Talon Metals Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2011

Dated: March 30, 2012

TABLE OF CONTENTS

*This Management's Discussion and Analysis ("**MD&A**") of the consolidated financial position for the year ended December 31, 2011, should be read in conjunction with the consolidated financial statements and notes of Talon Metals Corp. ("**Talon**" or the "**Company**") for the year ended December 31, 2011.*

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

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, among other things, information relating to the plans and objectives of Tlou Energy (defined below), 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 assaying, 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 and improvement in indicated recovery levels, the Company's business plans and priorities, the Company's plans to investigate new projects and its application for new mining licences, projections in respect of capital expenditures, plans and expectations concerning the period following implementation of IFRS (defined below), the Company's liquidity and capital resources and the medium-term financial obligations of the Company, constitute forward-looking information.

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".

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.

2. Overview

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

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 ("**Codelco**") and Barrick International (Barbados) Corp. ("**Barrick Barbados**").

Beginning in October 2010, Talon undertook an extensive initial drilling program on the Trairão Project. This initial drilling program has now been concluded. During this time, 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. As a result of this drilling program, 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 within the Trairão Project of approximately 1.4 billion tonnes ("**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.

Talon's independent technical consultants, Coffey Mining Pty Ltd. ("**Coffey**"), under the supervision of Mr. Porfírio Cabaleiro Rodriguez, who is a "qualified person" under NI 43-101, prepared a National Instrument 43-101 ("**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**"). The Trairão Technical Report is available under Talon's SEDAR profile at www.sedar.com. Please see *Section 3, Exploration Projects* for additional information on the Trairão Project.

Talon also holds equity investments in a number of other public and private companies, including approximately 3.2 million common shares in Brazilian Gold Corporation ("**Brazilian Gold**") and 500,000 common shares in Lago Dourado Minerals Ltd., both of which are listed on the TSX Venture Exchange ("**TSXV**") and approximately 3.5 million shares in Rio Verde Minerals Development Corp. ("**Rio Verde**"), which is listed on the Toronto Stock Exchange ("**TSX**"). Talon also holds approximately 21.9 million shares in Tlou Energy Ltd. ("**Tlou Energy**"), an unlisted Australian company.

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.

3. Exploration Projects

A) Managed Projects

Iron Ore Projects

In September 2010, Talon completed its acquisition of 100% of the rights to the Trairão Project and the Inajá South Project located in Pará State, Brazil, through separate agreements with Codelco and Barrick Barbados.

The 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.

Under the agreement with Codelco, Talon paid Codelco a nominal purchase price and has agreed to pay a royalty of US$0.7005 per tonne of iron mined and sold from the Trairão Project.

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

<u>Trairão Project</u>

The Trairão Project is comprised of eight exploration licences covering approximately 51,635 hectares, and applications for an additional four licenses covering a further 24,887 hectares.

As required under Brazilian law, in connection with the expiry of three of Talon's exploration licences in October 2011, the Company submitted a Final Exploration Report to the Departamento Nacional de Produção Mineral ("**DNPM**") in respect of each of these expiring licenses. The DNPM will now review the Final Exploration Reports (which usually takes six to eight months but has been known to take significantly longer due to a backlog at the DNPM) and, if it deems that the Final Exploration Report(s) provide sufficient evidence of a deposit which can be both technically and economically exploited, the DNPM will approve the Final Exploration Report(s). Once a Final Exploration Report has been approved, Talon will have up to two years to apply for a Mining License over the license area(s) that were approved. Until such time as the DNPM comes to a decision on the Final

Exploration Reports, Talon's rights to the areas which are the subject of the Final Exploration Reports are maintained and no one else may be granted exploration and/or mining rights over the same areas.

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									

The indicated and inferred mineral resource estimates are also reported and classified by deposit type, as shown in the table below.

Mineral Resource Estimates by Deposit Type

	Indicated		***Inferred***	
Deposit Type	**Mt**	**%Fe**	**Mt**	**%Fe**
Surficial Deposit	84.0	47.2	77.4	42.0
Saprolite	345.1	40.1	182.4	33.4
Saprock	975.3	31.1	352.9	30.4
Fresh Rock	-	-	599.1	26.1
Total	**1,404.3**	**34.3**	**1,211.8**	**29.5**

The surficial deposits (2-10 metres thick), the saprolite unit (30-40 metre thick) and the saprock unit (30 -100 metres thick) consist of oxidized mineralization, distributed in horizontally disposed units that overlie the fresh rock. The fresh rock units, are steeply dipping and extend to depths beyond current drilling, consist of banded iron formations ("**BIFs**") and magnetite-rich chlorite schist. The BIFs comprise interlayered quartz and magnetite which have a grade of approximately 32% Fe and are enclosed within a wide zone of the magnetite-rich chlorite schist, which has been included within the fresh rock inferred resource and has grades varying from 22% to 31% Fe. In Target Area 3, two parallel BIF units have been mapped and drilled, whereas in Target Areas 1 and 2 the BIFs are duplicated by folding and extend to drilled depths in excess of approximately 390 metres. As many of the diamond drill holes have ended within the fresh rock mineralized zones, the widths of the individual mineralized units have not yet been determined accurately.

Preliminary metallurgical test work has also been completed at the Trairão Project. This work was undertaken on laboratory scale samples of the fresh rock, saprock, saprolite and surficial material, respectively, and was conducted at a number of independent laboratories in Brazil.

The preliminary results of the initial laboratory based metallurgical testing of the fresh rock samples indicate that the anticipated recovery grade of the concentrate of quartz magnetite BIF material is the most encouraging, although further test work is required to confirm these results and improve the indicated recovery levels on the samples from the other rock types. Additional test work is also planned on the magnetite-rich chlorite schist. In addition, further geological mapping is required to define the distribution of the two different iron-rich fresh rock types (quartz magnetite BIFs and the magnetite-rich chlorite schist). It is therefore not yet possible to link the metallurgical test results to a specific tonnage of fresh rock. Further work needs to be completed to map the distribution of the fresh rock.

Within the zones of oxidized and weathered iron mineralization, the preliminary results from the initial test work on the saprock material, which is the most abundant of the weathered mineralization, indicate that higher recovery levels and concentrate grades can be anticipated than those from the saprolite. Further samples of discreet saprock material need to be selected and further test work on these samples need to be undertaken.

Although the saprolite deposit shows low metallurgical recoveries, it appears to only represent the near surface upper 30m-40m of the approximately 400m high Trairão ridge, which, even if the saprolite were to be stockpiled for future processing in any future mining operation, would likely still present a mining operation with a low strip ratio.

The encouraging concentrate grade indicated by the initial test work on samples of the duricrust, which is developed within the near surface surficial deposits, requires that further test work be undertaken with the aim of improving the recovery grades of this rock type. In addition, the distribution of the duricrust within the surficial deposit requires further mapping.

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.

Given the significant potential size of the Trairão Project and the requirement for mapping according to predefined zones, Talon intends to focus on further mineralogical and metallurgical test work as well as progressing infrastructure trade off studies, which will ultimately form the basis for potentially commissioning a preliminary economic assessment. Consequently, Talon's previously disclosed plans to complete a preliminary economic assessment and prefeasibility study on the Trairão Project in the second and fourth quarters of 2012 respectively, will no longer occur on that schedule.

The Company does not intend to report a resource estimate on Target Areas 7 and 9 to 13. Please refer to the Company's press release dated February 17, 2012 entitled "Talon Metals Reports the Outstanding Results from the 2011 Drilling Campaign at the Trairao Iron Project, Brazil" for further information. The press release is available under the Company's profile at www.sedar.com.

A total of $13,450,818 was spent by Talon on the Trairão Project in 2011.

Inajá South Project

In September 2010, Talon acquired from Barrick Barbados 100% of the rights to the Inajá South Project in Pará State, Brazil.

The Inajá South Project is located 120 kilometres south of the Trairão Project and comprises one mineral licence, with an area of 6,577 hectares. Within the licence area, an Archean age BIF of the Serra do Inajá greenstone belt is developed along a prominent ridge over a strike length of 9 kilometres. The principal target here is the BIF, which is similar to the targets currently being prospected by other companies on the adjacent licences.

Following on from the completion of the excavation, logging and sampling of three trenches (total of 1,015 linear metres) to depths of approximately two metres in September 2011, Talon completed a preliminary RC drilling program which consisted of 34 holes (2,118 metres). This drilling campaign has since been completed and assaying of the drill samples is nearing completion.

A total of $981,965 was spent by Talon on the Inajá South Project in 2011.

Other Iron Projects

In 2011, as part of Talon's strategy to establish a portfolio of iron projects, Talon applied for a number of licences that together comprise five additional exploration properties with iron potential in Brazil. Licences have been granted for two properties in Mato Grosso State, covering a total area of 45,466 hectares. Certain licences have been granted over the three properties in Piaui State covering a total area of 29,224 hectares, while applications are still pending for an additional 18,243 hectares.

B) Projects Not Managed by Talon

Botswana CBM Project (owned by Tlou Energy)

The Botswana CBM Project is an unconventional gas project with interests in various coal bed methane and shale gas prospects in the Karoo age rocks in the Kalahari and Zambezi basins in Botswana, Africa.

In November 2010, Talon completed the sale of 100% of its interests in the Botswana CBM Project to Tlou Energy and received: (i) approximately 19 million shares in Tlou Energy, representing a 30% equity interest in Tlou Energy at the time of the transaction, and (ii) options to purchase an aggregate of 4,945,055 shares of Tlou Energy at an exercise price of AUD$1.25 each, exercisable until June 20, 2013.

In October 2011, Talon participated in a rights offering of Tlou Energy and acquired an additional 2.57 million shares in Tlou Energy at a price of AUD$0.60 per share. This acquisition increased Talon's equity interest in Tlou Energy to approximately 31%.

In the next 6 months, it is anticipated that Tlou Energy will complete a listing on the ASX in Australia.

Sergipe Potash Project (owned by Rio Verde)

In December 2010, Talon completed the transaction to transfer 100% its rights in the Sergipe Potash Project to Rio Verde, in return for approximately 26.6 million shares in Rio Verde.

On July 28, 2011, Talon distributed most of its shares in Rio Verde to Talon shareholders. Talon shareholders received one ordinary share of Rio Verde for every four shares of Talon held. Rio Verde began trading on the Toronto Stock Exchange on August 3, 2011.

Effective July 27, 2011, Talon ceased to consolidate the accounts of Rio Verde.

As of the date hereof, Talon owns approximately 3.5 million shares of Rio Verde.

C) Other Projects

São Jorge Gold Project

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

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

Água Branca Gold Project

The Água Branca Gold Project ("**Água Branca**") covers 9,356 hectares in the Tapajós Gold District within the Pará State, Brazil.

On December 10, 2009, Talon concluded an agreement with Brazauro Resources Corporation ("**Brazauro**") (TSX: BZO), whereby Brazauro was granted the option to earn a 100% interest in Água Branca. Subsequently, Brazauro was acquired by Eldorado Gold Corporation (TSX: ELD). Brazauro exercised the option on September 29, 2011 by making a final payment to Talon of US$1,870,000 (for total aggregate payments pursuant to the option agreement of US$2,120,000) and by completing certain other expenditures and technical milestones. Talon's Brazilian subsidiary, Brazmin Ltda, retains a 2% NSR from any future metal production, which Brazauro is entitled to re-purchase from Brazmin Ltda. at any time for US$2 million.

Rio Maria Project

The Rio Maria Project ("**Rio Maria**") consists of five exploration licence applications covering 43,379 hectares located in southeastern Pará State, Brazil. In the fourth quarter of 2007, Talon entered into an agreement with Reinarda Mineracao Ltda. ("**Reinarda**"), a Brazilian subsidiary of Troy Resources NL ("**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 committing to expenditure of US$100,000 over twelve months ending December 31, 2008. On or about July 2010, Reinarda elected not to exercise the option to increase its ownership of Rio Maria to 100%, consequently Talon currently owns a 49% interest in Rio Maria.

Tapajos Gold Project

On August 10, 2011, the Company and Brazilian Gold signed an Option Agreement whereby the Company granted an exclusive option to Brazilian Gold to acquire a 100% interest in 15 exploration gold properties in the Tapajos region of Brazil and one exploration gold property in the Nova Guarita region of Brazil. Pursuant to the terms of the Option Agreement, Brazilian Gold issued the Company 250,000 Brazilian Gold shares on August 31, 2011. In order to exercise the option, Brazilian Gold is required to issue to the Company on August 31, 2012 (subject to all of the exploration applications becoming exploration authorizations) (i) a further 250,000 Brazilian Gold shares, and (ii) a 1.25% NSR on any future production from the properties.

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).

4. 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 following:

i. the recoverability of amounts receivable and prepayments which are included in the consolidated statement of financial position;

ii. the estimated useful life of equipment which is included in the consolidated statement of financial position and the related amortization included in the consolidated statement of comprehensive loss;

iii. the inputs used in accounting for share purchase option expense in the consolidated statement of comprehensive loss;

iv. the nil provision for income taxes which is included in the consolidated statements of comprehensive loss and composition of deferred income tax assets and liabilities included in the consolidated statement of financial position.

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 each financial position reporting date, 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 each financial position reporting date 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 each financial position reporting date. 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.

The following outlines the Company's transition project, IFRS transitional impacts and the on-going impact of IFRS on the financial results. Note 20 to the annual financial statements provides more detail on the key Canadian GAAP to IFRS difference, the accounting policy decisions and IFRS 1, First-Time Adoption of International Financial Reporting Standards, optional exemptions for significant or potentially significant areas that have had an impact on the financial statements on transition to IFRS or may have an impact in future periods.

Transitional Financial Impact

The tables set out in note 20 to the annual financial statements have not been reproduced as there were no changes identified upon transition to IFRS. The tables in note 20 present the following information.

a) The Company's equity on adoption of IFRS on January 1, 2010, and at December 31, 2010 for comparative purposes.

b) The statements of loss and comprehensive loss for the year ended December 31, 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. Management also does not expect significant changes in the post-convergence periods.

Post-Implementation

The post-implementation phase will involve 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.

5. Financial Instruments

	Dec 31, 2011	Dec 31, 2010
Held for trading, measured at fair value:		
Cash and cash equivalents	$21,570,417	$12,345,677
Term deposits	-	3,503,928
Investments	1,898,300	1,137,426
Loans and receivables, measured at amortized cost:		
Accounts receivable and advances	229,894	672,616
Financial liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	1,100,003	2,139,930

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

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 obligations at December 31, 2011.

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

Through Talon's indirect interest in the Botswana CBM Project, 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.

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. Current short-term interest rates are extremely low (approaching zero) and, as such, the Company is of the view that interest rates may rise in the future which would have a positive impact on the Company.

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	$21,570,417
Investments	$1,711,500
Accounts and other receivables	$229,894
Accounts payable and accrued liabilities	$1,100,003

Level 2

Lago Dourado warrants (included in investments)	$40,500
Rio Verde warrants (included in investments)	$146,300

An unrealized loss on investments of $1,072,996 has been recognized in the Company's statement of loss for the year. 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 $405,199 has been recognized in the statement of loss for the year.

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 properties and deferred expenditures are comprised as follows:

	Dec 31, 2011	Dec 31, 2010
Mineral properties		
Iron Ore Projects	$15,038,789	$606,006
Rio Verde Projects	-	8,108,941
Água Branca Gold Project	-	1,118,904
Campo Grande Gold Project	528,531	519,586
Other Projects	-	597,477
	$15,567,320	$10,950,914

The large increase in expenditures on the Iron Ore Projects is attributable to the Company drastically increasing its focus and exploration spending on the Trairao Project following on from its acquisition of the Iron Ore Projects in September 2010.

The Rio Verde Projects were deconsolidated from the accounts of the Company in July 2011 after the distribution of the Rio Verde shares.

The sale of the Agua Branca Gold Project was completed in September 2011. As such, the expenditures relating to this project were removed from the accounts of the Company.

The $597,477 attributable to Other Projects was written off by the Company in the third quarter of 2011 as management decided not to pursue these projects.

7. Disclosure of Outstanding Share Data

The following details the share capital structure as at March 30, 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	4,244,350
Stock Options	Oct 26, 2015	$0.70	960,000
Stock Options	Jan 17, 2016	$1.58	685,000
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	1,355,000
Stock Options	Oct 1, 2016	$1.00	250,000
Stock Options	Jan 21, 2017	$0.45	2,800,000
Total fully diluted number of shares			109,746,189

A summary of options outstanding as at December 31, 2011 is presented below:

	Options	Weighted Average Exercise Price
Outstanding – beginning of year	6,739,000	$0.45
Cancelled	(50,000)	0.70
Cancelled	(150,000)	1.58
Cancelled	(45,000)	1.95
Cancelled	(30,000)	2.48
Granted	1,485,000	1.93
Granted	2,085,000	1.95
Granted	250,000	1.00
Exercised	(109,500)	0.39
Exercised	(685,150)	0.40
Outstanding – end of the year	9,489,350	$1.00

8. Results of Operations

Review of Operations
(Thousands of C$)

	Three months ended Dec 31, 2011 (unaudited)	Three months ended Dec 31, 2010 (unaudited)	Year ended Dec 31, 2011	Year ended Dec 31, 2010[3]
Interest income	$395	$67	$405	$73
Administration expense[1]	2,253	1,595	6,247	6,406
Foreign currency translation gain (loss) [2]	14	145	374	(19)
Share based payments & personnel expense	527	694	6,090	2,634

[1] Administration expense is total expenses excluding personnel and share based payments expense.
[2] Foreign currency translation gain (loss) is due to the appreciation/depreciation of the currencies mentioned in *Section 5: Financial Instruments.*
[3] 2010 numbers include Rio Verde.

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

The most significant impact on the Company relates to the acquisition of Rio Verde during 2010. The Company elected to early adopt CICA Handbook section 1582 in accounting for the transaction in order to use a consistent basis of accounting with IFRS 3, *Business Combinations*. In that regard, reference is made to notes 2(b) and 4 to the annual financial statements for the year ended December 31, 2010 that contain more detailed information with respect to the accounting for the transaction.

In preparing the December 31, 2011 financial statements, the Company determined that there were no material changes required to the Company's financial statements in order to comply with IAS 34.

Net loss from continuing operations for the three month period ended December 31, 2011 was $2 million or $0.02 per share (basic and diluted), which was primarily due to administration expenses, share of loss in Tlou Energy and stock based payments, reduced by gain on the sale of projects. This compares to a net gain from continuing operations of $1.5 million or $0.02 per share (basic and diluted) for the three months ended December 31, 2010, which was primarily due to administration expenses which were more than offset by the gain on the sale of the Sao Jorge Project.

Net loss from continuing operations 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 Energy and stock based payments. This compares to a net loss from continuing operations of $4.3 million or $0.08 per share (basic and diluted) for the year ended December 31, 2010, which was primarily due to administration expenses, the write down of projects and share based payments, reduced by a gain on the sale of projects and equipment.

Net loss attributable to Rio Verde discontinued operations for the year ended December 31, 2011 amounted to $982,391. This amount is comprised of a de-consolidation gain of $1,167,929 and net loss from operations of Rio Verde for the period from January 1, 2011 to July 27, 2011 in the amount of $2,150,320.

Capitalized exploration

Amounts incurred on exploration on mineral properties excluding discontinued operations for the year ended December 31, 2011 and 2010 amounted to $14,509,468 and $2,702,890 respectively. This primarily relates to the Trairão Project.

Stock options

A summary of options outstanding as at December 31, 2011 is presented in *Section 7* of this MD&A.

During the fourth quarter of 2011, the Company issued 250,000 options.

Estimated fair value of stock options

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

Expected life	5 years
Risk-free interest rate	1.40%
Volatility	215%-235%
Dividends	0%

In 2011, a total share-based payment cost of $6,020,178 was recognized in the Company's consolidated statement of loss compared with $2,633,769 in 2010.

9. Summary of Quarterly Results

(All numbers are unaudited*)

	Three months ended Dec 31, 2011	Three months ended Sept 30, 2011	Three months ended June 30, 2011[1]	Three months ended Mar 31, 2011[1]
Total revenues	$591,420	$992,615	$25,175	$8,541
Net gain/(loss) from continuing operations	(1,971,839)	(2,903,468)	(5,917,928)	(3,158,972)
Net gain/(loss) from continuing operations per share – basic and diluted	(0.02)	(0.03)	(0.07)	(0.04)
Net gain/(loss) and comprehensive gain/(loss)	(2,353,665)	(2,770,687)	(5,917,928)	(3,158,972)
Net gain/(loss) and comprehensive gain/(loss) per share – basic and diluted	(0.03)	(0.03)	(0.07)	(0.04)
	Three months ended Dec 31, 2010	**Three months ended Sept 30, 2010**	**Three months ended Jun 30, 2010**	**Three months ended Mar 31, 2010**
Total revenues	$3,398,102	$907,799	$2,004	$200
Net gain/(loss) from continuing operations	1,433,780	(435,044)	(5,079,819)	(265,013)
Net gain/(loss) from continuing operations per share – basic and diluted	0.02	(0.01)	(0.08)	(0.01)
Net gain/(loss) and comprehensive gain/(loss)	1,433,780	(435,044)	(5,079,819)	(265,013)
Net gain/(loss) and comprehensive gain/(loss) per share – basic and diluted	0.02	(0.01)	(0.08)	(0.01)

[1] These numbers include Rio Verde.
* The amounts included in the above tables 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 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 share based payment expense, which reflects the net of stock options granted 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.

Beginning in the first quarter of 2010 (following the merger with Saber Energy Corp.) this also includes the other currencies mentioned in *Section 5: Financial Instruments.*

Significant Equity Investees - *Tlou Energy*

In October 2011, Talon participated in Tlou Energy's rights offering and acquired an additional 2.57 million shares in Tlou Energy at a price of AUD$0.60 per share. This acquisition increased Talon's equity interest to approximately 21.9 million shares of Tlou Energy (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 year ended December 31, 2011 in $AUD (unaudited).

The close of day exchange rate on March 20, 2012 as reported by the Bank of Canada for the conversion of Canadian Dollars to Australian Dollars was Cdn$1.00=A$0.96

	December 31, 2011
ASSETS	
Current Assets	$6,156,207
Non-Current Assets	31,539,430
TOTAL ASSETS	36,721,881
LIABILITIES	
Current Liabilities	515,673
TOTAL LIABILITIES	4,208,005
EQUITY	$32,513,876
	Year ended Dec 31, 2011
Revenue	$722,594
Expenses	8,029,921
Total comprehensive income	(2,284,817)
Talon's ownership	31%

Summary of assets and liabilities for Tlou Energy's fiscal years ended June 30, 2011 and 2010 in $AUD (Reviewed by Tlou Energy's auditors)

	June 30, 2011	June 30, 2010
ASSETS		
Current Assets	$5,702,517	$13,121,802
Non-Current Assets	30,505,271	6,951,690
TOTAL ASSETS	36,207,788	20,073,492
LIABILITIES		
Current Liabilities	1,157,427	1,176,039
TOTAL LIABILITIES	1,157,427	1,176,039
EQUITY	30,341,897	18,897,453
Revenue	201,093	310,402
Expenses	10,587,770	406,799
Net Loss	$(10,386,677)	$(96,397)
Talon's ownership percentage	30%	30%

10. Summary of Selected Annual Results

(Thousands of C$ except EPS - numbers are audited)

	Year ended Dec 31, 2011	**Year ended Dec 31, 2010**	**Year ended Dec 31, 2009**
Total revenues	$1,691	$4,308	$13
Net earnings (loss)	(13,083)	(4,323)	(1,842)
Basic and diluted earnings (loss) per share	(0.15)	(0.08)	(0.07)
Net earnings (loss) from continuing operations	(13,298)	(4,299)	(1,842)
Basic and diluted earnings (loss) per share continuing operations	(0.15)	(0.08)	(0.07)
Total Assets	60,843	53,939	19,370
Total Liabilities	1,100	2,140	920
Foreign exchange gain (loss)	(374)	(19)	(20)
Dividends	0	0	0

Net loss for the year ended December 31, 2011 was $13.1 million, or $0.15 per share (basic and diluted) which relates to operating expenses reduced by a gain on sale of projects and equipment.

Net loss for the year ended December 31, 2010 was $4.3 million, or $0.08 per share (basic and diluted) which relates to operating expenses reduced by a gain on sale of projects and equipment.

Net loss for the year ended December 31, 2009 was $1.8 million, or $0.07 per share (basic and diluted) which relates to operating expenses reduced by realized and unrealized gains on investments.

Certain expenses of the Company increased significantly in 2011. In particular, these include personnel expenses and share-based payments, management fees, travel and consulting fees. The Company expects that these expenses will remain constant or decrease during the next financial year.

Personnel expenses and share-based payments are largely dependent on the number of options granted and vested in a particular year. This expense increased from approximately $270,000 in 2009 to approximately $2.6 million in 2010 to approximately $6.1 million in 2011. This continual increase is 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.

Management fees increased from approximately $270,000 in 2009 to approximately $366,000 in 2010 to approximately $625,000 in 2011. This increase was due to the increased fee paid to Tau Capital Corp. upon the completion of the Company's merger with Saber and an overall increased level of activity within the Company requiring additional services to be performed at additional cost to the Company.

Travel expenses increased from approximately $109,000 in 2009 to approximately $166,000 in 2010 to approximately $1.1 million in 2011. This large increase in 2011 was due to an increased number of trips required to the Trairao Project site for domestic employees and management located outside of Brazil given the increased exploration work undertaken on the Trairao Project in 2011. In addition, there were visits to the Trairao Project site by the directors of Talon and a number of analysts which increased travel expenses for the Company in 2011.

Consulting fees increased from approximately $515,000 in 2009 to approximately $1.5 million in 2010 and decreased to approximately $967,000 in 2011. In general, the usage of consultants varies depending on the level of activity in the Company during a particular year. Specifically, in 2010, a bonus of $1 million was paid to Luis Azevedo, Talon's COO, for work he did during the year. This one-time payment dramatically increased consulting fees during 2010. In 2011, an increased level of activity in the Company due to the Trairao Project contributed to the increase in consulting fees over 2009.

Accounting Principles

The consolidated annual financial statements are presented in Canadian dollars. They are prepared on the historical cost basis, except for financial instruments that are measured on a fair value basis. They have been prepared on a going concern basis.

The financial statements have been prepared in accordance with IFRS with a changeover date of January 1, 2011 and a transition date of January 1, 2010. Previously, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles.

For a further discussion of significant accounting policies, please refer to Note 3 of the Annual Financial Statements for the year ended December 31, 2011 and 2010.

11. Financial Condition, Cash Flow, Liquidity and Capital Resources

Cash Flow Highlights

(Thousands of C$)

	Three months ended Dec 31, 2011 (unaudited)	**Three months ended Dec 31, 2010 (unaudited)**	**Year ended Dec 30, 2011**	**Year ended Dec 31, 2010**
Operating activities	$(1,856)	$(1,835)	$(6,555)	$(4,578)
Investing activities	(4,972)	2,800	(26,366)	6,376
Financing activities	88	7,550	42,146	7,740
Beginning cash & cash equivalent balance	28,310	3,830	12,345	2,807
Increase / (decrease) in cash & cash equivalents	(6,740)	8,515	9,225	9,538
Ending cash & cash equivalents balance	$21,570	$12,345	$21,570	$12,345

Operating Activities

Operating activities for the three months ended December 31, 2011 consumed $1,856,533 primarily due to net operating expenses. This compares to utilization of $1,834,661 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. $5,156,112 of this amount relates to continuing operations and $1,398,732 relates to discontinued operations. The portion shown as discontinued operations refers to Rio Verde which was deconsolidated in July 2011, after the distribution of the Rio Verde shares. This compares to utilization of $4,577,927 in the same period of last year mainly due to net operating expenses. $4,086,553 of this amount relates to continuing operations.

Financing Activities

For the year ended December 31, 2011 financing activities were $42,145,953, primarily from proceeds from a prospectus offering. $30,360,250 of this amount relates to continuing operations.

For the year ended December 31, 2010 financing activities were $7,739,865, primarily from proceeds from private placements. $5,015,695 of this amount relates to continuing operations.

Investing Activities

Investing activities for the three month period ended December 31, 2011 utilized $4,972,228 primarily due to capitalized exploration costs. This compares to a generation of $2,800,719 in the same period in the prior year, primarily due to proceeds on the sale of certain projects and a term deposit, cash assumed from Rio Verde as well as proceeds on disposal of assets held for sale.

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. $21,354,932 of this amount relates to continuing operations.

Investing activities for the year ended December 31, 2010 generated $6,376,544 primarily due to proceeds on disposal of assets classified as held for sale, proceeds on sale of certain projects, cash assumed from Rio Verde and Saber Energy Corp. and maturity of term deposits. $6,532,499 of this amount relates to continued operations and a negative amount of $155,955 relates to discontinued operations.

Liquidity and Capital Resources

Cash and cash equivalents were $21.5 million as of December 31, 2011. During the second quarter of 2011 there was a short form prospectus offering with net proceeds of approximately $27 million.

All cash equivalents are held in government securities (e.g. T-bills). The Company therefore has sufficient liquidity and capital resources to sustain operations through the medium-term.

Historically Talon's sole 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, 2009 to December 31, 2011 is as follows:

Balance	Jan 1, 2009	$4,994,057
Options	Granted 2009	269,779
Balance	Dec 31, 2009	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

12. Related Party Transactions

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

Effective April 1, 2011, the Company entered into a revised administrative and advisory services agreement (the "**Tau Agreement**") with Tau Capital Corp. ("**Tau**"). Warren Newfield, a director of Talon is also a director of Tau.. The Tau Agreement has an initial term of one year and automatically renews for additional one year terms unless previously terminated in accordance with the terms of the Tau Agreement. Under the Tau Agreement, Talon has agreed to pay Tau a monthly service fee of $58,500. For the year ended December 31, 2011, fees paid to Tau for these services were $625,500 (2010 - $366,870).

Consulting fees paid to officers of the Company (Luis Azevedo, Stuart Comline and Eddie Scholtz) for the year ended December 31, 2011 were $532,838 (2010 - $1,242,708). In addition an amount of $243,701 (2010 - $163,497) was charged to the Company by Tau in respect of additional services rendered. Consulting fees paid to a Company owned by an officer of the Company (Luis Azevedo) for the year ended December 31, 2011 were $360,254 (2010 - $165,860).

Accounts payable at December 31, 2011 include $60,000 payable to an officer of the Company (Luis Azevedo) for consulting fees (2010 - $1,010,688).

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 years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Aggregate compensation	$1,812,809	$1,795,884
Share based compensation	$943,766	$1,529,700

The directors and officers were awarded the following share options under the share option plan during the year ended December 31, 2011:

Date of grant	Number of options	Exercise price	Expiry
January 17, 2011	410,000	$1.58	January 2016
May 25, 2011	1,000,000	$1.95	May 2016
October 1, 2011	250,000	$1.00	October 2016

13. Risks

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. 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 other than the factors listed below, 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 following 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.

Insurance and Uninsured Risks

Talon's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, delays in mining, monetary losses and possible legal 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. Talon may also be unable to obtain or maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to Talon or to other companies in the mining industry on acceptable terms. Talon might also become subject to liability for pollution or other hazards that may not be insured against or that Talon may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Talon to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

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.

Competition

The mining industry is intensely competitive in all of its phases and the Company competes with many companies possessing greater financial and technical resources than itself. Competition in the iron ore mining industry is primarily for properties that can be developed and produced economically; the technical expertise to find, develop, and operate such properties; the labour to operate the properties; and the capital for the purpose of funding such properties. Many competitors not only explore for and mine iron ore, but conduct refining and marketing operations on a global basis. Such competition may result in the Company being unable to acquire desired properties, to recruit or retain qualified employees or to acquire the capital necessary to fund its operations and develop its properties. Existing or future competition in the mining industry could materially adversely affect the Company's prospects for mineral exploration and success in the future.

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.

Reduced Global Demand for Steel or Interruptions in Steel Production

Iron ore is used almost exclusively in the production of iron products, which are subsequently transformed into steel. As such, demand for iron ore is directly related to global levels of steel production. The global steel manufacturing industry is cyclical in nature and has historically been subject to fluctuations based on a variety of factors, including general economic conditions and interest rates. Fluctuations in the demand for steel can lead to similar fluctuations in iron ore demand. Accordingly, a decrease in economic growth rates could lead to a reduction in demand for iron ore, which could have an adverse effect on the Company's business. In addition, materials such as aluminum, composites and plastics are substitutes for steel and an increase in their use could adversely affect the demand for steel and consequently, the demand for iron ore.

Foreign Subsidiaries and Repatriation of Funds

The Company is a foreign corporation and conducts operations through foreign subsidiaries, and a substantial portion of its assets are held in such entities. Accordingly, any limitation on the transfer of cash or other assets between the parent corporation and such entities, or among such entities, could restrict the Company's ability to fund its operations efficiently. Any such limitations, or the perception that such limitations may exist in the future, could have an adverse impact upon the Company's valuation.

Foreign capital investments, such as capital investments to be made by Talon in its Brazilian subsidiaries, must be registered with the Central Bank of Brazil for purposes of profit remittances to non-resident investors such as the Company, reinvestment of profits and its eventual repatriation. The repatriation of such foreign capital investments requires the prior authorization of the Central Bank of Brazil, which may delay the timing of such repatriation.

Foreign Operations

The Company's operations are currently conducted primarily in Brazil. Talon also holds equity securities in other companies which have operations in Brazil and Botswana, and as such, the Company's operations and equity investments 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 of funds; 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.

Changes, if any, in natural resource or investment policies or shifts in political attitude in Brazil or, to a lesser extent, Botswana may adversely affect the Company's operations, or investments or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety.

Talon is required to enter into agreements with surface owners of the lands which it does not own. Although Brazilian laws guarantee mining companies access to third party lands, the Company may have to initiate legal action in court in order to set up indemnification amounts to such landowners, which may ultimately cause delays to the development of Talon's mineral projects.

Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's business, financial condition and/or results of operations.

Exchange Rate Fluctuations

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. Iron ore 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 iron ore and other mineral exploration and production in US dollar terms. The Company is also subject to exchange rate fluctuations through its ownership of shares in Tlou Energy, which are denominated in Australian dollars.

Market Price of Common Shares; Impact of Volatility; Litigation resulting from Volatility

Securities of small-cap companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally and market perceptions of the attractiveness of particular industries. In the past several years, worldwide securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered exploration or development stage companies, have experienced declines in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. As a consequence, market forces may render it difficult or impossible for the Company to secure placees to purchase new share issues at a price which will not lead to severe dilution to existing shareholders, or at all.

The price of Talon's common shares is also likely to be significantly affected by short-term changes in iron ore or other relevant mineral prices or in its financial condition or results of operations. Other factors unrelated to the Company's performance that may have an effect on the price of Talon's common shares include the following: the value of Tlou Energy and the ability of Tlou Energy to list its shares on a stock exchange, which could impact the value of the Tlou shares held by Talon; the extent of analytical coverage available to investors concerning the Company's business may be limited if investment banks with research capabilities do not follow the Company's securities; lessening in trading volume and general market interest in the Company's securities may affect an investor's ability to trade significant numbers of Talon's common shares; the size of the Company's public float may limit the ability of some institutions to invest in the Company's securities; and a substantial decline in the price of Talon's common shares that persists for a significant period of time could cause the Company's securities to be delisted, further reducing market liquidity.

As a result of any of these factors, the market price of Talon's common shares at any given point in time may not accurately reflect the Company's long-term value. Securities class action litigation often has been brought against companies following periods of volatility in the market price of their securities. The Company may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

Risks of Investments in Securities

Talon holds equity investments in a number of public and private companies and the Company may acquire additional investments in other entities from time to time. The value of the Company's equity investments is subject to the risks inherent in investments in securities, including the risk that the financial condition of the issuers of the equity securities held by the Company may become impaired or, in the case of securities listed on a stock exchange, that the general condition of the stock exchange may deteriorate. There is no guarantee that the shares of Tlou Energy which are presently not listed on any stock exchange, will be listed in the near term or at all.

Key Executives and Consultants

The Company is dependent on the services of key executives, including the directors of the Company and a small number of highly skilled and experienced employees and consultants. Due to the relatively small size of the Company, the loss of these persons or the Company's inability to attract and retain additional highly skilled employees or consultants may adversely affect its business and future operations.

Dividend Policy

No dividends on Talon's common shares have been paid by the Company to date. The Company anticipates that it will retain all future earnings and other cash resources for the future operation and development of its business. The Company does not intend to declare or pay any cash dividends in the foreseeable future. Payment of any future dividends will be at the discretion of the Company's board of directors after taking into account many factors, including the Company's operating results, financial condition and current and anticipated cash needs.

Possible Conflicts of Interest

Certain of the directors and the officers of the Company also serve as directors and/or as officers of other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict. The Company expects that any decision made by any of such directors and officers involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders, but there can be no assurance in this regard.

Political, Judicial, Administrative, Taxation or Other Regulatory Factors

Talon may be adversely affected by changes in political, judicial, administrative, taxation or other regulatory factors in the areas in which Talon does or will operate and holds its interests, including but not limited to, changes in Brazilian government policy or practices with respect to the granting or confirmation of mineral and exploration interests in Talon's mineral projects, as well as unforeseen matters.

14. Internal Control Over Financial Reporting

The CEO and the CFO, with the assistance of management, have conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as at December 31, 2011. Based on the evaluation, the CEO and the CFO have concluded that as at December 31, 2011 the Company's internal control over financial reporting is effective, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework.

No changes were made to the Company's internal control over financial reporting during the period beginning October 1, 2011 and ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

15. Disclosure Controls and Procedures

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

The CEO and the CFO, with the assistance of management, have conducted an evaluation of the effectiveness of the disclosure controls and procedures as at December 31, 2011. Based on the evaluation, the CEO and the CFO have concluded that as at December 31, 2011, the disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported within the appropriate time periods and forms. However, the disclosure controls and procedures cannot provide an absolute level of assurance because of the inherent limitations in control systems to prevent or detect all misstatements due to error or fraud.

16. Outlook

During the first half of 2012, Talon intends to undertake further mineralogical and metallurgical test work on the Trairão Project as well as progressing infrastructure trade off studies.

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 iron 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.

In the Company's Management's Discussion & Analysis for the third quarter of 2011, the Company disclosed various milestones that it intended to accomplish in 2012 at the Trairão Project. Given the significant potential size of the Trairão Project and the requirement to define geological units based on geological and ongoing metallurgical test results to support a large scale mine plan, Talon intends to delay the following milestones while it focuses on further mineralogical and metallurgical test work as well as progressing infrastructure trade off studies:

- Completion of a Preliminary Economic Assessment
- Completion of a Prefeasibility Study
- Positioning the Company to be able to apply for a mining licence