Talon Metals Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2012

Dated: May 15, 2012

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

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

FORWARD-LOOKING INFORMATION

This MD&A contains certain "forward-looking information". All information, other than information pertaining to historical fact, which addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future, including, among other things, information relating to the plans and objectives of Tlou Energy (defined below), including the potential share by Talon of Tlou Energy shares, including Tlou Energy's intention to pursue a listing on a stock exchange and the timing thereof, estimates in respect of mineral resource quantities, mineral resource qualities, the preparation of mineral resource estimates and the timing thereof, the Company's targets, goals, objectives and plans (including the Company's plans regarding mineralogical and metallurgical test work, infrastructure trade off studies, and the respective timing thereof), the potential for further metallurgical and mineralogical results on the basis of further testing, the Company's business plans and priorities and the budget, including those associated with the Trairão Project (defined below), the Company's plans to investigate new projects, projections in respect of capital expenditures, plans and expectations concerning the period following implementation of IFRS (defined below), the Company's expectations regarding funds to be held in Brazil and the Company's liquidity and capital resources.

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

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

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

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

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

Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2011, is available on SEDAR at www.sedar.com.

SUMMARY OF QUARTERLY RESULTS

The following table provides selected quarterly consolidated financial information that is derived from the unaudited interim consolidated financial statements and the audited annual consolidated financial statements of the Company. All numbers below are unaudited.

	2012	2011				2010		
	March 31	Dec 31	Sept 30	June 30(1)	March 31(1)	Dec 31	Sept 30	June 30
Total revenues	371,695	591,420	992,615	25,175	8,541	3,398,102	907,799	2,004
Net gain/(loss) from continuing operations	(1,538,262)	(1,971,839)	(2,903,468)	(5,917,928)	(3,158,972)	1,433,780	(435,044)	(5,079,819)
Net gain/(loss) from continuing operations per share – basic and diluted	(0.02)	(0.02)	(0.03)	(0.07)	(0.04)	0.02	(0.01)	(0.08)
Net gain/(loss) and comprehensive gain/(loss)	(1,527,970)	(2,353,665)	(2,770,687)	(5,917,928)	(3,158,972)	1,433,780	(435,044)	(5,079,819)
Net gain/(loss) and comprehensive gain/(loss) per share – basic and diluted	(0.02)	(0.03)	(0.03)	(0.07)	(0.04)	0.02	(0.01)	(0.08)

Notes:
(1) These numbers include the accounts of Rio Verde which were deconsolidated from Talon's accounts in July 2011.
* The amounts above were prepared in accordance with IFRS for periods beginning after January 1, 2011 and prior to that were prepared in accordance with Canadian GAAP. The amounts above are unchanged from those previously reported under Canadian GAAP as no changes resulted from the Company's conversion to IFRS.

Quarterly trends in total revenues reflect interest received on cash balances, gain on sale of projects, interest on loans and other income. Trends in quarterly expenses are driven primarily by office and general expenses and salaries, benefits, consulting and management fees. The most variable component of total expenses generally over the past eight quarters was share-based payment expense.

Revenues in the first quarter of 2012 increased compared to the same quarter last year, due to a larger cash and cash equivalents balance following on from the Company's prospectus offering in April 2011, resulting in more interest income being received on such balances. In addition, due to certain regulatory requirements, the Company held a large amount of funds in Brazil in the first quarter of 2012 where interest rates are significantly higher than those where the Company historically keeps its excess cash and cash equivalents. The Company does not expect to hold large amounts of funds in Brazil in the future.

The main comparable expenses driving the lower net loss in the first quarter of this year compared to the first quarter of last year are share-based payments (Q1 2012: recovery of $33,617, Q1 2011: cost of $2,817,051) and professional expenses (Q1 2012: $50,220, Q1: 2011 $495,764).

Share based payments are largely dependent on the number of options granted and vested in a particular period, as well as the number of unvested options that are cancelled in that period. The recovery in Q1 2012 is on account of the large number of unvested options that were cancelled compared to the number of options granted and vested in the same period. The large cost amount in Q1 2011 was directly related to an increase in the number of people employed with or consulting for the Company who were issued stock options as part of their compensation arrangements.

Professional fees decreased considerably in Q1 2012. This is due to a concerted effort by the Company to preserve cash and reduce expenses wherever possible. Legal fees, which form part of professional fees, were $59,895 in Q1 2012 compared to $195,320 in Q1 2011. To reduce costs, the Company has performed more legal work in-house in Q1 2012 and, when possible, expects to continue to do so during the remainder of 2012. Another factor driving the lower amount of legal fees in Q1 2012 is the amount of corporate activity requiring outside legal counsel and advisors as compared to Q1 2011.

There was a large increase in salaries, benefits, consulting and management fees in Q1 2012 as compared to Q1 2011. Forming part of this increase was salaries and benefits which increased to $286,942 in Q1 2012 from $69,760 in Q1 2011. This was on account of the President and CEO of the Company becoming salaried employees of the Company, whereas in the past the President and CEO of the Company provided his services via a consulting relationship. In addition, consulting fees increased from $107,356 in Q1 2011 to $283,153 in Q1 2012. This was due to additional consultants being used as a result of the increased level of activity in the Company. The last portion contributing to the increase was management fees which increased from $99,000 in Q1 2011 to $175,500 in Q1 2012. This was due to the increased monthly fee paid to Tau Capital Corp. ("**Tau**") effective April 1, 2011 on account of the increased level of activity within the Company following on from the acquisition of the Trairão Project (defined below) requiring additional services to be performed at additional cost to the Company. This fee will decrease significantly in the next quarter due to the renegotiated Tau Agreement (defined below) providing for a lower monthly fee. See "*Related Party Transactions*" for more information.

In Q1 2012, the Company included a provision of $550,000 in its financial statements relating to the distribution of Rio Verde shares to optionholders of the Company. When the Company distributed most of its Rio Verde shares to its shareholders on July 28, 2011, the Company retained certain of these shares with the intention to distribute them to its optionholders as at that date, upon the future exercise of their options on the basis of one Rio Verde share for every four Talon options exercised. This provision has been valued based on the closing share price of Rio Verde as at March 31, 2012.

There were large increases in the share prices of Brazilian Gold Corporation ("**Brazilian Gold**") and Lago Dourado Minerals Ltd. ("**Lago Dourado**") shares held by the Company during Q1 2011 as well as to the price associated with the warrants of Lago Dourado held by the Company. As such, the Company recognized unrealized gains of $483,057 and $224,647, respectively, in Q1 2011. Due to lower share prices in Q1 2012, the Company recognized an unrealized loss of $95,745 on its Brazilian Gold shares while there was no material change in the value of the Lago Dourado securities held by the Company in Q1 2012. Increases in the share price and the price of warrants based on the Black-Scholes model in Q1 2012 resulted in an unrealized gain of $284,335 on the Company's Rio Verde shares and warrants.

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

OVERVIEW

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

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

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

The initial RC and diamond drilling programs have been completed at the Trairão Project. Pursuant to this initial drilling campaign, a total of 444 RC drill holes comprising 24,215 metres were drilled (346 of the RC drill holes were on Target Areas comprising the updated mineral resource estimate reported below) and a total of 92 diamond drill holes comprising 13,336 metres were drilled.

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

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

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

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

In addition, the Company has previously disclosed preliminary metallurgical results in respect of the Trairão Project. Please also refer to the March 2, 2012 press release and the Trairão Technical Report for further information on these preliminary metallurgical results.

Talon continues to be focused on the identification of distinct geological units throughout its deposit, through geochemical logging and re-logging of diamond drill core assays. The Company is also conducting further mineralogical and metallurgical test work, as well as progressing its infrastructure trade off studies, which will ultimately form the basis for potentially commissioning a preliminary economic assessment. The Company has budgeted approximately $1.8 million to complete the work and it is expected to be completed before the end of the year.

Talon holds equity investments in a number of other public and private companies, including approximately 3.2 million common shares in Brazilian Gold and 500,000 common shares in Lago Dourado, both of which are listed on the TSX Venture Exchange and approximately 3.5 million shares in Rio Verde Minerals Development Corp. ("**Rio Verde**"), which is listed on the Toronto Stock Exchange. Certain of these Rio Verde shares may be distributed to certain Talon optionholders (see *"Summary of Quarterly Results"*). Talon also holds approximately 21.9 million shares in Tlou Energy, an unlisted Australian company. In the next 5 months, it is anticipated that Tlou Energy will complete a listing on the ASX in Australia.

Management continually reviews the Company's asset base and any potential new acquisitions to ensure optimum use of Company resources and to maximize future returns for shareholders.

A total of approximately $1 million was spent by Talon on the Trairão Project during the first quarter of 2012 compared with approximately $1.7 million spent during the first quarter of 2011.

Qualified Persons

Talon's exploration programs in Brazil are managed by Talon's Mining Engineer, Mr. Ricardo Álvares de Campos Cordeiro. Mr. Cordeiro is a "Qualified Person" within the meaning of NI 43-101. Mr. Cordeiro has reviewed, approved and verified the data disclosed in this MD&A (other than the mineral resource estimates), including sampling, analytical and test data underlying the technical information.

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

CAPITAL EXPENDITURE ON EXPLORATION PROJECTS

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

	Mar 31, 2012	Dec 31, 2011
Mineral properties		
Trairão Project	$15,098,533	$14,056,824
Inaja South Project	1,133,930	981,965
Campo Grande Gold Project	528,531	528,531
	$16,760,994	$15,567,320

Amounts incurred on exploration on mineral properties for the three months ended March 31, 2012 and 2011 amounted to $1,193,674 and $2,656,173, respectively.

Exploration and development expenditures incurred for the three months ended March 31, 2012 are primarily a result of spending on the Trairão Project. During the quarter, a total of $1,041,709 was spent on the Trairão Project. This represents a decrease in quarterly spending compared to $1,739,972 spent on the Trairão Project in the same period of last year. It is expected that spending on the Trairão Project will remain relatively stable over the next two quarters.

RESULTS OF OPERATIONS

Review of Operations

The following items are considered most beneficial in assisting to highlight the operations of the Company for the periods detailed below:

	Three months ended Mar 31, 2012 (unaudited)	Three months ended Mar 31, 2011 (unaudited)	Year ended Dec 31, 2011
Interest income	$371,695	$8,541	$405,199
Administration expense[(1)]	1,947,971	1,284,831	6,246,714
Foreign currency translation gain (loss)[(2)]	(40,719)	(115,587)	373,692
Share-based payments expense (recovery)	(33,617)	2,817,051	6,089,938
Unrealized gain (loss) on investments	192,090	707,704	(1,072,996)

Notes:
(1) Administration expense is total expenses excluding share based payments expense (recovery).
(2) Foreign currency translation gain/(loss) is due to the appreciation/depreciation of the currencies see *"Financial Instruments"*.

The Company's loss was reported under IFRS for the first time in the first quarter of 2011. The IFRS conversion did not have a significant impact on the financial statements.

Net loss for the three month period ended March 31, 2012 was $1.5 million or $0.02 per share (basic and diluted), which was primarily due to administration expenses and the Company's share of loss in Tlou Energy, reduced by interest income. This compares to a net loss of $3.3 million or $0.04 per share (basic and diluted) for the three months ended March 31, 2011, which was primarily due to administration expenses and share-based payments, reduced by an unrealized gain on investments.

Net loss for the year ended December 31, 2011 was $13.3 million or $0.15 per share (basic and diluted), which was primarily due to administration expenses, share of loss in Tlou and share-based payments, reduced by a gain on the sale of projects and equipment.

FINANCIAL INSTRUMENTS

	Mar 31, 2012 (unaudited)	Mar 31, 2011 (unaudited)	Dec 31, 2011
Held for trading, measured at fair value:			
Cash and cash equivalents	$19,632,530	$10,344,486	$21,570,417
Investments	3,096,768	1,845,130	1,898,300
Loans and receivables, measured at amortized cost:			
Accounts receivable and advances	146,193	1,318,881	229,894
Financial liabilities, measured at amortized cost:			
Accounts payable and accrued liabilities	1,305,963	1,619,523	1,100,003

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

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due or at reasonable cost. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its capital, development and exploration expenditures. The Company ensures that there are sufficient funds to meet its short-term requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents. As at March 31, 20012, the Company has sufficient cash in treasury to meet all its known obligations.

Market Risk

Market risk is the risk that changes in market prices, including foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments.

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

Through Talon's interest in Tlou Energy, the Company is indirectly exposed to movements in the following currencies: Botswana Pula, South African Rand, Australian Dollars, Euros and British Pounds. The Company is also exposed to movements in the United States Dollar and the Brazilian Real as transfers are made to the Brazilian subsidiaries of the Company in United

States Dollars and subsequently converted in Brazil to Brazilian Reals. Talon manages its foreign exchange risk, to the extent possible, by only undertaking currency exchanges on an as-needed basis. Generally speaking, due to the relatively small value of the currencies involved, the Company does not engage in hedging activities.

Interest Rate Risk

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. It is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The Company mitigates its risk by holding its short-term investments in instruments low in risk and highly rated with reputable financial institutions.

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

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

Fair Value Hierarchy

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

The Company has classified the above financial assets and liabilities as follows:

Level 1	
Cash and cash equivalents	$19,632,530
Investments	$3,096,768
Level 2	
Lago Dourado warrants (included in investments)	$21,500
Rio Verde warrants (included in investments)	$187,880

An unrealized gain on investments of $192,090 (Q1 2011: $707,704) has been recognized in the Company's statement of loss and comprehensive loss for the period. This relates to the revaluation of investments based on the closing bid price of the investments at the end of each quarter.

Interest income of $371,695 (Q1 2011: $8,541) has been recognized in the statements of loss and comprehensive loss for the period.

FINANCIAL CONDITION, CASH FLOW, LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Highlights
(Thousands of C$)

	Mar 31, 2012 (unaudited)	Mar 31, 2011 (unaudited)	Dec 30, 2011
Operating activities	$(1,329)	$(2,764)	$(6,555)
Investing activities	(609)	(4,010)	(26,366)
Financing activities	-	4,785	42,146
Beginning cash & cash equivalent balance	21,570	12,333	12,345
Increase / (decrease) in cash & cash equivalents	(1,938)	(1,989)	9,225
Ending cash & cash equivalents balance	$19,632	$10,344	$21,570

Operating Activities

Operating activities for the three months ended March 31, 2012 consumed $1,328,963 of cash primarily due to net operating expenses. This compares to utilization of $2,763,963 in the same period of last year mainly due to net operating expenses.

Operating activities for the year ended December 31, 2011 consumed $6,554,844 primarily due to net operating expenses.

Financing Activities

There were no financing activities for the three month period ended March 31, 2012, compared to $4,784,519 for the same period last year, primarily due to the proceeds on the exercise of warrants.

For the year ended December 31, 2011 financing activities were $42,145,953, primarily from proceeds from a prospectus offering completed by the Company in April 2011.

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

The Company does not expect to engage in any financing activities in the short term.

Investing Activities

Investing activities for the three month period ended March 31, 2012 utilized $608,924 primarily due to capitalized exploration costs less proceeds on the sale of investments. This compares to a utilization of $4,009,529 in the same period in the prior year, primarily due to capitalized exploration costs and purchase of term deposits.

Investing activities for the year ended December 31, 2011 utilised $26,366,369 primarily due to capitalized exploration costs and cash deconsolidated on the distribution of Rio Verde shares.

In the short term, the Company may dispose of certain marketable securities, including, subject to regulatory requirements, a possible sale of certain Tlou Energy shares if Tlou Energy becomes listed on the Australian Stock Exchange.

Liquidity and Capital Resources

Cash and cash equivalents were $19.6 million as of March 31, 2012. The Company has sufficient liquidity to continue expected operations into the medium-term.

All cash equivalents are held in government securities (e.g. T-bills).

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

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

Balance	Jan 1, 2010	5,263,836
Options	Exercised	(32,650)
Options	Granted 2010	2,633,769
Balance	Dec 31, 2010	7,864,955
Options	Exercised	(307,424)
Options	Granted 2011	6,020,178
Balance	December 31, 2011	13,577,709
Options	Granted 2012	544,042
Options	Cancelled 2012	(577,659)
Balance	March 31, 2012	$13,544,092

SIGNIFICANT EQUITY INVESTEES – TLOU ENERGY

Talon maintains an equity interest in Tlou Energy of approximately 21.9 million shares (representing an ownership interest of approximately 31%). Talon also holds options to purchase an aggregate of 4,945,055 Tlou Energy shares at an exercise price of AUD$1.25 each, exercisable until June 30, 2013.

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

	March 31, 2012	March 31, 2011
Assets		
Current Assets	$4,870,952	$8,163,864
Non-Current Assets	30,933,617	31,039,314
Total Assets	*35,804,569*	*39,203,178*
Liabilities		
Current Liabilities	556,169	1,802,848
Total Liabilities	*4,250,053*	*1,802,848*
Equity	31,554,516	37,400,330
Revenue	13,092	25,546
Expenses	893,166	311,699
Net Loss	$(880,074)	$(337,245)
Talon's ownership percentage	*31%*	*30%*

The close of day exchange rate on March 30, 2012 as reported by the Bank of Canada for the conversion of Canadian Dollars to Australian Dollars was Cdn$1.00=A$0.97.

DISCLOSURE OF OUTSTANDING SHARE DATA

The following details the share capital structure of the Company as at May 14, 2012:

	Expiry Date	Exercise Price	Total
Common Shares			92,001,687
Stock Options	Feb 18, 2013	$0.57	200,000
Stock Options	Jun 11, 2014	$0.39	490,000
Stock Options	May 21, 2015	$0.40	4,194,350
Stock Options	Oct 26, 2015	$0.70	960,000
Stock Options	Jan 17, 2016	$1.58	305,000
Stock Options	Feb 7, 2016	$2.12	70,000
Stock Options	Mar 3, 2016	$2.48	500,000
Warrants	Oct 29, 2012	$3.10	5,637,300
Brokers Warrants	Oct 29, 2012	$2.55	552,852
Stock Options	May 25, 2016	$1.95	1,225,000
Stock Options	Oct 1, 2016	$1.00	250,000
Stock Options	Jan 31, 2017	$0.45	2,800,000
Stock Options	Apr 4, 2017	$0.42	1,279,592
Stock Options	Apr 25, 2017	$0.37	465,408
Total fully diluted number of shares			110,931,189

During the first quarter of 2012, the Company issued 2,800,000 options. The following details the stock options of the Company outstanding as at March 31, 2012:

	Options	Weighted Average Exercise Price
Outstanding – beginning of year	9,489,350	$1.00
Cancelled	(50,000)	1.58
Cancelled	(685,000)	1.95
Granted	2,800,000	0.45
Outstanding – end of the period	11,554,350	$1.05

Other than 1,333,733 stock options, all of the stock options outstanding have been issued pursuant to the Company's incentive stock option plan.

Estimated fair value of stock options

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

Expected life	5 years
Risk-free interest rate	1.40%
Volatility	111%-235%
Dividends	0%

In the first quarter of 2012, a total share-based payment recovery of $33,617 was recognized in the Company's consolidated statements of loss and comprehensive loss, compared with a cost of $2,817,051 in the first quarter of 2011. For the year ended December 31, 2011, a total share based payment of $6,020,178 was recognized in the statement of loss and comprehensive loss

RISKS AND UNCERTAINTIES

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

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

The following is a summary of the most significant of those risks and uncertainties affecting or that could affect the financial condition or results of operations of the Company. For a complete discussion of the risks and uncertainties facing the Company, please refer to the Company's MD&A for the period ended December 31, 2011 and the Company's Annual Information Form for the year ended December 31, 2011 under the heading "Risk Factors", both documents are available on SEDAR at www.sedar.com. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company. The Company may face additional risks and uncertainties, including, risks and uncertainties that are unknown to the Company or risks and uncertainties that the Company now believes to be unimportant, which could have a material adverse effect on the business of the Company. If any of the risks actually occur, the business, financial condition or results of operations of the Company could be negatively affected.

Exploration, Development and Operating Risks

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

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

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

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

Uncertainty Relating to Inferred and Indicated Mineral Resources

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

Final Exploration Report

As required under Brazilian law, the Company has submitted to the DNPM Final Exploration Reports in respect of three licenses that have reached the end of their term. There is a risk that the DNPM will not approve one or all of the Company's Final Exploration Reports. This occurs where the DNPM determines that the exploration work undertaken was insufficient or there were technical deficiencies in the Final Exploration Report. If this negative determination is made by the DNPM, there is no guarantee that the Company will initiate or win an appeal with the DNPM and/or the courts in Brazil. If the Company does not appeal a negative decision by the DNPM or loses any such appeal, the Company will lose title to those license areas that were not approved by the DNPM.

It is also unknown when the Company will receive a decision from the DNPM on the Final Exploration Reports. There is a risk that this process will take a lengthy period of time (the DNPM has been known to take up to three years to make a determination in respect of a Final Exploration Report) leaving uncertainty for the Company throughout this period of time.

Infrastructure

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

Land Title

The Company's interests in mineral properties are comprised of exclusive rights under government licenses and contracts to conduct operations in the nature of exploration and, in due course if warranted, development and mining, on the license areas. Maintenance of such rights is subject to ongoing compliance with the terms of such licenses and contracts. While the Company intends to take all reasonable steps to maintain title to its mineral properties, there can be no assurance that it will be successful in extending or renewing mineral rights on or prior to the expiration of their term. The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral concessions may be disputed. Although the Company believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to any of its properties will not be challenged or impaired. Third parties may have valid claims underlying portions of the Company's interests, including prior unregistered liens, agreements, transfers or claims (including native land claims) and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

Additional Capital

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

Governmental Regulation; Environmental Risks and Hazards

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

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

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

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

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

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

Iron Ore Prices

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

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

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. Warren Newfield and Greg Kinross, both directors of Talon are also directors of Tau. The Tau 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 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. For the three months ended March 31, 2012, fees paid to Tau for these services were $175,500 (Q1 2011 - $99,000). In addition, an amount of $137,653 (Q1 2011 - $48,554) was charged to the Company by Tau 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 during February and March.

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 March 31, 2012 fees paid amounted to $99,000 (Q1 2011 - $41,465).

Consulting fees paid to officers of the Company (Luis Azevedo and Stuart Comline) for the three months ended March 31, 2012 were $82,500 (Q1 2011 - $58,922).

Accounts payable at March 31, 2012 include $15,000 payable to an officer of the Company (Luis Azevedo) for consulting fees (Q1 2011 - $41,563).

Prepayments at March 31, 2012 include $25,000 in respect of management fees to Tau for April 2012.

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.

The remuneration of directors and officers of the Company for the three months ended March 31, 2012 and 2011 were as follows:

	Mar 31, 2012	Mar 31, 2011
Aggregate Compensation	$625,325	$716,872
Share-Based Compensation (included in Aggregate Compensation)	$255,883	$647,800

The only share options which were issued during the three months ended March 31, 2012 to directors and officers of the Company were awarded to Henri van Rooyen, the Company's new CEO, as follows:

Date of Grant	Number of Options	Exercise Price	Expiry
Jan 31, 2012	2,800,000	$0.45	Jan 31, 2017

CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

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

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the valuation of resource properties.

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

Resource properties and deferred exploration and evaluation costs

Interests in mineral exploration properties are recorded at cost. Exploration expenditures, other than those of a general nature, relating to mineral properties in which an interest is retained are deferred and carried as an asset until the results of the projects are known. If the project is unsuccessful or if exploration has ceased because continuation is not economically feasible, the cost of the property and the related exploration expenditures are written off.

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. 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.

Talon does not accrue the estimated future costs of maintaining its mineral properties in good standing.

Share-based payments

The Company's share option plan allows Talon 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 Talon. 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.

Impairment of non-financial assets

At the end of each reporting period, the carrying amounts of Talon'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.

Impairment of financial assets

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

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

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

Investments in associates

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

International Financial Reporting Standards

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

Control Activities

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

Business Activities and Key Performance Measures

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

Information Technology and Systems

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

Post-Implementation

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

OUTLOOK

During the next two fiscal quarters, Talon will continue to focus on the identification of distinct geological units throughout the Trairão Project, through geochemical logging and re-logging of diamond drill core assays. The Company will also continue to conduct further mineralogical and metallurgical test work, as well as progressing its infrastructure trade off studies, which will ultimately form the basis for potentially commissioning a preliminary economic assessment.

Under the current uncertain conditions in capital markets, Talon will continue to review the use and allocation of its treasury funds with increased discretion as it continues with its strategy to establish and develop a portfolio of mineral projects. The Company will continue to strive to identify areas with potential for resources that can be acquired where there may be a possibility to realize value for shareholders.