TALON METALS CORP.

Condensed Consolidated Interim Financial Statements

June 30, 2012 and 2011

(Unaudited)

(Expressed in Canadian Dollars)

These unaudited condensed consolidated interim financial statements of Talon Metals Corp. ("the Company") have not been reviewed by the auditors of the Company. This notice is being provided in accordance with Section 4.3(3)(a) of National Instrument 51-102 Continuous Disclosure Obligations

Talon Metals Corp.

Condensed Consolidated Interim Statements of Financial Position

(Expressed in Canadian Dollars)

(Unaudited)

	Notes	As at June 30, 2012	As at December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		$ 17,917,128	$ 21,570,417
Investments	*5*	1,726,985	1,898,300
Prepayments		129,565	94,426
Accounts and other receivables		66,698	229,894
		19,840,376	23,793,037
Non-current assets			
Equipment		132,867	151,936
Resource properties and deferred expenditures	*6*	17,528,340	15,567,320
Investment in Tlou Energy	*5*	19,093,853	19,615,514
Assets held for sale	*7*	262,400	1,715,378
Total assets		$ 56,857,836	$ 60,843,185
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		$ 899,625	$ 1,100,003
Equity			
Share capital	*8*	68,501,013	68,501,013
Common share purchase warrants	*8*	5,546,292	5,546,292
Contributed surplus		13,976,537	13,577,709
Accumulated other comprehensive loss		(651,575)	(723,363)
Deficit		(31,414,057)	(27,158,469)
		55,958,210	59,743,182
Total liabilities and equity		$ 56,857,836	$ 60,843,185

See accompanying notes to the condensed consolidated interim financial statements.

Approved by the Board on August 10, 2012.

Signed:

"Gregory S. Kinross" *"Jonathan M. Schneider"*

Talon Metals Corp.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

For the three and six months ended June 30, 2012 and 2011

(Expressed in Canadian Dollars)		Three months ended June 30,	Three months ended June 30,	Six months ended June 30,	Six months ended June 30,
(Unaudited)	***Notes***	**2012**	**2011**	**2012**	**2011**
Revenue					
Income		$ 70,219	$ 25,175	$ 361,914	$ 33,716
		70,219	25,175	361,914	33,716
Expenses					
Office and general		189,049	987,856	255,020	1,332,808
Professional fees		149,007	692,198	199,227	1,187,962
Share-based payments		432,445	2,101,506	398,828	4,988,317
Salaries, benefits, consulting and management fees		524,623	422,178	1,420,218	628,534
Distribution of Rio Verde shares to option holders	*4*	(185,000)	-	365,000	-
Travel		99,867	194,164	189,769	305,462
Income tax on foreign income		(3,902)	-	89,810	-
Listing and filing expense		28,867	172,226	43,732	203,954
Bank charges		7,241	39,813	22,633	49,624
Write down of projects		-	-	-	4,075
Non-core mineral projects		2,750	-	88,004	-
Depreciation of equipment		6,000	9,208	13,060	20,303
		1,250,948	4,619,149	3,085,302	8,721,039
		(1,180,729)	(4,593,974)	(2,723,388)	(8,687,323)
Foreign currency translation loss (gain)		(293,970)	66,619	(253,251)	182,207
Share of loss in Tlou		460,784	1,720,512	743,899	1,821,685
Change in unrealized loss (gain) on investments		1,369,783	353,000	1,177,693	(354,704)
Accretion of present value on long term assets		-	-	(47,022)	-
Gain on sale of projects		-	(100,000)	(89,119)	(100,000)
Loss (gain) on disposal of assets held for sale		-	142,206	-	(130,666)
Gain on sale of investments	*5*	-	(262,185)	-	(262,185)
		1,536,598	1,920,152	1,532,200	1,156,337
Net loss for the period		(2,717,326)	(6,514,126)	(4,255,588)	(9,843,660)
Share of other comprehensive income - Tlou		61,496	2,173	71,788	2,173
Net loss and comprehensive loss for the period		$ (2,655,830)	$ (6,511,953)	$ (4,183,800)	$ (9,841,487)
Net loss and comprehensive loss attributable to:					
Shareholders of Talon		$ (2,717,326)	$ (5,917,928)	$ (4,255,588)	$ (9,076,908)
Non-controlling interests in Rio Verde		-	(596,198)	-	(766,752)
		$ (2,717,326)	$ (6,514,126)	$ (4,255,588)	$ (9,843,660)
Basic and diluted loss per share attributable to:	*10*				
Shareholders of Talon		$ (0.03)	$ (0.07)	$ (0.05)	$ (0.11)
Non-controlling interests in Rio Verde		$ -	$ -	$ -	$ -

See accompanying notes to the condensed consolidated interim financial statements.

Talon Metals Corp.

Condensed Consolidated Interim Statements of Changes in Equity

(Expressed in Canadian Dollars)

(Unaudited)

	Notes	Capital stock: Number of shares	Capital stock: Amount	Common share purchase warrants	Subscription receipts	Contributed surplus	Accumulated other comprehensive loss	Deficit	Sub-total equity	Non-controlling interest in Rio Verde	Total equity
Balance at January 1, 2012		92,001,687	$68,501,013	$ 5,546,292	$ -	$13,577,709	$ (723,363)	$ (27,158,469)	$ 59,743,182	$ -	$59,743,182
Share-based payments	9					398,828			398,828		398,828
Share of other comprehensive income - Tlou							71,788		71,788		71,788
Net loss								(4,255,588)	(4,255,588)		(4,255,588)
Balance at June 30, 2012	8	92,001,687	$68,501,013	$ 5,546,292	$ -	$13,976,537	$ (651,575)	$ (31,414,057)	$ 55,958,210	$ -	$55,958,210
Balance at January 1, 2011		74,609,275	$41,990,775	$ 1,388,815	$ -	$ 7,864,955	$ (37,918)	$ (12,763,346)	$ 38,443,281	$ 13,355,970	$51,799,251
Options exercised		479,650	376,685			(185,844)			190,841		190,841
Warrants exercised		5,323,162	4,582,712	(1,388,815)					3,193,897		3,193,897
Share issuance on private financing		11,274,600	21,156,676	7,593,533					28,750,209		28,750,209
Broker warrants issued on private financing			(643,150)	643,150					-		-
Compensation									-	481,105	481,105
Subscription receipts issued on financing					9,913,172				9,913,172		9,913,172
Share of other comprehensive income - Tlou							2,173		2,173		2,173
Broker fees and other costs on financing			(1,397,925)	(501,742)					(1,899,667)		(1,899,667)
Share based payment						4,918,557			4,918,557		4,918,557
Share issuance by Rio Verde								285,977	285,977	1,169,023	1,455,000
Net loss								(9,076,908)	(9,076,908)	(766,752)	(9,843,660)
Balance at June 30, 2011		91,686,687	$66,065,773	$ 7,734,941	$ 9,913,172	$12,597,668	$ (35,745)	$ (21,554,277)	$ 74,721,532	$ 14,239,346	$88,960,878

See accompanying notes to the condensed consolidated interim financial statements.

Talon Metals Corp.

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian Dollars) *(Unaudited)*	**Six months ended June 2012**	**Six months ended June 2011**
Cash flows from operating activities		
Net loss for the period	$ (4,255,588)	$ (9,843,660)
Adjustments to reconcile net loss to net cash flows:		
Non-cash adjustments:		
Share-based payments	398,828	4,918,557
Write down of projects	-	4,075
Share of net loss in Tlou	743,899	1,819,512
Gain on sale of investments	(89,119)	(262,185)
Gain on sale of projects	-	(100,000)
Distribution of Rio Verde shares to option holders	365,000	-
Change in unrealized gain on investments	1,177,693	(354,704)
Gain on sale and disposal of assets held for sale	-	(130,666)
Accretion of present value on long term assets	(47,022)	-
Depreciation of equipment	13,060	20,303
	(1,693,249)	(3,928,768)
Working capital adjustments:		
Decrease (increase) in prepayments	(35,139)	(253,931)
Decrease (increase) in accounts and other receivables	162,699	(901,099)
Decrease (increase) in advances	-	(961,000)
Increase (decrease) in accounts payables and accrued liabilities	(715,351)	953,833
Net cash flows used in operating activities	(2,281,040)	(5,090,965)
Cash flows from investing activities		
Proceeds on sale (acquisition) of equipment	6,010	(131,862)
Proceeds from sale of assets held for sale	-	1,346,154
Proceeds on sale of project	-	100,000
Investment in Rio Verde subscription receipts	-	(500,500)
Proceeds on maturity of term deposit	-	3,503,928
Restricted cash from subscription receipts	-	(9,913,172)
Proceeds on sale of investments	582,761	1,366,315
Acquisition of resource properties and deferred expenditures	(1,961,020)	(9,284,898)
Net cash flows used in investing activities	(1,372,249)	(13,514,035)
Cash flows from financing activities		
Proceeds from exercise of options	-	190,841
Share issuance costs	-	(1,899,667)
Proceeds from subscription receipts	-	10,790,000
Subscription receipts issuance costs	-	(876,828)
Proceeds from exercise of warrants	-	3,193,897
Proceeds from private placements	-	30,205,209
Net cash flows from financing activities	-	41,603,452
Net increase (decrease) in cash and cash equivalents	(3,653,289)	22,998,452
Cash and cash equivalents, beginning of the period	21,570,417	12,345,677
Cash and cash equivalents, end of the period	$ 17,917,128	$ 35,344,129

See accompanying notes to the condensed consolidated interim financial statements.

1. NATURE OF OPERATIONS

Talon Metals Corp. ("Talon" or "the Company") is a mineral exploration company focused on the exploration and development of its portfolio of iron projects in Brazil. The Company has three indirect subsidiaries incorporated in Brazil. They are Brazmin Ltda. ("Brazmin"), Talon Ferrous Mineracao Ltda. ("Ferrous") and Talon Iron Mineracao Ltda ("TIML"). The Company, through TIML and Ferrous, holds a 100% interest in various iron ore projects situated in Brazil, including the Company's only material project, the Trairao iron project (the "Trairao Project").

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

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

All intercompany accounts and transactions have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") and using the same accounting policies and methods as were used for the Company's consolidated financial statements and the notes thereto for the years ended December 31, 2011 and 2010 (the "2011 Financial Statements"). The condensed consolidated interim financial statements should be read in conjunction with the 2011 Financial Statements.

(b) Basis of preparation

The condensed consolidated interim financial statements are presented in Canadian dollars. The financial statements are prepared on the historical cost basis, except for financial instruments that are measured on fair value basis.

(c) Share-based payments

The share option plan allows Company employees and consultants 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, including directors of the Company. The fair value is measured at grant date and each tranche is recognized on a graded basis 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. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

(d) Deferred taxes

The Company uses the asset and liability method of accounting for income taxes, under which deferred income tax assets and liabilities are recognized for the estimated future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. Deferred income tax assets and liabilities are measured using income tax rates in effect for the period in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in income tax rates or laws is recognized as part of the provision for income taxes in the period the changes are considered substantively enacted.

Deferred income tax benefits attributable to these differences, if any, are recognized to the extent that the realization of such benefits is probable.

(e) Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss. Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

The Company provides for depreciation of its equipment at the following annual rate:

Office and computer equipment	20% declining balance basis

(f) Assets held for sale

Long-lived assets are classified as held for sale when certain criteria are met, which include: the Company's commitment to a plan to sell the assets; the assets are available for immediate sale in their present condition; an active program to locate buyers and other actions to sell the assets have been initiated; the sale of the assets is probable and their transfer is expected to qualify for recognition as a completed sale within one year; the assets are being actively marketed at reasonable prices in relation to their fair value; and it is unlikely that significant changes will be made to the plan to sell the assets or that the plan will be withdrawn.

The Company measures assets held for sale at the lower of carrying amount or fair value less cost to sell. These assets are not depreciated.

(g) 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 cost of mineral properties includes the cash consideration 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; however, certain option payments that management has determined are likely to be made, have been accrued in the financial statements. 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.

(h) 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 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. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(i) Foreign currencies

Functional and presentation currency

The Canadian dollar is the functional currency and reporting currency of the Company.

The consolidated financial statements are presented in Canadian dollars. Monetary items are translated into Canadian dollars at the rate of exchange in effect at the end of the reporting period. Revenues and expenses are translated into Canadian dollars at the rates of exchange prevailing when the underlying transactions occurred.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of loss and comprehensive loss.

(j) Financial assets and liabilities

Financial instruments are measured on initial recognition at fair value, plus, in the case of financial instruments other than those classified as "fair value through profit and loss", directly attributable transaction costs. Measurement of financial assets in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit and loss", "available-for-sale", "held-to-maturity", or "loans and receivables" as defined by IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). Measurement of financial liabilities subsequent to initial recognition depends on whether they are classified as fair value through profit and loss or ‘‘other financial liabilities’’.

Financial assets and financial liabilities at fair value through profit and loss include financial assets and financial liabilities that are held for trading or designated upon initial recognition as fair value through profit and loss. These financial instruments are measured at fair value with changes in fair values recognized in the consolidated statements of loss and comprehensive loss. Financial assets classified as available-for-sale are measured at fair value, with changes in fair values recognized in other comprehensive income ("OCI"), except when there is objective evidence that the asset is impaired, at which point the cumulative loss that had been previously recognized in OCI is recognized within the consolidated statements of loss and comprehensive loss. Financial assets classified as held-to-maturity and loans and receivables are measured subsequent to initial recognition at amortized cost using the effective interest method. Financial liabilities, other than financial liabilities classified as fair value through profit and loss, are measured in subsequent periods at amortized cost using the effective interest method.

The Company has classified its financial instruments as follows:

Cash	-	Fair value through profit and loss
Term deposits	-	Fair value through profit and loss
Investments	-	Fair value through profit and loss
Accounts and other receivables	-	Loans and receivables
Accounts payable	-	Other liabilities

Financial instruments recorded at fair value on the consolidated balance sheets are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At June 30, 2012, cash and cash equivalents, term deposits and investment in marketable securities have been measured using level 1 inputs and the investment in share purchase warrants of publicly traded companies using level 2 inputs (refer to Note 5(a) for a summary of the inputs used in the Black-Scholes calculation).

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.

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.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(k) Cash and cash equivalents

Cash and cash equivalents consist of cash deposits in banks, certificates of deposit and short-term investments with remaining maturities of three months or less at time of acquisition.

(l) Investments in associates

The Company accounts for its investments in companies over which it has significant influence using the equity basis of accounting whereby the investments are initially recorded at cost and subsequently adjusted to recognize the Company’s share of earnings or losses of the investee companies and reduced by dividends received, if any. Carrying values of investments are reviewed for indicators of impairment and written down to estimated fair values if there is evidence of impairment. Such impairment would be recorded in the consolidated statements of operations.

(m) Asset retirement obligations

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

(n) Interest and other income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. The proceeds from options granted on properties are credited to the cost of the related property, but where the proceeds exceed the property’s carrying value, any excess proceeds are credited to income.

(o) Loss per share

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

(p) Segment reporting

A segment is a component of the Company that is distinguishable by economic activity (business segment), or by its geographical location (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company operates in one business segment, namely, mineral exploration.

(q) Future changes in accounting policies

IFRS 7 Financial Instruments: Amendment regarding Offsetting Financial Assets and Financial Liabilities.
This amendment enables users of the financial statements to better compare financial statements prepared in accordance with IFRS and US Generally Accepted Accounting Principles. The Company will start the application of IFRS 7 in the financial statements effective from January 1, 2013. The Company does not expect any impact to the financial statements as a result of adopting this Standard.

IFRS 9 Financial Instruments: This standard replaces the current IAS 39 Financial Instruments Recognition and Measurement. The standard introduces new requirements for classifying and measuring financial assets and liabilities. The Company will start the application of IFRS 9 in the financial statements effective from January 1, 2013. The Company has not yet evaluated the impact on the financial statements.

IFRS 10 Consolidated Financial Statements: This standard replaces the current IAS 27 Consolidated and Separate Financial Statements. The standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The Company will start the application of IFRS 10 in the financial statements effective from January 1, 2013. The Company does not expect any impact to the financial statements as a result of adopting this Standard.

IFRS 12 Disclosure of Interests in Other Entities: This standard requires disclosures relating to an entity's interests in subsidiaries. The Company will start the application of IFRS 12 in the financial statements effective from January 1, 2013. The Company does not expect any impact to the financial statements as a result of adopting this Standard.

IFRS 13 Fair Value Measurements: This standard defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. The Company will start the application of IFRS 13 in the financial statements effective from January 1, 2013. The Company has not yet evaluated the impact on the financial statements.

IAS 1 Presentation of Financial Statements: The standard provides guidance on the presentation of items of other comprehensive income ("OCI") and their classification within OCI. The Company will start the application of this standard in the financial statements effective from January 1, 2013. The Company does not expect any impact to the financial statements as a result of adopting this Standard.

IAS 32 Financial Instruments; Offsetting Financial Assets and Financial Liabilities: The amendment provides further clarification on the application of the offsetting requirements. The Company will start the application of IAS 32 in the financial statements effective from January 1, 2014. The Company has not yet evaluated the impact on the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the 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 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 statement of financial position dates 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.

4. ACQUISITIONS AND SPIN OFF

Acquisition of Rio Verde Shares

On December 10, 2010, Talon entered into an agreement with Rio Verde Minerals Corp., at that time a private Brazilian focused fertilizer company, pursuant to which Talon transferred to Rio Verde Minerals Corp. all of Talon's rights in the Sergipe Potash Project licenses in return for approximately 26.6 million common shares of Rio Verde Minerals Corp. (representing approximately 54% of the shares in Rio Verde Minerals Corp.)

The Company assessed that control existed over Rio Verde (defined below), and as such Rio Verde was fully consolidated during the six month period ended June 30, 2011. $766,752 of the Company's net loss and comprehensive loss for that period was considered to be attributable to the non-controlling interest in Rio Verde.

Distribution of Rio Verde Shares

On July 28, 2011, Talon distributed most of its shares of Rio Verde Minerals Development Corp. ("Rio Verde"), the resulting Toronto Stock Exchange listed entity, to Talon shareholders (the "RV Distribution"). Talon shareholders of record at the close of business on July 27, 2011 received one ordinary share of Rio Verde for every four shares of Talon held.

The remaining shares in Rio Verde were retained, to be distributed to Talon option holders as of July 27, 2011, upon the future exercise by them of their options, on the basis of one ordinary share of Rio Verde for every four Talon options exercised. A provision of $365,000 has been recognized for this purpose in the statements of loss and comprehensive loss, for the six month period ended June 30, 2012. This provision has been based on the closing share price of Rio Verde as at June 30, 2012.

(Presented in Canadian dollars)

5. INVESTMENTS

(a) Temporary investments

	June 30, 2012	December 31, 2011
Lago Dourado Minerals Ltd. - shares	$ 85,000	$ 177,500
Lago Dourado Minerals Ltd. - warrants	0	40,500
Brazilian Gold Corporation - shares	702,128	493,622
Rio Verde Minerals Corp. - shares	866,982	1,040,378
Rio Verde Minerals Corp. - warrants	72,875	146,300
	$ 1,726,985	$ 1,898,300

The Company holds 500,000 shares in Lago Dourado Minerals Ltd. ("Lago") with a fair value of $85,000. The Company also held 500,000 warrants in Lago which expired on July 13, 2012. These warrants are now valued at zero given that they have expired.

At December 31, 2011, the Company held a total of 1,147,967 Brazilian Gold Corporation ("Brazilian Gold") shares. These shares were received under the terms of project sale agreements. All of these shares were sold by the Company during the first quarter of 2012 for gross proceeds of $582,761. A further 3,191,489 Brazilian Gold shares were received during the first quarter of 2012 under the terms of the amended Sao Jorge sale agreement (see note 6(b)).

At June 30, 2012, the Company held a total of 3,467,927 common shares and 770,000 share purchase warrants of Rio Verde. The Company has fair valued the warrants at an amount of $72,875 using the Black-Scholes option pricing model with the following assumptions: expected life of 4 years (December 31, 2011 – 4.5 years), risk-free interest rate of 1.25% (December 31, 2011 – 2.35%), dividend rate of 0% (December 31, 2011 – 0%), and volatility of 92% (December 31, 2011 – 110%). These warrants have an exercise price of $0.85 per warrant and expire on July 27, 2016.

(b) Long term investments

Tlou Energy Limited

	June 30, 2012	December 31, 2011
Tlou Energy Limited	$ 19,093,853	$ 19,615,514

Effective November 30, 2010, the Company completed a transaction with Tlou Energy Ltd. ("Tlou Energy") in which Talon transferred to Tlou Energy all of the Company's rights in the Saber Gas Project licenses and some property, plant and equipment, in return for a 30% ownership interest in Tlou Energy valued at approximately $21 million. The Company recognized a net gain of approximately $3 million in the year ended December 31, 2010, relating to the licenses and equipment sale. The Company accounts for its investment in Tlou Energy using the equity method.

(Presented in Canadian dollars)

In October 2011, the Company took up all of its rights in a Tlou Energy rights offering acquiring another 2,571,428 shares of Tlou Energy (to add to its existing holding of 19,285,714 shares), for a cost of approximately $1,556,000. After this transaction, the Company's share in Tlou Energy increased to 21,857,142 shares, representing approximately 31%. The Company also has the option to increase its investment by subscribing for an additional 4,945,055 shares of Tlou Energy at an exercise price of AUD $1.25 each, exercisable until June 30, 2013.

The Company's investment in Tlou Energy at June 30, 2012 amounted to $19,093,853 (December 31, 2011 - $19,615,514) and is comprised of the initial cost of $21,080,850, plus the cost of the shares subscribed for as part of the rights offering, less a 31% share of net loss in Tlou Energy for the month ended December 31, 2010 and the year ended December 31, 2011 and the six months ended June 30, 2012. The Company's share of Tlou Energy's net assets at the date of acquisition is approximately $10 million.

The following is summarized financial information for Tlou Energy:

	As at June 30, 2012	**As at December 31, 2011**
Total assets	$ 34,518,774	$ 36,721,881
Total liabilities	$ 4,773,761	$ (4,208,005)
	Three months ended June 30, 2012	**Three months ended June 30, 2011**
Revenues	$ (9,011)	$ (62,963)
Net loss and comprehensive loss	$ 1,288,025	$ 7,441,294
	Six months ended June 30, 2012	**Six months ended June 30, 2011**
Revenues	$ (22,103)	$ (95,751)
Net loss and comprehensive loss	$ 2,168,099	$ 6,065,042

6. RESOURCE PROPERTIES AND DEFERRED EXPENDITURES

The properties on which the Company's subsidiaries carry out exploration and development activities are located in Brazil. Details of additions and impairments for the six month period ended June 30, 2012 and cumulative resource properties and deferred exploration expenditures are comprised as follows:

(Presented in Canadian dollars)

	December 31, 2011	2012 Additions	June 30, 2012
Mineral Properties:			
Trairao Project	$ 14,056,824	$ 1,806,110	$ 15,862,934
Inaja South Project	981,965	153,864	1,135,829
Campo Grande Gold Project	528,531	1,046	529,577
	$ 15,567,320	$ 1,961,020	$ 17,528,340

Although the Company believes it has taken reasonable measures to ensure proper title to its mineral properties in which it has an interest, there is no guarantee that title to any of its mineral properties will not be challenged or impaired. Third parties may have valid claims underlying portions of the Company's interests, including prior unregistered liens, agreements, transfers or claims, including native land claims, and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties. For certain of the Company's material licenses relating to the Trairao Project, the Company has submitted final exploration reports to the Departamento Nacional de Produção Mineral ("DNPM") in Brazil and is awaiting approval. If approval is received, the Company will have up to two years to apply for a mining license. Certain other licenses that are part of the Trairao Project, are still within their current validity period.

Mineral properties

(a) Trairao Project and Inaja South Project

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

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

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

(Presented in Canadian dollars)

(b) São Jorge Gold Project (see note 7)

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

The related project amounts were classified under Assets Held for Sale, as at December 31, 2011.

(c) Campo Grande Gold Project

The Campo Grande project is located approximately 110 km west of Belo Horizonte, the capital of Minas Gerais State, Brazil. This project consists of three exploration licenses covering 2,611 hectares, which are owned 100% by Brazmin. An NSR of 1.5% is held by a third party on one of the three licenses.

7. ASSETS HELD FOR SALE

The Company received $1,500,000 worth of Brazilian Gold shares (which equaled 3,191,489 Brazilian Gold shares) during the previous quarter, being the final payment in respect of the "Assets held for sale" relating to its Sao Jorge Gold Project.

Assets held for sale are comprised of the following:

	June 30, 2012	December 31, 2011
Saber plant and equipment	$ 262,400	$ 262,400
Sao Jorge gold project	-	1,452,978
	$ 262,400	$ 1,715,378

8. SHARE CAPITAL AND OTHER EQUITY

(a) Authorized, issued and outstanding common shares

Authorized – 100,000,000,000 common shares, no par value
Issued and outstanding - 92,001,687 common shares as at June 30, 2012 and December 31, 2011.

On April 29, 2011, the Company completed a bought deal prospectus offering of 9,804,000 units (each a "Unit") at a price of $2.55 per Unit for gross proceeds of $25,000,200. The Underwriters exercised their full overallotment option to acquire 1,470,600 additional Units for additional gross proceeds of $3,750,030. In total, 11,274,600 Units were sold for gross proceeds of $28,750,230. Each Unit consisted of one common share in the capital of the Company (each a “Common Share”) and one-half of one common share purchase warrant (each whole common share purchase warrant, a “Warrant”). Subject to acceleration of the expiry time in certain circumstances, each Warrant entitles the holder thereof to purchase one Common Share at a price of $3.10 at any time up to October 29, 2012. In addition, 552,852 broker warrants were issued on April 29, 2011. These warrants expire on October 29, 2012 and have an exercise price of $2.55 each.

(Presented in Canadian dollars)

The proceeds have been prorated to Common Shares and Warrants based on the relative fair value of each component, as follows: Common Shares - $23.5 million; Warrants - $5.2 million. The Black-Scholes option pricing model was used to determine the fair value of the Warrants using the following assumptions: expected dividend yield – nil; expected volatility –112%; risk free interest rate – 1.62%; and an expected life of eighteen months.

(b) Warrants

Common share purchase warrants transactions during the periods ended June 30, 2012 and December 31, 2011 are as follows:

	2012			2011		
	Number of Warrants	Weighted average exercise price	Fair Value	Number of Warrants	Weighted average exercise price	Fair Value
Outstanding – beginning of the year	6,190,152	$3.05	$5,546,292	5,323,163	$0.60	$1,388,815
Issued				5,637,300	3.10	5,250,038
Issued				552,852	2.55	643,150
Cost of issuance						(346,896)
Exercised				(5,323,163)	0.60	(1,388,815)
Outstanding – end of the period	6,190,152	$3.05	$5,546,292	6,190,152	$3.05	$5,546,292

9. SHARE-BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN

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

A summary of the status of the options outstanding as at June 30, 2012 and as at December 31, 2011 and changes during the periods ended on those dates is presented below:

(Presented in Canadian dollars)

	June 30, 2012		December 31,2011	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding – beginning of the year	9,489,350	$ 1.00	6,739,000	$ 0.45
Granted	2,800,000	0.45	1,485,000	1.93
Granted	465,408	0.37	2,085,000	1.95
Granted	1,279,592	0.42	250,000	1.00
Granted	400,000	0.33		
Cancelled	(430,000)	1.58	(50,000)	0.70
Cancelled	(815,000)	1.95	(150,000)	1.58
Cancelled	(50,000)	0.40	(45,000)	1.95
Cancelled	-	-	(30,000)	2.48
Exercised	-	-	(109,500)	0.39
Exercised	-	-	(685,150)	0.40
Outstanding – end of the period	13,139,350	$ 0.70	9,489,350	$ 1.00

1,733,733 of the 13,139,350 options outstanding have been issued outside of the Company's Plan.

As at June 30, 2012, the Company had stock options issued to directors, officers, employees and consultants of the Company outstanding as follows:

Date of grant	Number of options	Exercisable	Exercise price	Expiry date
February 18, 2008	200,000	200,000	$0.57	February 18, 2013
June 11, 2009	490,000	490,000	$0.385	June 11, 2014
May 21, 2010	4,194,350	4,194,350	$0.40	May 21, 2015
October 26, 2010	960,000	960,000	$0.70	October 26, 2015
January 17, 2011	305,000	305,000	$1.58	January 17, 2016
February 7, 2011	70,000	70,000	$2.12	February 7, 2016
March 3, 2011	500,000	500,000	$2.48	March 3, 2016
May 25, 2011	1,225,000	1,225,000	$1.95	May 25, 2016
October 1, 2011	250,000	250,000	$1.00	October 1, 2016
January 31, 2012	2,800,000	700,000	$0.45	January 31, 2017
April 4, 2012	1,279,592	491,828	$0.415	April 4, 2017
April 25, 2012	465,408	30,672	$0.37	April 25, 2017
June 15, 2012	400,000	100,000	$0.33	June 15, 2017
	13,139,350	8,894,350		

A share-based payment cost of $398,828 for the options vested in the six months ended June 30, 2012 (2011 – $4,918,557) was recognized in the consolidated statements of loss and comprehensive loss for the six months ended June 30, 2012.

In January 2012, 2.8 million options were issued to the new CEO of the Company. These have a contractual life of 5 years and an exercise price of $0.45. They vest as follows: 700,000 vested on February 9, 2012, 700,000 on the earlier of 12 months from the date of grant or the date that the 5 day volume weighted average trading price ("VWAP") is at least $1.00, 700,000 on the earlier of 18 months from the date of grant or the date that the VWAP is at least $1.50 and 700,000 on the earlier of 24 months from the date of grant or the date that the VWAP is at least $2.00.

(Presented in Canadian dollars)

In April 2012, 1,279,592 options were issued to certain of the officers, employees and consultants of the Company. These have a contractual life of 5 years and an exercise price of $0.415. They vest as follows: 491,828 vested on April 4, 2012, 157,500 on the earlier of April 1, 2013 or the date that the VWAP is at least $1.00 and 146,973 on the earlier of October 1, 2013, or the date that the VWAP is at least $1.50. In addition, 250,000 options vest on the earlier of March 20, 2013 or the date that the VWAP is at least $1.00 and another 233,291 options vest on the earlier of September 20, 2013, or the date that the VWAP is at least $1.50.

Also in April 2012, 465,408 options were issued to certain of the officers, employees and consultants of the Company. These have a contractual life of 5 years and an exercise price of $0.37. They vest as follows: 30,672 vested on April 25, 2012, 10,527 will vest on the earlier of October 1, 2013 or the date that the VWAP is at least $1.50 and 157,500 on the earlier of April 1, 2014 or the date that the VWAP is at least $2.00. In addition, 16,709 options vest on the earlier of September 20, 2013 or the date that the VWAP is at least $1.50 and another 250,000 options vest on the earlier of March 20, 2014, or the date that the VWAP is at least $2.00.

In June 2012, 400,000 options were issued to the new CFO of the Company. These have a contractual life of 5 years and an exercise price of $0.33. They vest as follows: 100,000 vested on June 15, 2012, 100,000 on the earlier of 12 months from the date of grant or the date that the VWAP is at least $1.00, 100,000 on the earlier of 18 months from the date of grant or the date that the VWAP is at least $1.50 and 100,000 on the earlier of 24 months from the date of grant or the date that the VWAP is at least $2.00.

During 2011, the Company issued the following options to certain of its officers, directors, employees and consultants:

- February 2011 - 70,000 options with an exercise price of $2.12 which vested on the date of grant and have a life of 5 years.
- March 2011 - 530,000 options with an exercise price of $2.48 which vested on the date of grant and have a life of 5 years.
- May 2011- 2,085,000 options with an exercise price of $1.95 and a life of 5 years.
- October 2011 – 250,000 options with an exercise price of $1.00 and a life of 5 years. They vest in equal amounts after 6 and 12 months from the date of grant.

Other than as hereinafter provided, the May 2011 options vested immediately. 1,000,000 of the May 2011 options were to vest in equal amounts after 6 months, 12 months, 18 months and 24 months from the date of grant. In the first quarter of 2012, the options that were due to vest after 12 months, vested immediately and the options that were due to vest 18 and 24 months after the date of grant were cancelled. In addition, 150,000 of the May 2011 options were subject to vesting. 50,000 of these options vested immediately, 50,000 vested after 6 months, and 50,000 were to vest after 12 months. All 150,000 of these options were cancelled in January 2012.

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

(Presented in Canadian dollars)

10. LOSS PER SHARE

(a) Basic

Basic loss per share is calculated by dividing the net loss attributable to common shareholders by the weighted average number of common shares in issue during the period.

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Net loss attibutable to common shareholders	$ (2,717,326)	$ (5,917,928)	$ (4,255,588)	$ (9,076,908)
Weighted average number of common shares in issue	92,001,687	87,876,170	92,001,687	82,319,027
Basic loss per share	$ (0.03)	$ (0.07)	$ (0.05)	$ (0.11)

(b) Diluted

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

11. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, term deposits, accounts and other receivables, investments and accounts payable and accrued liabilities. The fair value of these financial instruments approximates carrying 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 the above financial assets and liabilities as follows:

Level 1	
Cash and cash equivalents	$17,917,128
Investments	$1,726,985
Level 2	
Rio Verde warrants (included in investments)	$72,875
Distribution of Rio Verde shares to option holders	$365,000

12. FINANCIAL RISK MANAGEMENT

(a) Credit risk management

Certain of the Company's financial assets are exposed to a degree of credit risk. The Company endeavors to mitigate credit risk by holding its cash and cash equivalents as cash deposits, short-term government treasury funds and money market funds 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, receivables and treasury bills.

(b) Liquidity risk

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

As of June 30, 2012, the Company had a cash balance of $17,917,128 (December 31, 2011 - $21,570,417) to settle current accounts payable and accrued liabilities of $899,625 (December 31, 2011 - $1,100,003).

(c) Market risk

Market risk is the risk that changes in market prices including foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments. The Company records its investments using the bid price at the end of the reporting period. Changes in the bid price will affect the fair value of these investments. A 5% change in the value of its investments, would have affected net loss of the Company for the six months ended June 30, 2012, by about $82,705.

(d) Foreign exchange risk

The Company is exposed to movements in the United States Dollar and the Brazilian Real as transfers are made to the Brazilian subsidiaries of the Company in United States Dollars and subsequently converted in Brazil to Brazilian Reals.

At June 30, 2012, the Company had net monetary assets and liabilities in foreign currencies, as follows (Canadian dollar equivalent):

United States dollars	$9,505,316
Brazilian Real	$132,227

If foreign exchange rates changed by 5%, there would be a change in the net loss of the Company for the six months ended June 30, 2012 of about $484,687.

The Company does not undertake currency hedging activities.

(e) Interest rate risk

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

13. CAPITAL RISK MANAGEMENT

Capital is comprised of equity which at June 30, 2012 was $55,958,210 (December 31, 2011 - $59,743,182).The Company manages its capital structure and makes adjustments to it, in order to have the funds available to support its exploration, development and operations activities.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its mineral properties and maximize shareholder returns. The Company satisfies its capital requirements through careful management of its cash resources and by utilizing bank indebtedness or equity issues, as necessary, based on the prevalent economic conditions of both the industry and the capital markets and the underlying risk characteristics of the related assets. As at June 30, 2012, the Company had no bank debt.

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the six months ended June 30, 2012. The Company is not subject to externally imposed capital requirements.

14. RELATED PARTY TRANSACTIONS

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 less direct services to Talon. On June 1, 2012, the Tau Agreement was terminated by the parties. For the three months ended June 30, 2012, fees paid to Tau for these services were $50,000 (2011 - $175,500). In addition, an amount of $57,651 (2011 - $90,361) was charged to the Company by Tau during this period, in respect of additional services rendered outside of the Tau Agreement. This included a recovery at cost of accounting and investor relations services, as well as the cost of certain other Tau employees who were engaged full-time on Talon business. For the six months ended June 30, 2012, fees paid to Tau for these services were $225,500 (2011 - $274,500). In addition, an amount of $195,304 (2011 - $138,915) was charged to the Company by Tau for this period in respect of additional services rendered outside of the Tau Agreement.

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 an additional one year term and will continue to do so until it is terminated in accordance with its terms. Under the Brazil Agreement, Talon agreed to pay a monthly service fee of $33,000. Effective May 1, 2012, the parties agreed to lower the monthly service fee to $23,000. For the three months ended June 30, 2012 fees paid amounted to $89,000 (2011 - $197,873). For the six months ended June 30, 2012 fees paid amounted to $188,000 (2011 - $239,338).

Consulting fees paid to officers of the Company (Luis Azevedo and Stuart Comline) for the three months ended June 30, 2012 were $82,500 (2011 - $98,613). Consulting fees paid to officers of the Company for the six months ended June 30, 2012 were $165,000 (2011 - $157,535).

Accounts payable at June 30, 2012 include $30,900 payable to an officer of the Company (Luis Azevedo) for consulting fees (2011 - $15,000).

The remuneration of directors and officers of the Company for the three and six months ended June 30, 2012 and 2011 were as follows:

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Aggregate compensation	$ 638,859	$ 454,997	$ 1,264,184	$ 1,171,869
Share based compensation - included in Aggregate compensation	$ 331,015	$ 167,534	$ 586,898	$ 815,334

Certain officers of the Company were awarded the following share options during the six months ended June 30, 2012:

Date of grant	Number of options	Exercise price	Expiry
January 31, 2012	2,800,000	$0.45	January 31, 2017
April 4, 2012	975,277	$0.42	April 4, 2017
April 25, 2012	354,723	$0.37	April 25, 2017
June 15, 2012	400,000	$0.33	June 15, 2017

15. GEOGRAPHIC INFORMATION

Interest income is earned in Canadian dollars. Almost all of the Company's equipment (excluding the assets of Tlou Energy which is not discussed here, as it is equity accounted for), is in Brazil and all of the mineral properties are located in Brazil.