



## **Talon Metals Corp.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended December 31, 2008

Dated: March 31, 2009

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*This Management's Discussion and Analysis ("MD&A") of the consolidated financial position for the twelve months ended December 31, 2008, should be read in conjunction with the consolidated financial statements and notes of Talon Metals Corp. ("Talon" or the "Company") for the twelve months ended December 31, 2008. All financial information reported herein for the year ended December 31, 2008 has been audited.*

Unless otherwise indicated all funds in this document are in Canadian dollars. This MD&A is dated March 31, 2009.

## **1. 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, without limitation, information regarding mineral resources, metallurgical results, the Company's exploration results with respect to the São Jorge, and other gold projects, as well as the progress on the due diligence review and the loans to Saber Energy Corp. ("**Saber**")) constitute forward-looking information. Forward-looking information reflects the current expectations or beliefs of the Company based on information currently available to the Company. 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, the preliminary nature of metallurgical results, changes in gold prices, changes in equity markets, the possibility that future exploration results will not be consistent with the Company's expectations, political developments in Brazil, changes to regulations affecting the Company's activities, delays in obtaining or failures to obtain required regulatory approvals, uncertainties relating to the availability and costs of financing needed in the future, the uncertainties involved in interpreting drilling results and other geological data, other risks involved in the gold exploration and development industry, the failure to complete the proposed merger with Saber, and Saber failing to repay the interim loans from Talon. For further factors and assumptions that underlie the forward-looking information included in this MD&A relating to the loans to, and the proposed merger with, Saber, please refer to the section entitled "Forward-Looking Statements" in the news release of the Company dated March 24, 2009 (available on SEDAR at [www.sedar.com](http://www.sedar.com)). 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 gold will be produced. Such estimates are expressions of judgment based on knowledge, mining experience,

analysis of drilling results 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. Mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no certainty that mineral resources can be upgraded to mineral reserves through continued exploration.

## 2. Overview

*Additional information relating to the Company, including the Company's Annual Information Form ("AIF") for the financial year ended December 31, 2008, is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

Talon is focused on the acquisition, exploration and development of high-quality resource opportunities. Management remains guardedly optimistic that, despite the changed circumstances of recent months, the long term fundamentals of the resource industry are attractive. The Company has acquired a balanced portfolio of exploration properties ranging from advanced to grassroots stages of development.

The principal asset, the São Jorge Gold Project ("**São Jorge**") in Pará State, Brazil, is an advanced-staged gold exploration project and Phase I and Phase II diamond drilling and work programs were completed in respect of São Jorge in 2005 and 2006, respectively. The results of the Phase I drilling were utilized in an independent National Instrument 43-101 ("**NI 43-101**") mineral resource estimate undertaken by SRK Consulting (Canada) Inc. ("**SRK**") in the latter part of 2006. Subsequent to that resource estimate, further drilling results were received and exploration undertaken. As a result of this and the significant increase in the price of gold, Talon commissioned Coffey Mining ("**Coffey**"), an independent consulting firm, to undertake an updated NI 43-101 mineral resource estimate for the Wilton Zone at São Jorge. This was completed and the results announced by news release on September 4, 2008. Coffey reported a 79% increase in the indicated category of the mineral resource estimate for the Wilton Zone at São Jorge of 343,000 troy ounces of gold. Furthermore, an additional 458,000 troy ounces of gold was reported in the inferred resource category.

Talon is defining a revised strategy to continue with the exploration at the São Jorge Gold Project.

At the Água Branca Gold Project, surface exploration was undertaken in 2007 to identify and define the targets in preparation for a preliminary drilling program, which commenced in the fourth quarter of 2007 and was completed in April 2008. After a review of the exploration results was completed in the fourth quarter of 2008, Talon decided to identify a partner in order to continue the development of this project.

Management continually reviews the Company's asset base and any potential new acquisitions to ensure optimum use of shareholders' funds. Talon's strategy of establishing a portfolio of projects at different stages of development is aimed at providing benefit from both near-term exploration success and any future rise in

resource prices. The Company is currently reviewing Talon's property portfolio in Brazil and projects that do not meet Talon's objectives will be considered for farm out to third parties. In addition, the Company has commenced an active program to identify, evaluate and acquire interests in other prospective opportunities globally. This program involves ongoing due diligence reviews on a number of projects in various commodities, both in Brazil and elsewhere.

In pursuit of this objective, Talon announced a Heads of Agreement ("**HOA**") with Saber Energy Corp. ("**Saber**"), regarding a potential merger of the two companies in a news release of September 25, 2008. Talon is currently undertaking a due diligence review of Saber.

Saber is a private coal bed methane ("**CBM**") exploration company focused on developing a CBM and shale gas field in the Karoo Basin in Botswana, Africa. Saber has over 90 drill holes with wells that have been drilled into the coal seams which host the CBM. Preliminary stage dewatering and pumping of gas is in progress and testwork on gas flows and other characteristics of the coal and gas are underway. This proposed transaction with Saber was entered in to in order to realize Talon's goal to participate in a large project of merit, a strategic undertaking that has been underway since mid-2007.

Also on September 25, 2008, Talon announced it had agreed to loan up to \$6 million to Saber, in advance of the signing of a pre-merger agreement and that an initial \$3 million had been advanced. Both the HOA and the loan agreement have been filed on SEDAR and may be accessed on Talon's Sedar profile at [www.sedar.com](http://www.sedar.com).

In the fourth quarter of 2008 Talon increased the loan to Saber to \$6 million and on March 24, 2009 Talon announced it had agreed to extend the maturity date of this loan to April 24, 2009.

As at the date of this MD&A, Talon's due diligence review of Saber and its CBM operations is continuing.

### **3. Exploration Projects**

#### **São Jorge Gold Project**

São Jorge covers 57,420 hectares in the eastern part of the Tapajós Gold District in Pará State, Brazil.

In 2005, the Company completed a Phase I diamond drilling program on the São Jorge Project. A total of 10,104 metres was drilled in 48 holes. The main target, the Wilton Zone, had 42 drill holes totalling 9,228 metres completed, covering the 650 metre by 100 metre zone on sections of approximately 40 metre spacing and at 40 metre intervals down dip to approximately 150 metres below surface. Assay results for all the holes were received and published in Talon news releases. Referee samples amounting to approximately 8% of the total number were submitted to a separate laboratory, independent of Talon, for check analyses. The results indicate acceptable levels of correlation.

Once the Company completed a geological interpretation of the Wilton Zone at São Jorge on the basis of the Phase I drilling results and field programs, the entire data set was provided to SRK, an independent engineering firm, contracted to perform a NI 43-101 mineral resource estimate of the Wilton Zone. This work was based on diamond drilling information from both Talon's Phase I Program, as well as data from the previous drilling performed by a subsidiary of Rio Tinto PLC.

On October 13, 2006, the Company filed a NI 43-101 technical report entitled "BrazMin Corp.: Resource Estimate and Technical Report for the São Jorge Project, Brazil", dated October 12, 2006. A copy of this report is available on the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com).

A Phase II Exploration Program was conducted from May to September 2006. The drilling portion of this program comprised 7,952 metres in 34 holes. Of this drilling, 2,302 metres in eight holes consisted of in-fill diamond drilling on the Wilton Zone. The balance of the drilling was directed towards the testing of new target areas and step-out drilling from the Wilton Zone to identify additional mineralization. Two new gold-mineralized zones, the "Kite Zone" and "Wilton East Zone", were discovered some 350 metres northwest and 430 metres southeast, respectively, of the Wilton Zone, as reported in news releases of July 24, 2006 and November 3, 2006.

Results for all 34 holes in the Phase II Program are contained in news releases dated July 24, 2006, August 17, 2006, October 6, 2006 and November 3, 2006.

The Phase II program also included 33.26 line-kilometres of ground geophysics consisting of Induced Polarization and magnetometer surveys covering an area some two kilometres in radius surrounding the Wilton Zone. A regional airborne geophysical program consisting of 2,636.34 line-kilometres of magnetometer and radiometric surveys has been completed. Based on the interpretation of structural and airborne geophysical data, several regional targets were defined at São Jorge.

In 2007, surface exploration included the soil sampling of two extension lines within the regional soil sampling survey and the sampling of an additional parallel line. The program comprised 181 soil samples and focused on several west-northwest trending structural corridors sub-parallel to the Wilton Zone. Anomalous gold values were received over a 600 metre length on one line.

In 2008, based on Phase II drill results, and in light of the significant increase in the price of gold since 2006, Talon commissioned Coffey, an independent consulting firm, to undertake an updated NI 43-101 mineral resource estimate for the Wilton Zone at São Jorge.

In a news release dated September 4, 2008, the Company announced the results of Coffey's mineral resource estimate for the Wilton Zone. Using a 0.5 grams per tonne ("g/t") gold cut-off, Coffey classified only that material in the Wilton Zone occurring within 260 metres of surface as a mineral resource. Coffey's mineral resource estimates are presented in Table 1. This mineral resource estimate was prepared by Mr. Bernardo Viana (Member: AIG), an employee of Coffey and a "Qualified Person" within the meaning of NI 43-101.

**Table 1 : Global Mineral Resource Estimate for the Wilton Zone at São Jorge using a 0.5 g/t Au cut-off grade (effective date: September 4, 2008).<sup>1</sup>**

| <b>São Jorge Project – Wilton Zone<br/>Grade Tonnage Report</b>                               |                                   |                               |  |
|---|-----------------------------------|-------------------------------|--|
| Multiple Indicator Kriging Estimate<br>10E x 10mN x 2.5mRL Selective Mining Unit <sup>2</sup> |                                   |                               |  |
| <b>Indicated Mineral Resource</b>   |                                   |                               |  |
| <b>Cut-off Grade (g/t Au)</b>   | <b>Million Tonnes<sup>3</sup></b> | <b>Average Grade (g/t Au)</b> | <b>Contained Gold (Kozs)<sup>3</sup></b> |
| 0.5   | 8.334                             | 1.3                           | 343                                      |
| <b>Inferred Mineral Resource</b>  |                                   |                               |  |
| <b>Cut-off Grade (g/t Au)</b>   | <b>Million Tonnes<sup>3</sup></b> | <b>Average Grade (g/t Au)</b> | <b>Contained Gold (Kozs)<sup>3</sup></b> |
| 0.5   | 12.576                            | 1.1                           | 458                                      |

<sup>1</sup> For additional information on São Jorge and these mineral resource estimates see the independent technical report entitled “Talon Metals Corp.: Sao Jorge Gold Project, Para State, Brazil, National Instrument 43-101 Second Technical Report” and dated September 4, 2008, which has been filed on SEDAR and may be accessed on the Company’s profile at [www.sedar.com](http://www.sedar.com).

<sup>2</sup> Specification on the size of the blocks used in the block modeling.

<sup>3</sup> Appropriate rounding has been applied. “Kozs” indicates thousand troy ounces.

Talon is defining a revised strategy<sup>3</sup> to continue the exploration operation at São Jorge.

A total of \$492,383 has been expended on São Jorge during the twelve month period under review.

### **Água Branca Gold Project**

In 2004, Talon acquired a 100% interest in the underlying mineral rights to a 9,356 hectare area named the Água Branca Gold Project (“**Água Branca**”), located in the Tapajós Gold District within the Pará State, Brazil. Nine payments totalling approximately US\$150,000 have been made to the vendors. A further option payment is due in March 2009 of approximately US\$150,000, which has not yet been

paid. The property area is subject to a 2% net smelter return (“**NSR**”) royalty, with a buyout of US\$2 million.

In September 2006, a Talon subsidiary signed option agreements to acquire a 100% interest in an additional 7,725 hectares, however in 2008 Talon dropped the option on this acreage.

The Company applied for the rights to an additional area of 33,259 hectares to cover available land adjacent to the current land holdings.

Água Branca is situated approximately 70 kilometres west-northwest of São Jorge and 30 kilometres northwest of the Transgarimperia Highway. An existing road from the highway to the community of Água Branca provides access for personnel and equipment.

A Phase I Drill Program was conducted on the Camarão Hill target from October to December 2006. A total of 2,416 metres were drilled in 13 holes, covering an approximately 550 metre strike extent of the 750 by 300 metre Camarão Hill target area. Results from this program were announced by the Company in news releases dated January 9, 2007 and February 13, 2007. All holes drilled in this program intersected gold mineralization.

In October 2007, Talon initiated a 2,000-metre Phase II Drill Program to test the Serra da Abelha, Jerimun, Heaven West and Sierra Delta targets at Água Branca. The drilling program was concluded in April 2008 and comprised of 21 drill holes and a total of 2,316.80 metres. Drilling was performed by Boart Longyear-Geoserv, which is ISO 14001 accredited.

The updated exploration results from the Phase II Drill Program are contained in the Company's news release of July 7, 2008.

Following a review of the exploration results in the fourth quarter of 2008, Talon decided to identify a partner in order to continue the development of Água Branca.

During the twelve months ending December 31, 2008, a total of \$571,998 was spent at Água Branca. In the fourth quarter of 2008 an amount of \$1,249,833 was written down to reduce the value of this project to \$1,222,798 at December 31, 2008, representing management's estimate of the expected market value of this project.

### **Campo Grande Gold Project**

Talon's Campo Grande Gold Project (“**Campo Grande**”) is located in Minas Gerias State, approximately 110 kilometres west of the state capital of Belo Horizonte and 15 kilometres north of the Town of Pitangui. A major road transects the Campo Grande property and facilitates access to the project area. Campo Grande is located in a region known as the “Iron Quadrangle”, a major Brazilian gold mining camp with continuous production since the 17<sup>th</sup> century.



Campo Grande consists of three exploration licences totalling 2,611 hectares. All three licences are owned 100% by Talon subsidiaries; a NSR of 1.5% is held by a third party on one of the three licences.

Work by previous operators at Campo Grande outlined a 1.8 kilometre by- 250 metre semi-coincident gold, arsenic and antimony soil anomaly. Between January and April 2007, Talon conducted a nine-hole (1,456 metre) drill program with the objective of providing an initial drill test of the soil anomaly. All significant assays from this program are included in the Company's news release of May 14, 2007.

In the third quarter of 2007, further check drill core samples were submitted for analysis. Gold assays indicated a good correlation with the original drill results.

Talon did not conduct any exploration activities on Campo Grande during 2008.

During the twelve months ending December 31, 2008, a total of \$7,519 was spent at Campo Grande. In the third quarter of 2008 an amount of \$246,504 was written down to reduce this project to a value of \$501,500 at September 30, 2008, representing management's estimate of the expected market value of this project.

### **Other Properties**

The Company owns or has interests in several Other Properties in Brazil.

In October 2007, as part of a due diligence review Talon conducted a preliminary exploration program of the Barra do Frana Gold Project ("**Barra do Frana**"), a 8,757-hectare property which is located in Piau State in the northeastern region of Brazil. In a news release dated February 21, 2008, Talon announced the results of this exploration program and that it had signed a binding Letter of Interest ("LOI") with Sagitario Servios Minerais S/C Ltda ("**Sagitario**") to acquire a 100% interest in Barra do Frana. In 2008 an amount of \$165,633 was written down to reduce this project to a value of \$nil. Exploration work carried out in the first half of 2008 demonstrated that the gold mineralization appears to be discontinuous and is unlikely to represent a significant bulk mineable resource, but rather a series of limited and discrete mineralized zones. In January 2009, Talon decided not to proceed further with Barra do Frana and the agreement with Sagitaio was terminated and the rights to the properties were returned to Sagitario.

The Serrita and Serrita Norte Project are two adjoining parcels located in Pernambuco State, Brazil (together the "**Serrita Project**"). Talon currently owns a 65% interest in the Serrita Project. On February 8, 2006, the Company entered into an option agreement with Troy Resources NL ("**Troy**") of Australia. Pursuant to the agreement, Troy has the right to acquire up to a 75% interest in the Serrita Project by spending US\$700,000 over four years and making certain cash payments to the Company and its partners. Should Troy earn its 75% interest, the Company may retain a 16% interest or elect to convert to a NSR. In the third quarter of 2008 an amount of \$374,094 was written down to reduce this project to a value of \$nil.

In the fourth quarter of 2008, Troy decided to withdraw from the option agreement with Talon on the Serrita Project. Talon reviewed all the exploration data acquired by

Troy and decided to abandon the project.

The Rio Maria Project ("**Rio Maria**") consists of five exploration licence applications covering 43,379 hectares located in southeastern Pará State. Based on exploration by Talon and past operators, the Company determined that the Rio Maria did not meet Talon's current corporate objectives and a decision was made to farm the project out. As such, Rio Maria was written down by \$62,405 to reduce the value of this project to \$nil in 2007.

In the fourth quarter of 2007, Talon entered into an agreement with Reinarda Mineracao Ltda. ("**Reinarda**"), a Brazilian subsidiary of Troy, regarding Rio Maria. Under the terms of the agreement Reinarda earned a 51% interest in Rio Maria by paying Talon a total of US\$150,000 and committed to expenditure of US\$100,000 over twelve months ending December 31, 2008. Reinarda may increase their ownership of Rio Maria to 100%, with a 2% NSR royalty payable to Talon Ltda, and by making an additional US\$200,000 payment and further expenditures totalling US\$250,000 over the following 24 months. One half of the 2% NSR (i.e. 1%) can be purchased by Reinarda for a one time payment of US\$1,000,000.

The Batistão Gold Project ("**Batistão**") comprises a 20,000-hectares property, which is 100% owned by Talon. The project is located on the Peixoto de Azevedo Mineral Province on the northern portion of Mato Grosso State, Brazil.

Talon relocated all of the historical drill holes at Batistão and completed the compilation of existing geological, geochemical and geophysical data. Based on the interpretation of these data, the Company intends to conduct a future drill program to validate the best intercepts and test new geological/structural concepts.

Effective February 2007, Brazauro Resources Corporation ("**Brazauro**") acquired Talon's interests in the Tocantinzhinio Gold Project (the "**Toc Project**") in Brazil in exchange for 13,150,000 treasury shares of Brazauro (TSX-V:BZO). Subsequently, in September 2007, Talon sold about 62% of its share position in Brazauro (8,214,500 common shares) for approximately \$6.6 million. In March 2009, subsequent to the Company's year end, Talon sold a further 3,600,000 million shares for approximately \$1.7 million. Accordingly Talon's interest in the Toc Project comprises the remaining 1,335,500 million common shares of Brazauro it holds (approximately 1.6% of the outstanding shares of Brazauro as at March 31, 2009).

During the third quarter of 2007, Talon entered into an agreement to assign its option to acquire a 100% interest in the Tartarugalzinho Gold Project ("**Little Turtle**") to Beadell Resources Limited ("**Beadell**"). Under the terms of the agreement Talon received a total of US\$650,000 in cash and shares from Beadell (ASX:BDR). The share consideration amounted to 2.45 million common shares of Beadell which are currently designated as "held for trading" on the Company's Consolidated Balance Sheets.

During the twelve months ended December 31, 2008, an amount of \$390,683 was expended on Other Properties, primarily related to property maintenance costs and additions to projects. In the fourth quarter of 2008 an amount of \$129,892 was written down to reduce the value of Other Properties to \$506,157.

## **Qualified Person**

Talon's exploration programs are managed by Talon's VP Exploration, Mr. Paulo Ildio de Brito (Member: AusIMM), who is a "Qualified Person" within the meaning of NI 43-101. Mr. Ildio de Brito has reviewed and approved the technical information in this MD&A.

## **4. Critical Accounting Estimates and Changes in Accounting Policies**

### **Critical Accounting Estimates**

In preparing financial statements in accordance with Canadian Generally Accepted Accounting Principles, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities and expenses for the twelve month period ended December 31, 2008. Critical accounting estimates represent estimates that are uncertain and for which changes in those estimates could materially impact on the Company's financial statements. Management reviews its estimates and assumptions on an ongoing basis using the most current information available. The following accounting estimates are critical:

#### (a) Impairment of mineral properties and deferred expenditures

Mineral properties and deferred expenditures are the most significant assets of the Company and represent capitalized expenditures related to the exploration of these properties. The Company reviews and evaluates its mineral properties and deferred expenditures for impairment quarterly or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable.

#### (b) Income taxes

Income taxes are accounted for using the liability method under which future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment. In assessing future tax assets, the Company considers whether it is more likely than not that some portion or all of the future income tax assets will be realized and whether a valuation allowance is required.

#### (c) Stock based compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. This model requires the Company to make

reasonable assumptions in order to derive parameters such as the expected volatility of the Company's shares, and the expected life of the stock options and interest rates, all of which are based on historical information. Future behaviours of these parameters are beyond the Company's control, and thus, may be significantly different from the Company's estimates. Please refer to Section 8 of this MD&A for details on the parameters used in the option pricing model.

### **Changes in Accounting Policies or GAAP**

Effective January 1, 2008, Talon adopted the following new accounting standards of the Canadian Institute of Chartered Accountants ("**CICA**"):

- CICA Handbook Section 3862, "Financial Instruments – Disclosures" ;
- CICA Handbook Section 3863, "Financial Instruments Presentation";
- CICA Handbook Section 1535, "Capital Disclosures"; and
- CICA Handbook Section 1400, "General Standards of Financial Statement Presentation."

Please refer to Note 3, 10 and 11 of the December 31, 2008 consolidated financial statements for additional details.

Talon will be adopting International Financial Reporting Standards ("**IFRS**"), from January 1, 2011. The Company is currently developing an IFRS conversion implementation plan, which will include an assessment of the impact of the conversion on the consolidated financial statements. Once developed, the key elements of the IFRS conversion implementation plan will be disclosed in the MD&A. The date of transition will be January 1, 2010 and as a result the 2010 comparative information will be adjusted to conform with IFRS.

## **5. Financial Instruments**

|   | <b>December 31,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|---|------------------------------|------------------------------|
| Held for trading, measured at fair value:             |                              |                              |
| Cash and cash equivalents                             | \$4,202,562                  | \$14,599,696                 |
| Term deposit  | 1,393,784                    | -                            |
| Investments   | 1,415,663                    | 3,325,826                    |
| Loans and receivables, measured at<br>amortized cost: |                              |                              |
| Accounts receivable                                   | 82,907                       | 82,198                       |
| Loan receivable                                       | 5,000,000                    | -                            |
| Financial liabilities, measured at amortized<br>cost: |                              |                              |
| Accounts payable and accrued liabilities              | 328,053                      | 299,948                      |

The Company is exposed to various risks related to its financial assets and liabilities. These risk exposures are managed on an ongoing basis.

Beginning in the third quarter of 2008, Talon is exposed to a credit risk to the extent of its loan receivable related to Saber not be repaid, and the assets held as security for the loan cannot be sold.

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 sufficient cash in treasury to meet all expected obligations at March 31, 2009.

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 quarter end bid price. Changes in the bid price, will affect the fair value of these investments. The Company is minimally exposed to movements in the United States dollar and the Brazilian real as transfers are made to the Brazilian subsidiaries in United States dollars and then converted by them to Brazilian reals. In addition, the Company's investment in Beadell is denominated in Australian dollars. The Company is exposed to interest rate risk only to the extent of its interest income on Treasury bills. These are typically short-term investments with a term of less than ninety days.

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

## 6. Capital Expenditure on Exploration Projects

The properties on which the Company's subsidiaries carry out exploration and development activities are located in Brazil. The mineral properties and deferred expenditures are comprised as follows:

|                            | <b>December 31,<br/>2008</b> | <b>Additions<br/>(net)</b> | <b>December 31,<br/>2007</b> |
|----------------------------|------------------------------|----------------------------|------------------------------|
| <b>Brazilian Resources</b> |                              |                            |                              |
| <b>Mineração Ltda</b>      |                              |                            |                              |
| São Jorge Project          | \$5,938,470                  | \$492,383                  | \$5,446,087                  |
| <b>BRAZMIN LTDA</b>        |                              |                            |                              |
| Água Branca Project        | 1,222,798                    | (677,835)                  | 1,900,633                    |
| Campo Grande Project       | 501,500                      | (238,985)                  | 740,485                      |
| Other Projects             | 506,157                      | (204,033)                  | 710,190                      |
|                            | <u>\$8,168,925</u>           | <u>\$(628,470)</u>         | <u>\$8,797,395</u>           |

## 7. Disclosure of Outstanding Share Data

The following details the share capital structure as at March 31, 2009:

|                                      | <u>Expiry Date</u> | <u>Exercise Price</u> | <u>Total</u> |
|--------------------------------------|--------------------|-----------------------|--------------|
| Common Shares                        |                    |                       | 27,054,222   |
| Stock options                        | Apr 18, 2010       | \$1.25                | 1,495,000    |
| Stock options                        | May 31, 2011       | \$2.00                | 230,500      |
| Stock options                        | Dec 20, 2011       | \$1.00                | 200,000      |
| Stock options                        | Apr 18, 2012       | \$0.98                | 50,000       |
| Stock options                        | Aug 23, 2012       | \$1.00                | 365,000      |
| Stock options                        | Feb 18, 2013       | \$0.57                | 200,000      |
| Total fully diluted number of shares |                    |                       | 29,594,722   |

A summary of options outstanding as at December 31, 2008 is presented below:

|                                 | <u>Options</u>   | <u>Weighted Average Exercise Price</u> |
|---------------------------------|------------------|--|
| Outstanding – beginning of year | 2,340,500        | \$1.26                                 |
| Granted                         | 200,000          | 0.57                                   |
| <b>Total</b>                    | <b>2,540,500</b> | <b>\$1.20</b>                          |
| Exercisable – end of period     | 2,358,000        | \$1.22                                 |

## 8. Results of Operations

### Review of Operations

(thousands of C\$)

|   | <b>Three months ended Dec 31, 2008 (unaudited)</b> | <b>Three months ended Dec 31, 2007 (unaudited)</b> | <b>Year ended Dec 31, 2008</b> | <b>Year ended Dec 31, 2007</b> |
|---|--|--|--------------------------------|--------------------------------|
| Interest income                                       | \$12   | \$172  | \$270                          | \$415                          |
| Administration expense <sup>1</sup>                   | 3,161  | 534  | 5,098                          | 1,833                          |
| Foreign currency translation gain (loss) <sup>2</sup> | (2)  | 24   | 42                             | (120)                          |
| Stock based compensation expense                      | 21   | 407  | 262                            | 255                            |

<sup>1</sup> Administration is Total Expenses excluding stock based compensation expense.

<sup>2</sup> Foreign currency translation gain (loss) is due to the appreciation/depreciation of Brazilian real versus the US dollar.

Net loss for the twelve month period ended December 31, 2008 was \$6,833,161 or \$0.25 per share (basic and diluted) and was primarily due to operating expenses of \$5,360,328 (including write down of projects of \$2,091,053 and impairment of loan receivable of \$1,000,000), and unrealized losses on investments in Brazauro and Beadell shares of \$1,910,163.

This compares to net earnings of \$6,753,593 or \$0.25 per share (basic and diluted) for the year ended December 31, 2007 which were primarily due to gains on the sale of mineral properties and investments of \$9,553,975, partly offset by operating expenses of \$2,088,688 and foreign currency losses.

Net loss for the three month period ending December 31, 2008 was \$2,941,957 or \$0.11 per share (basic and diluted) mainly the result of operating expenses (including write down of projects and impairment of loan receivable). This compares to a net loss of \$1,722,479 or \$0.06 per share (basic and diluted) for the three month period ending December 31, 2007 which included an unrealized loss of \$773,445 on the change in market value of the Brazauro shares.

Stock based compensation expense is a function of stock options granted and vested during the reporting period.

#### **Capitalized exploration**

Capitalized exploration for the twelve month period ended December 31, 2008 and 2007, amounted to \$1,462,583 and \$2,091,976 respectively. This relates mainly to work done on Água Branca and São Jorge.

#### **Stock Options**

A summary of options outstanding as at December 31, 2008 is presented in Section 7 of this MD&A. For the twelve months ended December 31, 2008, an amount of \$261,929 was expensed for options vested and granted in 2008, compared to \$255,376 in the same period last year.

During the fourth quarter of 2008, the Company issued no stock options.

#### Estimated fair value of stock options

The Company determined the fair value of the 200,000 stock options issued during the first quarter of 2008, using the Black-Scholes option pricing model under the following assumptions:

|                         |         |
|-------------------------|---------|
| Expected life           | 5 years |
| Fair value (\$/option)  | \$0.47  |
| Risk-free interest rate | 3.80%   |
| Volatility              | 117%    |
| Dividends               | 0%      |

All of these stock options were outstanding as at December 31, 2008.

## 9. Summary of Quarterly Results

(All numbers are unaudited)

|   | <b>Three months<br/>ended<br/>Dec 31, 2008</b> | <b>Three months<br/>ended<br/>Sept 30, 2008</b> | <b>Three months<br/>ended<br/>Jun 30, 2008</b> | <b>Three months<br/>ended<br/>Mar 31, 2008</b> |
|---|--|---|--|--|
| Total Revenues  | \$136,268                                      | \$66,901  | \$75,140                                       | \$116,978                                      |
| Net Earnings / (Loss)                                   | (2,941,957)                                    | (4,185,194)                                     | 1,023,538                                      | (729,548)                                      |
| Net Earnings / (Loss)<br>basic and diluted per<br>share | (0.11)   | (0.16)  | 0.04   | (0.03)   |
|   | <b>Three months<br/>ended<br/>Dec 31, 2007</b> | <b>Three months<br/>ended<br/>Sept 30, 2007</b> | <b>Three months<br/>ended<br/>Jun 30, 2007</b> | <b>Three months<br/>ended<br/>Mar 31, 2007</b> |
| Total Revenues  | \$172,156                                      | \$79,374  | \$79,791                                       | \$83,989                                       |
| Net Earnings / (Loss)                                   | (1,722,479)                                    | 8,171   | (978,845)                                      | 9,446,746                                      |
| Net Earnings / (Loss)<br>basic per share                | (0.06)   | 0.00  | (0.04)   | 0.35   |
| Net Earnings / (Loss)<br>diluted per share              | (0.06)   | 0.00  | (0.04)   | 0.30   |

Quarterly trends in Total Revenues reflect interest received on cash balances, interest on loan and other income. Trends in quarterly expenses are driven primarily by office and general expenses followed by professional, consulting and/or management fees. The most variable component of Total Expenses generally was stock based compensation expense, which reflects the net of stock options granted and cancelled during each quarter.

Foreign currency translation gain or loss reflects changes in Canadian dollar / US dollar and US dollar / Brazilian real exchange rates on foreign currency balances.

Quarterly trends in Net Earnings (Loss) are also impacted by gains and losses on investments and mineral properties, both realized and unrealized. This factor was particularly significant in the quarter ended March 31, 2007 as net earnings included a realized gain on the sale of the Toc Project of \$9,301,551. It was also significant in the quarter ended September 30, 2008 due to unrealized losses on investments in Brazauro and Beadell shares.



## 10. Financial Condition, Cash Flow, Liquidity and Capital Resources

### Cash Flow Highlights (thousands of C\$)

|  | Three months ended Dec 31, 2008 (unaudited) | Three months to Dec 31, 2007 (unaudited) | Year ended Dec 31, 2008 | Year ended Dec 31, 2007 |
|--|---|--|-------------------------|-------------------------|
| Operating activities                             | \$(310)                                     | \$(121)                                  | \$(1,523)               | \$(1,439)               |
| Investing activities                             | (4,577)                                     | (620)                                    | (8,875)                 | 4,600                   |
| Beginning cash & cash equivalent balance         | 9,089                                       | 15,340                                   | 14,600                  | 11,439                  |
| Increase / (decrease) in cash & cash equivalents | (4,887)                                     | (741)                                    | (10,397)                | 3,160                   |
| Ending cash & cash equivalents balance           | \$4,202                                     | \$14,599                                 | \$4,202                 | \$14,599                |

### Operating Activities

Operating activities for the year ended December 31, 2008 consumed \$1,522,620 primarily due to net operating expenses. Operating activities for the twelve months ended December 31, 2007 consumed \$1,439,223, primarily due to net operating expenses.

In the fourth quarter of 2008 operating activities consumed approximately \$310,000 primarily due to operating expenses. In the fourth quarter of last year operating activities consumed approximately \$121,000 largely due to operating expenses.

### Financing Activities

There were no financing activities during 2008 or 2007.

### Investing Activities

Investing activities for the year ended December 31, 2008 consumed \$8,874,514 mainly from a loan to Saber of \$6,000,000. In the same period a year ago, investing activities generated \$4,599,762 due to proceeds on sale of investments.

Investing activities for the fourth quarter of 2008 consumed approximately \$4,577,000, primarily due to a loan receivable of \$3,000,000. In the same three

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month period last year, investing activities utilized \$0.62 million due to expenditure on mineral properties.

The Company estimates total 2009 expenditures to be approximately \$2 million, but this will be dependent on any new projects acquired and on the proposed exploration programs related to such projects. Cash and cash equivalents and term deposits were \$5.6 million as of December 31, 2008. All cash equivalents are held in government securities (e.g. T-bills). The Company therefore has sufficient liquidity to sustain operations through the medium-term.

**A summary of Contributed Surplus for the period ended December 31, 2008 is as follows:**

|          |                |             |
|----------|----------------|-------------|
| Balance  | Dec 31, 2005   | \$931,827   |
| Options  | Granted 2006   | 651,462     |
| Warrants | Expired 2006   | 1,109,363   |
| <hr/>    |                |             |
| Balance  | Dec 31, 2006   | 2,692,652   |
| Warrants | Expired 2007   | 171,910     |
| Options  | Granted 2007   | 290,826     |
| Options  | Forfeited 2007 | (35,450)    |
| <hr/>    |                |             |
| Balance  | Dec 31, 2007   | 3,119,938   |
| Options  | Granted 07/08  | 261,929     |
| Warrants | Expired 2008   | 1,612,190   |
| <hr/>    |                |             |
| Balance  | Dec 31, 2008   | \$4,994,057 |
| <hr/>    |                |             |

## 11. Summary of Selected Annual Results

(in thousands of \$)

|   | Year to<br>Dec 31, 2008 | Year to<br>Dec 31, 2007 | Year to<br>Dec 31, 2006 |
|---|-------------------------|-------------------------|-------------------------|
| Total Revenue                                     | \$395                   | \$415                   | \$428                   |
| Net gain (loss)                                   | (6,833)                 | 6,754                   | (1,976)                 |
| Basic and diluted<br>earnings (loss) per<br>share | (0.25)                  | 0.25                    | (0.08)                  |
| Total Assets                                      | 20,350                  | 26,893                  | 19,864                  |
| Total Liabilities                                 | 328                     | 300                     | 280                     |
| Foreign exchange gain<br>(loss)                   | 42                      | (120)                   | (137)                   |
| Dividends   | 0                       | 0                       | 0                       |

Total revenue in 2008 includes \$124,650 received from Troy in respect of an option payment. This relates to a project previously discontinued and written down.

## 12. Related Party Transactions

On August 1, 2004, the Company entered into an administrative service agreement (the "**Tau Agreement**") with Tau Capital Corp. ("**Tau**"). The controlling shareholder of Tau is a 5% shareholder of the Company. The Tau Agreement was to terminate on July 31, 2007 and 2008, but automatically renewed on the same terms and conditions for a further one year period. The terms of the Tau Agreement require the Company to pay Tau a monthly service fee of \$22,500. For the twelve months ended December 31, 2008 and 2007, fees paid to Tau for these services were \$270,000 in both years.

Consulting fees paid to officers of the Company for the twelve months ended December 31, 2008 were \$261,001 (2007:\$295,955). In addition, an amount of \$154,729 (2007:\$66,047) was charged to the Company by Tau in respect of services rendered outside of the Tau Agreement during this period. Consulting fees paid to a Company owned by an officer of the Company for the year ended December 31, 2008 were \$55,719 (2007:\$39,417)

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Accounts receivable and other assets, at December 31, 2008, include \$22,500 paid to Tau for management fees for January 2009.

Accounts payable at December 31, 2008 include \$26,459 payable to an officer of the Company for consulting fees for November and December 2008. (December 31, 2007: \$21,254).

### 13. Risks

The Company 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 following factors should be considered, among others:

The exploration for 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. It is impossible to ensure that the exploration or development programs planned by Talon or any of its joint venture partners will result in a profitable commercial mining operation.

Talon's operations are subject to all the hazards and risks normally encountered in the exploration, development and production of gold including unusual and unexpected geologic formations, seismic activity, rock bursts, 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, milling 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 consequent liability.

Although Talon maintains insurance to protect against certain risks in such amounts as it considers reasonable, its insurance will not cover all the potential risks associated with the Company's operations.

All phases of the Company's operations are subject to environmental regulation which 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.

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

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.

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 valid title to its material properties, there is no guarantee that title to any of its material 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.

The construction of mining facilities and the commencement of mining operations, will require substantial additional financing. Failure to obtain sufficient financing will result in a delay or indefinite postponement of exploration, development or production on any or all of the Company's properties or even a loss of a property interest. Additional financing may not be available when needed or if available, the terms of such financing might not be favourable to the Company.

Gold prices fluctuate and are affected by numerous factors beyond the control of the Company. The price of gold has fluctuated widely in recent years, and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on the Company's business.

The Company's operations are currently conducted in Brazil and, as such, the Company's operations are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties vary from country to country and include, but are not limited to, terrorism; hostage taking; military repression; extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of war or civil unrest; expropriation and nationalization; renegotiation or nullification of existing concessions, licences, permits and contracts; illegal mining; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. Gold or other minerals are generally sold in US dollars and the Company's costs are incurred principally in Canadian dollars and Brazilian reals. The appreciation of non-US dollar currencies against the US dollar can increase the cost of gold and other mineral exploration and production in US dollar terms.

Talon is exposed to a credit risk to the extent of its loan receivable related to Saber not be repaid, and the assets held as security for the loan cannot be sold. The ability of Saber to repay the loan amount is subject to various factors beyond the control of the Company, including, variations in Saber's results of operations, conditions in the industry and general market or economic conditions. If such factors result in Saber being unable to generate sufficient cash flow to meet principal and interest payments on its indebtedness, Saber may fail, or be unable, to repay the loans from Talon and the value of the Company's loans to Saber could be significantly reduced or, to the extent that the assets held as security for the loans cannot be sold, even eliminated.

There can be no assurances that Talon will enter into the proposed pre-merger agreement and merge with Saber.

#### **14. Internal Control Over Financial Reporting**

The Company's management, including the Chief Executive Officer and Chief Financial Officer, have assessed and evaluated the design and effectiveness of the Company's internal control over financial reporting as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") as of December 31, 2008. In making this assessment, the Company used the criteria established by the Committee of Sponsoring Organizations ("COSO") in the "Internal Control-Integrated Framework." Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's internal control over financial reporting was, in all material effects, appropriately designed and operating effectively.

Internal control over financial reporting, no matter how well designed has inherent limitations. Therefore, internal control over financial reporting determined to be effective can only provide reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

No changes were made to the Company's internal control over financial reporting during the three months ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **15. Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this MD&A, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under NI 52-109) and other reports filed or submitted under Canadian securities laws is recorded, processed, analyzed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

## **16. Subsequent Events**

On March 24, 2009 Talon announced it had extended the maturity date of the \$6 million loan to Saber. The original maturity date of the loan was March 24, 2009 and the loan was not repaid on this date. The revised maturity date for the loan is April 24, 2009. In the event that the discussions do not result in a further extension to the loan, and the interest earned being agreed upon, the loan would become immediately due. Talon's due diligence review of Saber remains ongoing.

## **17. Outlook**

Talon has taken the view that it would be prudent to conserve cash reserves at this time in the light of the current uncertainties in financial markets. Accordingly, further exploration on the Company's current gold projects in Brazil will be kept to a minimum, and ensuring that further expenditure is directed towards those projects with the highest potential and where the corporate objectives, in terms of return on investment, can best be realized. In addition, expenditure will be incurred to service the licence terms of the land holdings.

Talon is continuing with its due diligence review of Saber's CBM operations and will review those results, and the original proposal to merge the two companies, in the light of the deterioration of market conditions that has occurred since entering in to the Heads of Agreement with Saber on September 25, 2008.

In addition the Company will continue to undertake due diligence reviews on a number of opportunities that have been identified in the Company's search for new projects.