon maintains an equity interest in Tlou Energy of approximately 21.9 million shares (representing at December 31, 2012 an ownership interest of approximately 31%). 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 the later of (i) June 30, 2013, and (ii) 30 days after the options have been released from any mandatory escrow required by the ASX in connection with Tlou Energy's listing.

Summary of assets, liabilities and results of operations for Tlou Energy for the year ended December 31, 2012, and 2011 in $AUD (unaudited)

$AUD	Dec 31, 2012	Dec 31, 2011
Assets		
Current Assets	$ 868,742	$ 6,156,207
Non-Current Assets	31,764,262	31,764,262
Total Assets	32,633,004	32,633,005
Liabilities		
Current Liabilities	1,478,147	515,673
Non-current Liabilities	3,537,947	3,692,332
Total Liabilities	5,016,094	4,208,005
Revenue	$76,254	$730,171
Expenses	(7,052,668)	(10,322,315)
Total comprehensive loss	(6,976,414)	(9,592,144)
Talon's ownership percentage	31%	31%

The close of day exchange rate on December 31, 2012 as reported by the Bank of Canada for the conversion of Canadian Dollars to Australian Dollars was Cdn$1.00=A$0.97.

DISCLOSURE OF OUTSTANDING SHARE DATA

The following details the share capital structure of the Company as at March 22, 2013:

	Expiry Date	Exercise Price	Total
Common Shares			92,076,687
Stock Options	June 11, 2014	$0.385	465,000
Stock Options	May 21, 2015	$0.40	3,654,350
Stock Options	Oct 26, 2015	$0.70	900,000
Stock Options	Jan 17, 2016	$1.58	305,000
Stock Options	Feb 7, 2016	$2.12	40,000
Stock Options	Mar 3, 2016	$2.48	500,000
Stock Options	May 25, 2016	$1.95	1,050,000
Stock Options	Oct 1, 2016	$1.00	250,000
Stock Options	Jan 31, 2017	$0.45	2,800,000
Stock Options	Apr 4, 2017	$0.415	1,279,592
Stock Options	Apr 25, 2017	$0.37	465,408
Stock Options	June 15, 2017	$0.33	400,000
Stock Options	Feb 20, 2018	$0.30	300,000
Stock Options	Feb 28, 2018	$0.30	100,000
Total fully diluted number of shares			104,586,037

The Company did not issue any stock options during the fourth quarter of 2012. The following details the stock options of the Company outstanding as at December 31, 2012:

	Options	Weighted Average Exercise Price
Outstanding – beginning of year	9,489,350	$1.00
Cancelled	(500,000)	0.40
Cancelled	(950,000)	1.95
Cancelled	(430,000)	1.58
Cancelled	(60,000)	0.70
Cancelled	(30,000)	2.12
Exercised	(75,000)	0.40
Granted	1,279,592	0.42
Granted	465,408	0.37
Granted	400,000	0.33
Granted	2,800,000	0.45
Outstanding – end of the period	12,389,350	$0.70

Other than 1,733,733 stock options, all of the stock options outstanding have been issued pursuant to the Company's incentive stock option plan.

Estimated fair value of stock options

The Company determined the fair value of the stock options issued during the years ended December 31, 2011 and December 31, 2012, using the Black-Scholes option pricing model under the following range of assumptions:

	2012	2011
Risk-free interest rate	1.4%	1.4%
Expected life	5 years	5 years
Expected volatility	102-111%	215-235%
Dividend yield	Nil	Nil

A stock option compensation payment cost of $1,024,194 for the options vested during the year ended December 31, 2012 was recognized in the consolidated statements of loss and comprehensive loss compared to $6,020,178 in 2011.

RISKS AND UNCERTAINTIES

Talon is subject to a number of risk factors due to the nature of the mineral business in which it is engaged, the limited extent of its assets and its stage of development.

The exploration operations of the Company are speculative due to the high-risk nature of its business which is primarily focused on the acquisition, exploration and development of mineral projects. The Company's activities in pursuit of its objectives are subject to a number of risks and uncertainties.

The following is a summary of the most significant of those risks and uncertainties affecting or that could affect the financial condition or results of operations of the Company. For a complete discussion of the risks and uncertainties facing the Company, please refer to the Company's Annual Information Form for the year ended December 31, 2012 under the heading "Risk

Factors" available on SEDAR at www.sedar.com. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company. The Company may face additional risks and uncertainties, including, risks and uncertainties that are unknown to the Company or risks and uncertainties that the Company now believes to be unimportant, which could have a material adverse effect on the business of the Company. If any of the risks actually occur, the business, financial condition or results of operations of the Company could be negatively affected.

Exploration, Development and Operating Risks

Although Talon's present activities are directed towards the acquisition, financing, exploration and development of mineral projects, it is anticipated that its activities shall also ultimately include mining operations.

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. Actual exploration, development and/or other costs and economic returns may differ significantly from those the Company has anticipated. It is impossible to ensure that the exploration programs planned by Talon will result in a profitable commercial mining operation. Talon cannot give any assurance that its current and future exploration activities and/or metallurgical testing will be consistent with the Company's expectations or result in any additional mineralization or improved recovery rates and/or a mineral deposit containing mineral reserves. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal and iron ore prices that are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in Talon not receiving an adequate return on invested capital.

Mining and exploration operations generally involve a high degree of risk. Talon's operations are subject to all the hazards and risks normally encountered in the exploration, development, production and beneficiation of iron ore, including unusual and unexpected geologic formations, seismic activity, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimize risk will be taken, mining and exploration operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequential liability.

The economic viability of mineral projects, including iron projects such as the Trairão Project, is affected, in part, by the ability of the operator to mine, beneficiate and enter into off-take agreements with potential end users. No assurance can be made that Talon will be successful in entering into off-take agreements in respect of local and/or export sales or in accessing local smelting facilities.

Uncertainty Relating to Inferred and Indicated Mineral Resources

There is a risk that the inferred and indicated mineral resources referred to in this MD&A cannot be converted into mineral reserves as the ability to assess geological continuity is not sufficient to demonstrate economic viability. Due to the uncertainty that may attach to inferred and indicated mineral resources, there is no assurance that inferred and indicated mineral resources will be upgraded to resources with sufficient geological continuity to constitute proven and probable mineral reserves as a result of continued exploration.

Legislative Changes

It is expected that the government of Brazil will amend the country's current mining legislation which governs certain of the operations and activities of the Company in Brazil. It is not known what the changes will comprise of or when the changes will be approved and implemented, if ever. Such changes in legislation could have a material adverse effect on the Company's business, financial condition and results of operations and cause increases in exploration expenses, capital expenditures or production costs, or abandonment or delays in development of the Company's existing and/or new properties, including the Trairão Project.

Competition

The mining industry is intensely competitive in all of its phases and the Company competes with many companies possessing greater financial and technical resources than it. Competition in the mining industry is primarily for properties that can be developed and produced economically; the technical expertise to find, develop, and operate such properties; the labour to operate the properties; and the capital for the purpose of funding such properties. Such competition may result in the Company being unable to acquire desired properties, to recruit or retain qualified employees or to acquire the capital necessary to fund its operations and develop its properties. Existing or future competition in the mining industry could materially adversely affect the Company's prospects for mineral exploration and success in the future, in both iron and other commodities the Company is and/or may be interested in pursuing and developing.

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

Land Title

The Company's interests in mineral properties are comprised of exclusive rights under government licenses and contracts to conduct operations in the nature of exploration and, in due course if warranted, development and mining, on the license areas. Maintenance of such rights is subject to ongoing compliance with the terms of such licenses and contracts. While the Company intends to take all reasonable steps to maintain title to its mineral properties, there can be no assurance that it will be successful in extending or renewing mineral rights on or prior to the expiration of their term. The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral concessions may be disputed. Although the Company believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to any of its 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.

Additional Capital

The exploration and development of the Company's properties, including continuing exploration and development projects, and the construction of mining and beneficiation facilities and commencement of mining operations, will require substantial additional financing. Failure to obtain sufficient financing will result in a delay or indefinite postponement of development or production on any or all of the Company's properties or even a loss of a property interest. The main source of funds available to the Company is through the sale of equity capital, properties/equipment, royalty interests or the entering into of joint ventures. Additional financing may not be available when needed or if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to existing shareholders. Failure to raise capital when needed would have a material adverse effect on the Company's business, financial condition and results of operations. Global securities markets continue to experience volatility, which is resulting in difficulty in raising equity capital and market forces may render it difficult or impossible for the Company to secure placees to purchase any new share issuances at prices which will not lead to severe dilution to existing shareholders, or at all.

Governmental Regulation; Environmental Risks and Hazards

The mineral exploration activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances and other matters. Mining, beneficiation and exploration activities are also subject to various laws and regulations relating to the protection of the environment. Although the Company believes that its exploration activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail production or development of the Company's properties. Amendments to current laws and regulations governing the operations and activities of the Company or more stringent implementation thereof could have a material adverse effect on the Company's business, financial condition and results of operations and cause increases in exploration expenses, capital expenditures or production costs, reduction in levels of production at producing properties, or abandonment or delays in development of the Company's existing and/or new properties.

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that existing or future environmental regulation will not materially adversely affect the Company's business, financial condition and results of operations. Environmental hazards may exist on the properties on which the Company holds interests that are unknown to the Company at present and that have been caused by previous or existing owners or operators of the properties.

In particular, existing and possible future environmental and social impact legislation, regulations and actions, including the regulation of air and water quality, mining reclamation, solid and hazardous waste handling and disposal, the promotion of occupational health and safety, the protection of wildlife and ecological systems and the protection of the societies and communities of indigenous peoples, could cause significant expense, capital expenditures, restrictions and delays in the Company's activities, the extent of which cannot be predicted and which may well be beyond its capacity to fund. Environmental and social impact studies may be required for some operations, and significant fines and clean-up responsibilities may be imposed for companies causing damage to the environment in the course of their activities.

In addition, the Company could incur substantial losses as a result of loss of life, severe damage to and destruction of property, natural resources and equipment, pollution and other environmental damage, clean-up responsibilities, regulatory investigation and penalties, suspension of operations and repairs to resume operations.

Government approvals and permits are currently, or may in the future be, required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from proceeding with planned exploration or development of its properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining and beneficiation operations, including the Company, may be required to compensate those suffering loss or damage by reason of such activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations, which may adversely affect the Company.

Iron Ore Prices

The Company's current principal business is the exploration and development of iron. Iron ore prices have historically been volatile and are primarily affected by the demand for and price of steel in addition to the supply/demand balance. Given the historical volatility of iron ore prices and the particular effects of the recent global financial crisis, there are no assurances that the iron ore price will remain at current levels. An increase in iron ore supply without a corresponding increase in iron ore demand could be expected to result in a decrease in the price of iron ore. Similarly, a decrease in iron ore demand without a corresponding decrease in the supply of iron ore would be expected to result in a decrease in the price of iron ore. A continued decline in iron ore prices would adversely impact the business of Talon and could affect the feasibility of Talon's iron ore projects. A continued decline in iron ore prices would also be expected to adversely impact the Company's ability to attract financing.

Iron ore prices are also affected by numerous other factors beyond the Company's control, including the relative exchange rate of the U.S. dollar with other major currencies, global and regional demand, political and economic conditions, and transportation costs in major iron ore producing regions. Given the historical volatility of iron ore prices and the effects of the recent global financial crisis, there are no assurances that iron ore prices will remain at current levels.

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 and Greg Kinross, both directors of Talon are also directors 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, 2012, fees paid for these services were $225,500 (2011 - $625,500).

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. For the year ended December 31, 2012 fees paid amounted to $309,726 (2011 - $360,254).

Accounts payable and accrued liabilities at December 31, 2012 include $1,919 payable to Tau (2011 - $60,000 payable to Luis Azevedo, an officer of the Company, for consulting fees).

The remuneration of directors and officers of the Company for the years ended December 31, 2012 and 2011 were as follows:

	Year ended Dec 31, 2012	**Year ended Dec 31, 2011**
Cash Compensation(1)	$1,619,457	$869,142
Stock option compensation	1,007,677	943,766
Aggregate Compensation	$2,627,133	$1,812,908

Note:
(1) For the year ended December 31, 2012, the amount includes severance of $354,369.

The following share purchase options were issued during the year ended December 31, 2012 to directors and executive officers of the Company:

Date of Grant	Number of Options	Exercise Price	Expiry
Jan. 31, 2012	2,800,000	$0.45	Jan. 31, 2017
April 4, 2012	975,277	$0.415	April 4, 2017
April 25, 2012	354,723	$0.37	April 25, 2017
June 15, 2012	400,000	$0.33	June 15, 2017

CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, 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.

Talon considers the following accounting policies to be critical in the preparation of its financial statements:

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 2012 and 2011, 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 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.

Stock option compensation payments

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.

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 profit or 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 profit or loss.

Impairment of financial assets

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

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Investments in associates

Talon 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 Talons share of earnings or losses of the investee companies and reduced by dividends received, if any. Carrying values of investments are reviewed for indicators of impairment and written down to estimated fair values if there is evidence of impairment. Such impairment would be recorded in the condensed consolidated statements of operations.

International Financial Reporting Standards

Effective January 1, 2011, Canadian publicly listed entities were required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date was January 1, 2010.

Control Activities

For all areas of financial reporting, the effectiveness of internal controls over financial reporting and disclosure controls and procedures has been assessed and no significant changes have been determined to be necessary. In addition, controls over the IFRS changeover process have been implemented through a continuous training of accounting staff. Management has reviewed the design, implementation and documentation of the internal controls over accounting process changes resulting from the application of IFRS accounting policies and has determined that there is no material impact. Management applied the existing control framework to the IFRS changeover process. All accounting policy changes and transitional financial position impacts were subject to review by senior management and the Audit Committee of the Board of Directors.

Business Activities and Key Performance Measures

Management has assessed the impact of the IFRS transition project on the Company's financial condition and performance and has determined the impact to be immaterial due to the relatively small scale of operating activities.

Information Technology and Systems

The IFRS transition project did not have a significant impact on the Company's information systems for the convergence periods. Similarly there are no significant changes in the post-convergence period.

Post-Implementation

The post-implementation phase involves continuous monitoring of changes in IFRS in future periods. Management notes that the standard-setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that we have selected. In particular, there may be additional new or revised IFRSs or interpretations developed by the International Financial Reporting Interpretations Committee that may impact the Company's financial statements in the future. The impact of any new standards and interpretations will be evaluated as they are drafted and published.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The CEO and the CFO, with the assistance of management, have conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as at December 31, 2012. Based on the evaluation, the CEO and the CFO have concluded that as at December 31, 2012, the Company's internal control over financial reporting is effective, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework.

No changes were made to the Company's internal control over financial reporting during the three months ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

The CEO and the CFO are responsible for establishing and maintaining adequate disclosure controls and procedures designed to ensure that information required to be disclosed in the Company's filings under securities legislation is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding public disclosure. The disclosure controls and procedures are designed to provide reasonable assurance that all information required to be disclosed in these filings is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The CEO and the CFO, with the assistance of management, have conducted an evaluation of the effectiveness of the disclosure controls and procedures as at December 31, 2012. Based on the evaluation, the CEO and the CFO have concluded that as at December 31, 2012, the disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported within the appropriate time periods and forms. However, the disclosure controls and procedures cannot provide an absolute level of assurance because of the inherent limitations in control systems to prevent or detect all misstatements due to error or fraud.

OUTLOOK

Further to the Company's press release dated September 27, 2012, the Company continues to believe that it is prudent to carefully manage its rate of investment into the Trairão Project, given, among other things, the current negative state of the economic environment for junior exploration companies, such as Talon. As a result, the Company has already taken steps to reduce its expenditures in respect of the Trairão Project, while broadening its corporate strategy to include pursuing opportunities that can generate cash flow for the Company in the near-term, including the potential sale of lump and sinter from the Trairão Project.

Recently (in March 2013), the federal government of Brazil announced its plan to make a number of infrastructure improvements throughout Parã State, where the Trairão Project is located. In the event these infrastructure changes are implemented, such would positively impact the Company's ability to potentially transport lump and sinter from the Trairão Project.

As a result of these announcements by the government, during Q1 and Q2 of this year, the Company intends to:

- complete the evaluation of samples from the Company's recent auger drilling program on the surficial deposit at the Trairão Project; and
- work with various consultants on flow sheet test work of samples from the surficial deposit at the Trairão Project,

in an effort to determine whether there is true potential for lump and sinter production from the Trairão Project.

In regards to other potential opportunities, management continues to review a number of projects with near term cash generating potential, and in some instances, significant exploration upside. So far, in Q1 2013, the Company has seen a marked increase in the number and quality of opportunities being presented to the Company. The Company continues to undertake its due diligence on a number of these opportunities.

Talon also plans to continue to review the use and allocation of its existing financial resources, while continuing to cut expenses where appropriate.