TALON METALS CORP

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2013

Dated: March 31, 2014

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*This Management's Discussion and Analysis ("**MD&A**") of the consolidated financial position for the year ended December 31, 2013, 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, 2013.*

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, the potential for lump and/or 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 such as plans to apply for a trial mining or mining license, the Company's plans to actively look for new projects for the Company and the costs associated therewith, the Company's continuing plans to review the use and allocation of its existing financial resources, projections in respect of capital expenditures, plans, the Company's liquidity and capital resources (including any plans to dispose of marketable securities).

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 and results of testing on a bulk sample from the surficial material); 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; 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, 2013, is available on SEDAR *at www.sedar.com.*

SUMMARY OF ANNUAL RESULTS

	Year ended Dec 31, 2013 (audited)	Year ended Dec 31, 2012 (audited)	Year ended Dec 31, 2011 (audited)
Total revenue	$75,538	$153,314	$405,199
Net gain/(loss) from continuing operations attributable to Talon shareholders	(7,169,679)	(18,400,058)	(13,807,997)
Net gain/(loss) from continuing operations per share attributable to Talon shareholders – basic and diluted	(0.08)	(0.20)	(0.16)
Total assets	36,832,059	42,808,978	60,843,185
Total non-current financial liabilities	-	-	-
Dividends	-	-	-

REVIEW OF ANNUAL RESULTS

Certain amounts in the condensed consolidated interim statement of loss and comprehensive loss from the prior year have been reclassified to conform to the current year's presentation and, as such, the discussion that follows below takes into account such prior year reclassification. Specifically, certain amounts from office and general expenses; professional fees; salaries, benefits, consulting and management fees; and travel have been reclassified into project evaluation and due diligence expenses. Please also refer to Note 9 in the Company's consolidated financial statements for further details of this reclassification.

REVENUE

Revenue is comprised solely of interest income on the Company's cash and cash equivalents balance. Revenues for 2013 decreased to $75,538 compared to $153,314 in 2012, due in most part to the fact that the Company held a large amount of funds in Brazil in the first quarter of 2012 where interest rates were significantly higher than where the Company normally keeps its cash and cash equivalents.

EXPENSES

Salaries, benefits, consulting and management fees decreased to $656,987 in 2013 from $1,149,723 in 2012 as the result of ongoing cost-cutting measures undertaken by the Company, which has included a reduction in employees. In addition, in 2012, a one-time severance payment was made to Mr. Scholtz, the previous President & CEO of the Company.

Professional fees decreased by almost half from $250,795 in 2012 to $135,626 in 2013. Auditor and legal fees are the major components of the professional fees expense. One of the main reasons for the decrease is that the Company continues to perform more legal work in-house and, when possible, expects to continue to do so going forward.

Office and general expenses decreased to $490,147 in 2013 from $708,503 in 2012, mainly as a result of the Company's concerted effort to decrease costs wherever possible.

Project evaluation and due diligence expenses increased to $2.8 million in 2013 from $2.1 million in 2012. The increase was the result of the Company's increased focus on evaluating new projects with near term cash generating potential and/or significant exploration upside potential. Specifically, the increase was the result of higher costs in the areas of salaries, benefits, consulting and management fees, as well as travel.

Costs associated with property payments and licenses decreased as a result of the relinquishment of non-core exploration licenses by the Company. The majority of these exploration licenses were for early stage properties with little to no work having been completed on them.

Stock option compensation payments were lower in 2013 ($556,097) compared to 2012 ($1,024,194) as a result of (i) fewer options being granted in 2013, (ii) reduced amortization expense of options granted in previous periods, (iii) the Company's recent practice of issuing options at a premium to market prices, (iv) a lower Talon share price, and (v) a lower volatility assumption. Beginning in 2012, the Company began issuing the majority of options with vesting provisions (generally, over the course of two year periods, and in some instances, with earlier vesting occurring should certain thresholds in the price of the Company's shares be met) rather than having them vest on the date of grant, which had historically been the case. Vesting of options was enacted in order to better align the interests of employees with the interests of shareholders by incentivizing employees to stay with the Company longer-term, as well as by aligning compensation to share performance. From an accounting standpoint, this practice means that option grants that are subject to vesting are amortized over the course of the vesting period rather than being fully expensed in the quarter in which they are granted. As such, the stock option compensation payment expense in 2013 takes into account not only options granted in 2013 but also those subject to vesting that were granted in 2012 and are being amortized. The issuance of options subject to vesting is expected to continue.

When the Company distributed most of its Rio Verde Minerals Development Corporation ("**Rio Verde**") shares to its shareholders on July 28, 2011, the Company retained certain of these shares with the intention to distribute them to its option holders 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. In 2013, the Company recorded a gain on the provision for distribution of Rio Verde shares to option holders. This was a result of a lower Talon share price and the fact that certain of the associated Talon options expired or were cancelled. The lower Talon share price decreased the liability as it reduced the probability that certain of the associated Talon options would be exercised.

INVESTMENTS

Foreign currency translation gain decreased to $439,799 in 2013 from $788,983 in 2012. This balance is highly variable due to the volatility of exchange rates and the Company's large cash balance. The gains are the result of a strengthening of the U.S. dollar where the company holds approximately 50% of its cash and cash equivalents.

The loss on investments in 2013 of $440,782 compares to a loss in 2012 of $1,208,738. These losses were due to a decrease in the value of the shares of Lago Dourado Minerals Ltd. ("**Lago Dourado**") and Brazil Resources Inc. ("**Brazil Resources**") held by the Company.

The Company's share of loss in Tlou Energy Limited ("**Tlou Energy**") decreased in 2013 to $225,470 compared to $2,102,070 in 2012 because early in Q2 2013 the Company changed the accounting of its Tlou Energy investment from the equity method to a financial instrument classified as held-for-trading. The accounting change was implemented in accordance with IFRS and was a result of the Company no longer having significant influence over Tlou Energy. In particular, the Company's ownership in Tlou Energy decreased to less than 20% in Q2 2013. Assuming the Company's interest in Tlou Energy remains below 20%, the investment in Tlou Energy will continue to be accounted for as a portfolio investment with mark-to-market gains and losses being reported on the income statement.

The Company's loss on its investment in Tlou Energy in 2013 of $627,231 arose due to the change in accounting policy (described above) and the decrease in the value of shares of Tlou Energy on the Australian Securities Exchange ("**ASX**") from Q2 2013 to Q4 2013. In 2012, there was no gain or loss as the Company's investment in Tlou Energy was accounted for using the equity method. In 2012, there was an impairment loss of $11,255,843 on the Company's investment in Tlou Energy as a result of a reduced assessment of fair value by the Company. This impairment loss occurred while Tlou Energy was being accounted for using the equity method.

In 2013, the Company wrote-off its investment in the Campo Grande Project resulting in an impairment loss on resource property of $540,146. The Company intended to drop the license associated with the Campo Grande Project as the Company was no longer interested in pursuing it. However, as part of the negotiation of the New Brazil Agreement (defined below) to lower the monthly services fee (see *"Related Party Transactions and Balances"* below), the Company agreed to transfer the license associated with the Campo Grande Project to a company controlled by Luis Azevedo, an officer and director of the Company. As such, the Company has written off all previously capitalized costs associated with the Campo Grande Project.

NET LOSS

Net loss for the year ended December 31, 2013 was $7.2 million or $0.08 per share (basic and diluted), which was primarily the result of administration expenses[1], project evaluation and due diligence expenses and losses associated with the Company's investment in Tlou Energy. This compares to a loss of $18.4 million in 2012 or $0.20 per share (basic and diluted), which was due to the same factors as in 2013, but in particular, included an impairment loss of $11.2 million on the Company's investment in Tlou Energy and the Company's share of loss in Tlou Energy of $2.1 million.

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

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.

	2013				2012			
	Dec 31	Sept 30	June 30	March 31	Dec 31	Sept 30	June 30	March 31(1)
Total revenues	16,049	19,623	21,028	18,838	19,740	15,843	24,207	93,524
Net income/(loss) from continuing operations	(1,690,268)	(584,886)	(3,600,421)	(1,294,104)	(13,679,030)	(691,255)	(2,763,338)	(1,028,262)
Net income/(loss) from continuing operations per share – basic and diluted	(0.02)	(0.01)	(0.04)	(0.01)	(0.15)	(0.01)	(0.03)	(0.01)
Net income/(loss) and comprehensive income/(loss)	(1,690,268)	(584,886)	(2,405,059)	(1,615,645)	(13,738,421)	(854,110)	(2,701,842)	(1,017,970)
Net comprehensive income/(loss) per share – basic and diluted	(0.02)	(0.01)	(0.03)	(0.02)	(0.15)	(0.01)	(0.03)	(0.01)

Note:
(1) Takes into account prior year adjustments.
*Certain figures in the chart above have been reclassified to conform to the current year's presentation.

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, 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 were 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.

The relatively higher net loss from continuing operations in the second quarter of 2013 was due to a reclassification from net comprehensive loss of income related to Tlou Energy as a result of the change in accounting method, as discussed above, in accordance with IFRS.

The relatively lower net loss from continuing operations in the third quarter of 2013 was due to an approximately $1 million gain in connection with an increase in the share price of Tlou Energy during that quarter.

The 2013 and 2012 net losses and comprehensive losses by quarter largely follow the net losses from continuing operations, with the difference resulting from the inclusion of other comprehensive income or losses from the investment in Tlou Energy that was accounted for using the equity method.

COMPANY OVERVIEW

The Company is a mineral exploration company focused on the exploration and development of the Trairão iron project (the "**Trairão Project**") in Brazil. As of the date hereof, the only material property of the Company is 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 work completed by the Company on the Trairão Project, including further mineralogical and metallurgical test work. Please refer to the Update Press Releases available under Talon's SEDAR profile at www.sedar.com for further information.

In addition, on March 25, 2013, the Company issued a press release entitled "Talon Metals Announces Lump and Sinter Feed Potential at the Trairão Iron Project, Brazil" which expanded on the Update Press Releases regarding the potential for a high grade, near surface resource that may be amenable to producing direct shipping ore from the Trairão Project. Please refer to this press release which is available under Talon's SEDAR profile at www.sedar.com for further information.

During the fourth quarter of 2013, the Company continued to engage with potential purchasers of lump and sinter in order to assess the likelihood of being able to profitably sell lump and/or sinter from the Trairão Project in the near future. A total of approximately $0.1 million was spent by Talon on the Trairão Project during the fourth quarter of 2013. This amount was comprised of salaries and metallurgical work.

A total of approximately $0.9 million was spent by Talon on the Trairão Project during the year ended December 31, 2013, as follows:

Category	
Salaries	$401,712
Consulting Costs	112,347
Geological and Metallurgical Work	193,785
Field Costs	126,304
Travel	72,697
License Retention Fees	24,323
Other	12,792
Total:	$943,960

The costs above include those associated with numerous commercial discussions and negotiations concerning other mineral licenses in proximity to the Trairão Project that the Company was considering acquiring to combine with the Trairão Project to form a larger combined Brazilian iron ore company.

The Company expects to spend approximately $350,000 during the first and second quarters of 2014 on the Trairão Project. During such time, the Company plans to take a bulk sample from the Trairão Project to enable a potential off-taker to assess the suitability of lump material from the surficial deposit at the Trairão Project for its operations. If the lump material is suitable, the Company expects to enter into an agreement with the off-taker, and thereafter undertake an exploration program to define a resource on the suitable lump material at the Trairão Project. In addition, with additional recent announcements in Brazil on infrastructure improvements that may positively impact the Trairão Project, specifically the planned dredging of the Tocantins River, the Company will continue to evaluate options to transport lump and/or sinter from the Trairão Project to potential export markets. See also “*Outlook*” below.

With the Company’s increased focus on evaluating new opportunities, a total of approximately $2.8 million was spent by Talon on project evaluation and due diligence during the year ended December 31, 2013. In the first and second quarters of 2014, assuming the Company has not acquired one or more new projects and continues to evaluate new opportunities, the Company expects to spend between $1 million and $1.5 million on project evaluation and due diligence.

Talon holds equity investments in a number of other public companies, including 548,936 common shares in Brazil Resources (the successor company to Brazilian Gold Corporation) and 500,000 common shares in Lago Dourado, both of which are listed on the TSX Venture Exchange.

In addition, Talon holds a total of 14,285,714 shares in ASX listed Tlou Energy. In accordance with the rules of the ASX, all of Talon’s current holding of Tlou Energy shares are subject to a mandatory two year escrow period (the “**ASX Escrow**”). The ASX Escrow began on the date of Tlou Energy’s listing in April 2013.

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

Qualified Persons

Mike Shaw, Vice President, Exploration of Talon is a “Qualified Person” within the meaning of NI 43-101. Mr. Shaw 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, 2012	2013 Net Additions	Dec 31, 2013
Mineral properties			
Trairão Project	$16,614,930	$943,960	$17,558,890
Inaja South Project	1,142,644	10,871	1,153,515
Campo Grande Gold Project	533,195	(533,195)	0
	$18,290,769	$961,782	$18,712,405

Amounts incurred on the exploration of mineral properties for the three months ended December 31, 2013 and 2012, amounted to approximately $0.1 million and $0.3 million, respectively.

Exploration expenditures incurred for the three months ended December 31, 2013 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, 2013	Dec 31, 2012
Held for trading, measured at fair value: Cash and cash equivalents	$14,852,876	$16,485,729
Investments	$284,468	$1,447,186
Investment – Tlou Energy	$2,725,146	- (1)

Note:
(1) At this point, Tlou Energy was accounted for as an equity investment.

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 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.

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

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 period with all other facts/assumptions held constant, would have affected the net loss of the Company for the year ended December 31, 2013, by approximately $150,000.

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 and maintaining minimal and prudent balances in foreign currencies.

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

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

If foreign exchange rates 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 year ended December 31, 2013 of approximately $375,000.

The Company entered into two foreign currency hedge contracts, spanning 26 days and 19 days, respectively, in February and March of 2012, in order to preserve the value of cash denominated in Brazilian real. Historically, the Company has not participated in hedging activities and further hedging activities are not anticipated in the future.

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 GICs. 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	$14,852,876
Investments	$ 284,468
Level 2	
None	
Level 3	
Investments	$ 2,725,146

A loss on investments in 2013 of $1.1 million (2012 – $1.2 million) 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 and any realized gains or losses.

FINANCIAL CONDITION, CASH FLOW, LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Highlights

	Year ended December 31, 2013	Year ended December 31, 2012
Operating activities	$(3,851,334)	$(4,495,955)
Investing activities	2,218,481	(618,733)
Financing activities	-	30,000
Increase/(decrease) in cash & cash equivalents	(1,632,853)	(5,084,688)
Beginning cash & cash equivalent balance	16,485,729	21,570,417
Ending cash & cash equivalents balance	14,852,876	16,485,729

Operating Activities

Operating activities for the year ended December 31, 2013 consumed $3.9 million of cash primarily due to net operating expenses. This compares to utilization of $4.5 million in the same period of last year also primarily due to net operating expenses. See *"Review of Annual Results*" for a discussion of operating expenses.

Investing Activities

Investing activities for the year ended December 31, 2013 produced $2.2 million due to proceeds from the sale of (i) shares in Tlou Energy and Rio Verde, and (ii) equipment, offset by capitalized exploration costs. This compares to a utilization of $0.6 million in the same period last year, primarily due to capitalized exploration costs offset by proceeds on sale of investments and equipment.

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

Financing Activities

There were no financing activities during the year ended December 31, 2013.

For the year ended December 31, 2012, financing activities were comprised of an option exercise that generated $30,000.

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 $14.9 million as of December 31, 2013.

The Company expects to spend approximately $2 million over the second and third quarters of 2014, the majority of which is expected to be spent on the evaluation of new opportunities for the Company. Management of the Company understands the current challenging market conditions for raising additional capital and any decision on whether or not to pursue a new opportunity will have to balance that fact against the Company's treasury.

All cash equivalents are held in government treasury bills, money market funds and GICs 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 and access to capital.

A summary of Contributed Surplus for the period from January 1, 2011 to December 31, 2013 is as follows:

Balance	January 1, 2011	$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
Options	Granted 2013	556,097
Balance	December 31, 2013	15,128,750

DISCLOSURE OF OUTSTANDING SHARE DATA

The following details the share capital structure of the Company as at March 31, 2014:

	Expiry Date	Exercise Price	Total
Common Shares			92,076,687
Stock Options	June 11, 2014	$0.385	440,000
Stock Options	May 21, 2015	$0.40	3,424,350
Stock Options	Oct 26, 2015	$0.70	900,000
Stock Options	Jan 17, 2016	$1.58	255,000
Stock Options	Feb 7, 2016	$2.12	20,000
Stock Options	May 25, 2016	$1.95	870,000
Stock Options	Jan 31, 2017	$0.45	2,800,000
Stock Options	Apr 4, 2017	$0.415	1,033,940
Stock Options	Apr 25, 2017	$0.37	376,060
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
Stock Options	Mar 20, 2018	$0.30	1,000,000
Stock Options	Aug 1, 2018	$0.30	400,000
Stock Options	Oct 1, 2018	$0.30	500,000
Total fully diluted number of shares			104,896,037

During the fourth quarter of 2013, the Company issued 500,000 stock options pursuant to the Company's incentive stock option plan (the "**Plan**"). The following details the stock options of the Company outstanding as at December 31, 2013:

	Options	Weighted Average Exercise Price
Outstanding – beginning of year	12,389,350	$0.70
Cancelled	(86,681)	0.37
Cancelled	(200,000)	0.57
Cancelled	(50,000)	0.385
Cancelled	(225,000)	0.40
Cancelled	(238,319)	0.415
Cancelled	(250,000)	1.00
Cancelled	(50,000)	1.58
Cancelled	(220,000)	1.95
Cancelled	(20,000)	2.12
Cancelled	(500,000)	2.48
Granted	2,300,000	0.31
Outstanding – end of the period	12,849,350	$0.54

Other than 2,733,733 stock options, all of the stock options outstanding have been issued pursuant to the Plan.

Estimated fair value of stock options

The Company determined the fair value of the stock options issued during the years ended December 31, 2012 and December 31, 2013, using the Black-Scholes option pricing model under the following range of assumptions:

Expected life	5 years
Risk-free interest rate	1.4-1.8%
Volatility	60-111%
Dividends	0%

For the years ended December 31, 2013 and December 31, 2012, a total stock option compensation payment of $556,097 and $1,024,194 was recognized in the statement of loss and comprehensive loss.

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, 2013 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

The government of Brazil has announced its intention to amend the country's current mining legislation which governs certain of the operations and activities of the Company in Brazil. A draft of the legislative changes has been released but it is subject to further parliamentary review and possible changes. It is not known what the final form of such 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.

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.

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. Specifically, the location of the Trairão Project within Para State, Brazil, presents challenges from an infrastructure perspective, primarily as it relates to options for moving material produced at the Trairão Project to local and export markets. Although the government of Brazil has announced significant infrastructure improvements within Brazil, including improvements which would positively impact the Trairão Project, there can be no assurance that any of these announced infrastructure improvement projects will be completed on-time or at all. Such infrastructure challenges could materially adversely affect the Company's ability to continue with the development of the Trairão Project.

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.

RELATED PARTY TRANSACTIONS AND BALANCES

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

Effective April 1, 2011, the Company entered into a revised administrative and advisory services agreement (the "**Tau Agreement**") with Tau Capital Corp. ("**Tau**"). Warren Newfield, the Company's Executive Chairman is also a director of Tau. Under the Tau Agreement, Talon agreed to pay Tau a monthly service fee of $58,500. Effective April 1, 2012, the parties agreed to lower the monthly service fee to $25,000, given that Tau would be providing fewer direct services to

Talon. On June 1, 2012, the Tau Agreement was terminated by the parties. For the year ended December 31, 2013, fees paid for these services were $nil (2012 - $225,500).

Effective April 1, 2011, Talon entered into a services agreement with a company owned by an officer and director of Talon (Luis Azevedo) (the "**Brazil Agreement**"). Pursuant to the Brazil Agreement, the company provides Talon with certain accounting, legal and general administrative functions in Brazil. The Brazil Agreement had an initial term of one year and automatically renewed for additional one year terms, until terminated in accordance with its terms. Under the Brazil Agreement, Talon agreed to pay a monthly service fee of US$33,000. Effective May 1, 2012, the parties agreed to lower the monthly service fee to US$23,000 and, on October 1, 2012, the parties agreed to further lower the monthly service fee to US$18,000. Coupled with the revised fee in October 2012, the parties agreed to a one year term for the Brazil Agreement terminating September 30, 2013, unless extended by agreement of the parties. The parties agreed to extend the Brazil Agreement from September 30, 2013 while they renegotiated a new agreement. On January 1, 2014, the parties entered into an amended and restated services agreement (the "**New Brazil Agreement**") pursuant to which the parties agreed to lower the monthly service fee to US$5,000 for a term of one year, unless extended by agreement of the parties. As part of the negotiation of the New Brazil Agreement which resulted in the lower monthly service fee, the Company agreed to transfer the Campo Grande Project license to a company controlled by Luis Azevedo for no additional consideration. For the year ended December 31, 2013, fees paid amounted to $208,000 (2012 - $309,726).

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

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

	Year ended Dec 31, 2013	Year ended Dec 31, 2012
Cash Compensation	$1,801,933	$1,619,457[(1)]
Stock option compensation	485,877	1,007,676
Aggregate Compensation	$2,287,810	$2,627,133

Note:
(1) Cash compensation includes severance of $189,000.

In line with the Company's concerted effort to cut costs, in 2014, the aggregate monthly cash compensation paid to directors and officers of the Company has decreased to approximately $100,000 per month.

The following stock options were issued during the year ended December 31, 2013 to directors and executive officers of the Company:

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

CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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. The Company only capitalizes costs on its core properties and expenses 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.

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, 2013. Based on the evaluation, the CEO and the CFO have concluded that as at December 31, 2013, 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, 2013 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, 2013. Based on the evaluation, the CEO and the CFO have concluded that as at December 31, 2013, 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

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 numerous 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.

The Company continues to believe that there is potential for some lump and/or sinter production from the Trairão Project. Consequently, in late 2013, the Company engaged with potential purchasers of lump and sinter in order to assess the likelihood of being able to profitably sell lump and/or sinter from the Trairão Project in the near future. The Company's dialogue with potential purchasers of lump and sinter remain ongoing. During the first and second quarters of 2014, the Company plans to take a bulk sample from the Trairão Project to enable a potential off-taker to assess the suitability of lump material from the surficial deposit at the Trairão Project for its operations. If the lump material is suitable, the Company expects to enter into an agreement with the off-taker, and thereafter undertake an exploration program to define a resource on the suitable lump material at the Trairão Project. At the appropriate time during such an exploration program, the Company may begin the necessary work to apply for a trial mining license or mining license in respect of the Trairão Project.

In addition, with additional recent announcements in Brazil on infrastructure improvements that may positively impact the Trairão Project, specifically the planned dredging of the Tocantins River, the Company will continue to evaluate options to transport lump and/or sinter from the Trairão Project to potential export markets.

In regards to other potential opportunities, management is presently spending a large portion of their time reviewing projects with near term cash generating potential and/or significant exploration upside. 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.