



**Talon Metals Corp.**  
**(Formerly BrazMin Corp.)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended December 31, 2007

Dated: March 28, 2008

**TABLE OF CONTENTS**

1. Forward-Looking Statements .....	3
2. Overview .....	4
3. Exploration Projects .....	5
4. Critical Accounting Estimates and Accounting Policies .....	15
5. Capital Expenditure on Exploration Projects .....	19
6. Disclosure of Outstanding Share Data .....	19
7. Results of Operations .....	20
8. Fourth Quarter .....	23
9. Financial Condition, Cash Flow, Liquidity and Capital Resources .....	23
10. Summary of Selected Annual Results .....	25
11. Related Party Transactions .....	25
12. Risks .....	26
13. Disclosure Controls and Procedures .....	27
14. Internal Control Over Financial Reporting .....	28
15. Outlook .....	28

*This Management's Discussion and Analysis ("MD&A") of the consolidated financial position for the year ended December 31, 2007, should be read in conjunction with the consolidated financial statements and notes of Talon Metals Corp. ("Talon" or the "Company") for year ended December 31, 2007. All financial information reported herein for the year ended December 31, 2007 has been audited.*

*Unless otherwise indicated all funds in this document are in Canadian dollars.  
This MD&A is dated March 28, 2008.*

## **1. Forward-Looking Statements**

This MD&A contains certain "forward-looking statements". All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding mineral resources, metallurgical results, the Company's exploration plans with respect to the São Jorge, Água Branca and other projects, exploration results and potential mineralization and resources) are forward-looking statements. These forward-looking statements reflect the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking statements are 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 statements, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: failure to establish estimated mineral resources, the preliminary nature of metallurgical results, changes in gold prices, changes in equity markets, the possibility that future exploration results will not be consistent with the Company's expectations, political developments in Brazil, changes to regulations affecting the Company's activities, delays in obtaining or failures to obtain required regulatory approvals, uncertainties relating to the availability and costs of financing needed in the future, the uncertainties involved in interpreting drilling results and other geological data, and the other risks involved in the gold exploration and development industry. Any forward-looking statement 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 any forward-looking statement, 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 statements are reasonable, forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.

The mineral resource figures referred to in this MD&A are estimates, and no assurances can be given that the indicated levels of gold will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource estimates included in this MD&A are well established, by their nature, resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. Mineral resources are not mineral reserves and do not have demonstrated economic

viability. There is no certainty that mineral resources can be upgraded to mineral reserves through continued exploration.

## 2. Overview

*Additional information relating to the Company, including the Company's Annual Information Form ("AIF") for the financial year ended December 31, 2007, is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

Talon is focused on the acquisition, exploration and development of high-quality precious and base metal opportunities in Brazil and elsewhere. Management believes that the long term fundamentals of the metals industry are attractive. Brazil is considered to be well suited to exploration and mining due to its attractive geology, infrastructure, fiscal environment and long history of mining. The Company has acquired a balanced portfolio of exploration properties ranging from advanced to grassroots stages of development.

The principal asset, the São Jorge Gold Project ("**São Jorge**") in Pará State, Brazil, is an advanced-staged gold exploration project and Phase I and Phase II diamond drilling and work programs were completed in 2005 and 2006, respectively. The results of the Phase I drilling were utilized in an independent Canadian National Instrument 43-101 ("**NI 43-101**") compliant mineral resource estimate undertaken by SRK Consulting in the latter part of 2006. Subsequent to that resource estimate, further drilling results were received and exploration undertaken, and in light of the significant increase in the price of gold in 2007, Talon has commissioned an independent consulting firm to undertake an updated NI 43-101 review of the mineral resource estimate for the Wilton Zone at São Jorge.

During 2007 at the Água Branca Gold Project, surface exploration was undertaken to identify and define the targets in preparation for drilling, which commenced in the fourth quarter.

Management continually reviews the Company's asset base and any potential new acquisitions to ensure optimum use of shareholders' funds. Talon's strategy of establishing a portfolio of projects at different stages of development is aimed at providing benefit from both near-term exploration success and any future rise in metal prices. The Company is currently reviewing Talon's property portfolio in Brazil and projects that do not meet Talon's objectives will be considered for farm out to third parties. In addition, the Company has commenced an active program to identify, evaluate and acquire interests in other prospective base and/or precious metal opportunities globally.

In the third quarter of 2007, the Company officially changed its name to Talon Metals Corp. from BrazMin Corp. The new name better reflects management's intention to broaden the geographic and commodity focus of the Company, as set out above. Coincident with the name change, the trading symbol on the Toronto Stock Exchange was changed to "TLO".

### **3. Exploration Projects**

#### **São Jorge Gold Project**

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

On July 16, 2004 Talon entered into an agreement whereby it acquired a 100% interest in the São Jorge exploration license and mineral rights from Centaurus Mineração e Participação Ltda ("**Centaurus**"). The license has an initial term of three years from the date of publication of the license on March 2, 2003. An application for the extension of the license for a second term of three years was submitted to the Departamento Nacional de Produção Mineral ("**DNPM**") in December 2005.

During 2005, the Company entered into two agreements with independent third parties whereby approximately 40,000 hectares of adjacent mineral rights were acquired. Total acquisition-related costs for the year ended December 31, 2005 amounted to US\$320,000. During 2006, a total of \$416,104 was expended on acquisition-related costs. No further cash payments are anticipated. On April 22, 2005, the Company entered into an agreement with Jaguar Resources do Brasil Ltda. whereby Talon acquired a 100% interest in three adjacent claims in the São Jorge area. On May 13, 2005, an agreement was made with Tapajós Mineração and a Mr. Pacheco whereby Talon acquired a 100% interest in certain adjacent claims within the São Jorge area. One of the vendors of the latter claims is entitled to receive a bonus at the time São Jorge reaches the development stage. The bonus amount corresponds to 1% of the proven mineable reserves as demonstrated by a feasibility study relating to the São Jorge area. This study is to be prepared in accordance with internationally accepted practices and be compliant with NI 43-101. This 1% bonus was purchasable by the Company on or before September 30, 2006 for an amount of US\$2,500,000. The Company has elected not to exercise its right to purchase the bonus. In addition, cash option payments totalling US\$440,000 were payable, all of which have been made. Also, one of the acquired properties has a residual royalty amounting to 2% of gross proceeds from any mining operation, 1.5% of which is purchasable at any time for US\$500,000.

On May 5, 2006, the Company issued a press release in respect of certain alleged irregularities affecting Licence #024, being one of the licences that were obtained from Centaurus in 2004. Talon has received a document from the Brazilian DNPM, dated August 7, 2006, indicating that in the event that any such alleged irregularity should result in Licence #024 being nullified by the DNPM, then Licences #058 and #275, each owned 100% by the Company, will prevail and be granted priority rights over the São Jorge deposit and a large area surrounding such deposit.

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

separate laboratory, independent of Talon, for check analyses. The results indicate acceptable levels of correlation.

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

In a news release dated September 1, 2006, the Company announced the results of SRK's mineral resource estimate for the Wilton Zone. The zone of mineralized material has been constrained to a depth of about 236 metres below surface by an envelope delimited by hanging wall and footwall boundaries of a structural-alteration zone associated with gold mineralization. This zone has been delineated for 700 metres along a strike direction of 290°, with a sub-vertical dip. The average estimated true thickness of this zone is 60 metres. Within this broader zone of mineralization, four main high-grade gold zones, as well as mineralized sub-zones are present. These main zones are sub-parallel to the strike of the deposit and have estimated average true thicknesses ranging from one to seven metres.

Using a 0.5 grams per tonne ("g/t") gold cut-off, SRK classified only that material in the Wilton Zone occurring within 100 metres of surface as a mineral resource. SRK's mineral resource estimates are presented in Table 1.

**Table 1: Wilton Zone Mineral Resource Estimates**<sup>1,2,3,4</sup>  
(approximately 0 to 100 metres depth)

Category	Rock Type	Tonnage [Mt]	Gold <sup>3,4</sup>		
			g/t	1000 kg	000' ounces
Indicated	Saprolite	0.50	1.30	0.65	21
Indicated	Unweathered Bedrock	4.50	1.18	5.31	170
<b>Indicated</b>	<b>Unweathered Bedrock and Saprolite</b>	<b>5.00</b>	<b>1.19</b>	<b>5.95</b>	<b>191</b>
Inferred	Saprolite	0.01	0.89	0.10	0
Inferred	Unweathered Bedrock	0.02	1.09	0.02	1
<b>Inferred</b>	<b>Unweathered Bedrock and Saprolite</b>	<b>0.03</b>	<b>1.02</b>	<b>0.03</b>	<b>1</b>

<sup>1</sup> Effective date August 30, 2006.

<sup>2</sup> For additional information on São Jorge and these mineral resource estimates see the independent technical report entitled "BrazMin Corp.: Resource Estimate and Technical Report for the São Jorge Project, Brazil", dated October 12, 2006, which has been filed on SEDAR and may be accessed on the Company's profile at [www.sedar.com](http://www.sedar.com).

<sup>3</sup> Gold cut-off grade 0.5 g/t gold, all composite assays capped at 20 g/t gold.

<sup>4</sup> Numbers in columns expressed in significant figures and may not total due to rounding.

Mineral resources have been classified according to "CIM Standards on Mineral Resources and Reserves: Definition and Guidelines" (December 2005) and prepared by G. David Keller, P. Geo. Mr. Keller is a Professional Geoscientist with the Association of Professional Geoscientists of Ontario and an employee of SRK. Mr. Keller is a "Qualified Person" within the meaning of NI 43-101 and independent of Talon.

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

During the first quarter of 2006, three 50 kilogram representative composite core samples were sent to SGS Lakefield Metallurgical Laboratory ("**Lakefield**") in Lakefield, Ontario, Canada, an accredited laboratory independent of Talon, for preliminary metallurgical testing. Samples were analyzed and tested by Lakefield under the direction of Mr. John R. Goode, P.Eng. A summary of the results of this work was reported in a Talon news release dated September 1, 2006. The work demonstrated that on the three representative samples, gold mineralization from São Jorge is very responsive to the standard gold recovery technique of carbon-in-leach on gravity tailings. Mr. Goode was contracted by Talon to coordinate and interpret the metallurgical test work performed by Lakefield. Mr. Goode is independent of Talon and a "Qualified Person" within the meaning of NI 43-101.

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

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

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

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

Also in 2007, in light of the significant increase in the price of gold, Talon has commissioned an independent consulting firm to undertake an updated NI 43-101 mineral resource estimate for the Wilton Zone at São Jorge, which will incorporate drilling results received subsequent to the original resource estimate completed in the second half of 2006.

A total of \$331,173 has been expended on São Jorge during the twelve month period under review.

### **Água Branca Gold Project**

On July 16, 2004, the Company acquired through Brazmin Ltda a 100% interest in the underlying mineral rights to a 9,356 hectare area named the Água Branca Gold Project ("**Água Branca**"), located in the Tapajós Gold District within the Pará State, Brazil, from an independent vendor and Centaurus. These licences have been converted to exploration licences and transferred into the name of Brazmin Ltda, a 100% held subsidiary of Talon. Nine payments totalling approximately US\$150,000 have been made to the vendors. A further option payment is due in March 2009 of approximately US\$150,000. The property area is subject to a 2% net smelter return royalty, with a buyout of US\$2 million.

In September 2006, Brazmin Ltda signed option agreements to acquire a 100% interest in an additional 7,725 hectares of ground adjacent to the above licences. Staggered option payments are payable in respect of the ground acquired in September 2006.

This brings the total area at Água Branca to 17,081 hectares. The Company is currently negotiating to acquire additional land contiguous to the main Água Branca block.

Água Branca is situated approximately 70 kilometres west-northwest of São Jorge and 30 kilometres northwest of the Transgarimperia Highway. A recently completed road from the highway to the nearby community of Água Branca facilitates access for personnel and equipment.

Mineralization at Água Branca is associated with linear zones of hydrothermal alteration within a northwest-trending crustal-scale deformation zone characteristic of the Tapajós Gold District. Água Branca is the site of widespread historic "*garimpo*" (artisanal) workings, in the form of hand dug pits and trenches up to 35 to 40 metres deep from which "*garimpeiros*" (artisanal miners) extracted gold from saprolite, the in-situ weathered rock overlying the bedrock. In 1996, TVX Gold Inc. conducted limited exploration activities at Água Branca, including channel and auger sampling of saprolite in five zones, as well as bedrock testing of one of these zones via two diamond drill holes. These two holes returned results of 1.1 g/t Au over 40 metres and 0.9 g/t Au over 32 metres.

Initial fieldwork by Talon at Água Branca commenced in July 2006, when a field crew was mobilized to the property to conduct a program of geological mapping and systematic channel sampling from saprolite and mottled-zone exposures, shafts and adits. Results were reported in Talon news releases dated September 19, 2006, October 17, 2006 and November 9, 2006.

A 550.71 line kilometre airborne Magnetometer geophysical survey was flown over Água Branca in July 2006 by Fugro-Geomag, an ISO9001:2000 accredited company, independent of Talon. Line spacing for the survey ranged from 200 to 400 metres.

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

Highlights included:

- 35.62 g/t Au over 0.90 metres and 34.67 g/t Au over 0.60 metres in hole ABD-013;
- 1.89 g/t Au over 12.47 metres, 2.15 g/t Au over 9.80 metres and 14.20 g/t Au over 1.25 metres in hole ABD-011;
- 120.36 g/t Au over 1.00 metres in ABD-009 ;
- 31.32 g/t Au over 1.17 metres in ABD-005 ; and
- 6.21 g/t Au over 5.75 metres in ABD-004.

In the first six months of 2007, surface exploration was carried out over several regional targets. Surface work included mapping and rock and soil sampling. Anomalous gold values were obtained at the Serra da Abelha and Jerimun targets. At Serra da Abelha the results of grid-based soil sampling delineated a northwest-trending zone of anomalous gold values. The anomalous zone, as defined by the 100 ppb Au in soil contour with values up to 521 ppb Au, is 800 metres long and averages 240 metres wide. The gold in soil anomaly is open to the northwest.

In the third quarter of 2007, further work was done to delineate drill targets at Água Branca. At the Heaven West target, geological and structural mapping was conducted along with systematic channel sampling. High-grade grab samples from quartz veins, announced by the Company in a news release dated September 5, 2007, included 132.2, 109.9, 107.0, 66.0 and 29.9 g/t Au. Highlights from channel sampling of quartz veins and hydrothermally altered monzogranite included:

- 48.5 g/t Au over 1.50 metres in PGM-11\* ;
- 14.5 g/t Au over 1.40 metres in CGM-02\* including 37.6 g/t Au over 0.40 metres;
- 3.23 g/t Au over 5.70 metres in PGM-01\*\* including 22.6 g/t Au over 0.20 metres; and
- 44.3 g/t Au over 0.30 metres in PGM-15.

(\*open in one direction)

(\*\* open in two directions)

At Serra da Abelha, which is defined by an 800 by 250 metre wide +100 ppb gold in soil anomaly, an infill soil program, structural mapping and rock grab sampling was conducted over the main anomalous zone during the third quarter of 2007. The regional soil grid was extended on a northwest direction in order to close the extension of the existing soil anomaly. Results from extension of the soil grid are pending.

In the fourth quarter, Talon announced the discovery of a third new target area, the Sierra Delta target, at Água Branca in a news release dated October 22, 2007. Sierra Delta is defined by a north-south trending gold in soil anomaly. At the +100 ppb level, the anomaly measures 800 metres long by between 200 and 500 metres wide. The anomaly is open at the northern end of the survey grid, where it widens and records higher values, with values of up to 391 ppb Au. Additional work, including extending the current soil sampling grid, is underway to better evaluate this new target area.

In October 2007, Talon initiated a 2,000-metres drill program to test the Serra da Abelha, Jerimun, Heaven West and Sierra Delta targets at Água Branca. At the end of 2007, the Company had drilled 1,260.96 metres in eleven drill holes. Eight of the drill holes were drilled at Serra da Abelha target, one drill hole was drilled at Jerimun target and two drill holes were drilled at the Heaven West target. Results from Serra da Abelha and Jerimun were received by the end of 2007.

The drilling at Serra da Abelha target intersected a coarse-grained, equigranular and undeformed syenogranitic intrusive body, which was intensely hydrothermally altered. The main alteration assemblage includes silica, K-feldspar, dark colored chlorite and minor sericite and carbonate. Overall, drilling has indicated that the Serra da Abelha is a sulphide-poor system and the gold mineralization is restricted to narrow zones. Selected drill intercepts included:

- 9.54 g/t Au over 0.98 meter in hole ABD-020-07;
- 3.05 g/t Au over 1.00 metre in hole ABD-014-07;
- 3.72 g/t Au over 1.00 metre in hole ABD-018-07; and
- 1.50 g/t Au over 2.24 metres in hole ABD-015-07.

One pioneer drill hole (ABD-022-07) drilled at the Jerimun target successfully intersected two mineralized shear zones in the saprolitic profile, reporting 1.31 g/t Au over 7.45 metres and 1.24 g/t over 7.14 metres. Oxidized sulphides constitute between 1.0% and 4.0% of the mineralized rock and occur disseminated along the sericitic alteration zones, within these shear zones.

Drilling at Heaven West was completed in January 2008 and the assay results from the drill samples are expected to be available in April 2008. After completing the Heaven West drilling program, the drill rig has been moved to the Sierra Delta target, where two of eight planned drill holes have been completed.

During the twelve months ending December 31, 2007, a total of \$1,006,849 was spent at Água Branca.

### **Barra do França Gold Project**

In October 2007, as part of a due diligence review Talon conducted a preliminary evaluation of the Barra do França Gold Project ("**Barra do França**"), which is located in Piauí State in the northeastern region of Brazil. The exploration activities comprised rock channel and grab sampling (101 samples) accompanied by geological reconnaissance mapping.

In a news release dated February 21, 2008, Talon announced the results of this exploration program and that it had signed a binding Letter of Interest ("**LOI**") with Sagitario Serviços Minerais S/C Ltda ("**Sagitario**") to acquire a 100% interest in the 8,757 hectare Barra do França Gold Project.

Under the terms of the LOI, Talon will pay;

- US\$15,000 to secure the option on the property and to conduct a due diligence review. This initial payment has been made;
- US\$85,000 on May 11, 2008;
- US\$150,000 on February 11, 2009 to finally acquire a 100% interest in Barra do França; and
- Sagitario will retain a royalty of 1% net smelter return ("**NSR**") that can be acquired by Talon at any time through the payment of US\$500,000.

Highlights of the intersections obtained from the rock channel sampling program included:

- 6.59 g/t Au over 10 metres;
- 3.21 g/t Au over 10 metres;
- 2.04 g/t Au over 11 metres;
- 1.25 g/t Au over 5 metres;
- 0.96 g/t Au over 10 metres;
- 0.90 g/t Au over 10 metres; and
- 0.81 g/t Au over 10 metres.

In addition to the channel sampling program, 62 grab samples were randomly collected along the mineralized zone, which returned assay results which included the following grades; 19.90, 8.88, 3.16, 2.22, 1.77 and 1.19 g/t Au.

Based on the preliminary results, the Company designed a more detailed exploration program that was initiated in February 2008.

### **Tocantinzinho Gold Project**

On September 13, 2006, Talon announced that an agreement had been reached whereby Brazauro Resources Corporation ("**Brazauro**") (TSX-V:BZO) would acquire all of Talon's interests in the Tocantinzinho Gold Project ("**Toc**") in exchange for 13,150,000 treasury shares of Brazauro. The acquisition agreement was effected on February 7, 2007. Pursuant to this agreement, the Company entered into a voting trust and placement rights agreement (the "**Placement Rights Agreement**") with Brazauro, which is filed on SEDAR and available at [www.sedar.com](http://www.sedar.com).

During the third quarter of 2007, Talon sold 8,214,500 common shares of Brazauro (the "**Disposition**") for gross proceeds of approximately \$6.5 million; this represented approximately 62% of the Company's previous share position in Brazauro. The Company continues to hold 4,935,500 common shares of Brazauro which represents about 6% of the outstanding common shares of Brazauro. In connection with the Disposition, Talon and Brazauro entered into an agreement dated September 18, 2007, pursuant to which they agreed to: (1) terminate the

Placement Rights Agreement; and (2) that, for a period of six months after the date of the Disposition, Talon will not sell, transfer, assign or complete any other transaction which alienates, or could have the effect of alienating, any of the remaining 4,935,500 common shares of Brazauro held by Talon. These remaining Brazauro shares continue to be designated as "held for trading" and the Company will continue to review this position on a regular basis, with a view to maximizing shareholder value.

As Toc is now owned and operated by Brazauro, no further expenditures are contemplated by Talon for this property.

### **Campo Grande Gold Project**

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

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

Work by previous operators at Campo Grande outlined a 1.8 kilometre by 250 metre semi-coincident gold, arsenic and antimony soil anomaly. Between January and April 2007, Talon conducted a nine-hole (1,456 metre) drill program with the objective of providing an initial drill test of the soil anomaly. Highlights of this program included hole CGD-002, which intersected 1.03 g/t Au over 7.98 metres from a depth of 20.90 metres, and 1.18 g/t Au over 20.55 metres from a depth of 45.20 metres, including 3.02 g/t Au over 4.47 metres. All significant assays from this program are included in the Company's news release of May 14, 2007.

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

During the twelve months ending December 31, 2007, a total of \$380,663 was spent at Campo Grande.

### **Tartarugalzinho Gold Project**

In 2005, Talon purchased an option to acquire a 100% interest in the 9,602 hectare Tartarugalzinho Gold Project ("**Little Turtle**") from an independent third party. There is an underlying royalty of 1.2% payable to the independent third party, purchasable for US\$1 million. Under the terms of the agreement, Talon agreed to make annual payments of US\$100,000 until the commencement of commercial production. Little Turtle is located in Amapá State, Brazil.

In the 1980's, a major mining company did extensive work in the area, including some 88 diamond drill holes. In 2005, Talon performed surface work on the property and completed a 13 hole (1,504 metre) diamond drilling program. Gold assay results from drilling by the Company in 2005 generally confirm the results obtained by the previous operator.

During the third quarter of 2007, Talon entered into an agreement to assign its option to acquire a 100% interest in this project to Beadell Resources Limited ("**Beadell**"). Beadell completed an initial public offering on the Australian Stock Exchange ("**ASX**") on September 26, 2007 and trades under the symbol "BDR". Under the terms of the agreement Talon received a total of US\$650,000 in cash and shares from Beadell. The share consideration amounted to 2.45 million common shares of Beadell. Under ASX regulations, these shares are held in escrow by the exchange for a period of twelve months from the date of listing. Talon's shares of Beadell are registered in the name of Seatrain Holdings Limited, a wholly owned subsidiary of Talon. The shares are currently designated as "held for trading" on the Company's Consolidated Balance Sheets.

As Little Turtle is now owned and operated by Beadell, no further expenditures are contemplated by Talon for this property.

### **Other Properties**

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

The Serrita and Serrita Norte Project are two adjoining parcels located in Pernambuco State, Brazil (together the "**Serrita Project**"). Brazmin Ltda currently owns a 65% interest in the Serrita Project. On February 8, 2006, the Company entered into an option agreement with Troy Resources NL ("**Troy**") of Australia. Pursuant to the agreement, Troy has the right to acquire up to a 75% interest in the Serrita Project by spending US\$700,000 over four years and making certain cash payments to the Company and its partners. Should Troy earn its 75% interest, the Company may retain a 16% interest or elect to convert to a NSR. The Company has been advised by Troy of its intention to conduct an initial drill test at the Serrita Project in 2008.

The Company decided to discontinue work on the Terra Nova Project. As such, an amount of \$40,700 was written down to reduce this project to a value of zero in 2007.

The Rio Maria Project ("**Rio Maria**") consists of five exploration licence applications covering 43,379 hectares in the name of Brazmin Ltda and located in southeastern Pará State. Past exploration at Rio Maria focused primarily on iron oxide copper-gold and sedimentary copper-zinc potential. However, property-scale exploration has identified Rufino's trend, a +10-kilometre gold anomaly that is yet to be drill tested. Based on exploration by Talon and past operators, the Company determined that the Rio Maria did not meet Talon's current corporate objectives and a decision was made to farm the project out. As such, Rio Maria was written down by \$62,405 to reduce the value of this project to zero in 2007.

In the fourth quarter of 2007, Brazmin Ltda entered into an agreement with Reinarda Mineracao Ltda. ("**Reinarda**"), a Brazilian subsidiary of Troy, regarding Rio Maria. Under the terms of the agreement Reinarda can earn a 51% interest in Rio Maria by paying Brazmin Ltda a total of US\$150,000 and making expenditures of US\$100,000 over twelve months. Reinarda can then increase their ownership of Rio Maria to 100%, with a 2% NSR royalty payable to Brazmin Ltda, by making an additional US\$200,000 payment and further expenditures totalling US\$250,000 over the next 24 months. One half of the 2% NSR (i.e. 1%) can be purchased by Reinarda for a one time payment of US\$1,000,000. The Company has been informed of Troy's intention to commence exploration of Rio Maria as soon as is practicable.

The Batistão Gold Project ("**Batistão**") comprises a 20,000-hectares property, which is 100% owned by Brazmin Ltda. The project was secured by Talon in 2007 and is located on the Peixoto de Azevedo Mineral Province on the northern portion of Mato Grosso State, Brazil.

Between 1992 to 1995, Western Mining Corporation conducted an exploration program at Batistão which included stream sediment survey, soil geochemistry, induced polarization survey, auger drilling and 24 reverse circulation drill holes which partially tested the mineralized system in two distinct zones. Gold intercepts from this historical drilling program included:

- 33.00 metres grading 1.72 g/t Au;
- 7.00 metres grading 3.22 g/t Au;
- 8.00 metres grading 1.56 g/t Au;
- 6.00 metres grading 3.39 g/t Au; and
- 3.00 metres grading 7.78 g/t Au.

Gold mineralization at Batistão is structural-controlled and related to hydrothermal alteration zones plus quartz veining associated with west-northwest trending shear zones that cross cut felsic silica-saturated intrusive rocks.

Talon relocated all the historical drill holes at Batistão and completed the compilation of existing geological, geochemical and geophysical data. Based on the interpretation of these data, the Company intends to conduct a 1,000-metre drill program in the second half of 2008 to validate the best intercepts and test new geological/structural concepts.

During the twelve months ended December 31, 2007, an amount of \$298,227 was expended on Other Properties, primarily related to property maintenance and acquisition costs.

### **Qualified Person**

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

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

(a) General -

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to select accounting policies and make estimates. Such estimates may have a significant impact on the financial statements and the valuation of stock-based compensation expense.

Actual amounts could differ from the estimates used and, accordingly, affect the results of the operation.

(b) Estimates -

Because a precise determination of assets and liabilities depends on future events, the preparation of financial statements for a period necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expense during the period. Actual amounts could differ from these estimates.

(c) Cash and cash equivalents –

Cash and cash equivalents include cash and term deposits with original maturities less than three months from the date of acquisition.

(d) Equipment –

Equipment is stated at cost and amortized at 20% per annum on a declining balance. One-half of the above rate is applied in the year of acquisition.

(e) Mineral properties and deferred exploration 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 a 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 have 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 are not recoverable, these costs are written down to net recoverable amount of the deferred exploration expense.

Although the Company believes it has taken reasonable measures to ensure proper title to its mineral properties in which it has an interest, there is no guarantee that title to any of its mineral properties will not be challenged or impaired. Third parties may have valid claims underlying portions of the Company's interests, including prior unregistered liens, agreements, transfers or claims, including native land claims, and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

The amounts shown for mineral properties and deferred exploration costs represents cost to date, and do not necessarily represent present or future values as they are entirely dependent upon the economic recovery of future reserves.

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

(f) Stock based compensation –

The Company uses the accounting standard for stock-based compensation which requires the use of the fair value method for valuing stock option grants. Under this method, compensation cost attributable to all share options granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

(g) Long-term investments -

The Company's long-term investments are classified as "held-for-trading" securities and are measured at fair value. Changes in fair value are recognized in net income. Investments in securities having quoted market values and which are publicly traded on a recognized securities exchange are recorded at values based on the current bid prices.

(h) Asset retirement obligation –

An asset retirement obligation is a legal obligation associated with the retirement of long-lived assets that the company is required to settle.

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred, when a reasonable estimate of the fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company does not have any significant asset retirement obligations for the years presented.

(i) Income taxes –

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

(j) Foreign currency translation –

The functional currency of the company is Canadian dollars. A portion of the Company's transactions are denominated in United States dollars and Brazilian reals. The Company's foreign subsidiaries are integrated operations and financial statements stated in foreign currencies are translated using the temporal method. Monetary assets and liabilities denominated in United States dollars or Brazilian reals are translated to Canadian dollars at the rate in effect at the balance sheet date. Non-monetary items are translated at historical rates. Revenue and expenses are translated at average rates prevailing in effect during the year. The resulting gain or loss is included in the statement of operations.

(k) Financial instruments –

The Company's financial instruments include cash and cash equivalents, accounts receivable, investments in Brazauro and Beadell shares, and accounts payable and accrued liabilities. The fair value of these financial instruments approximates carrying value.

(l) Basic and diluted earnings (loss) per share –

The Company uses the treasury stock method to determine the dilutive effect of the share purchase warrants and the stock options. Per share amounts have been computed based on the weighted average number of common shares outstanding for the period presented. Diluted earnings (loss) per share is calculated by adjusting outstanding shares to take into account the dilutive effect of stock options and share purchase warrants.

(m) Risks –

The exploration and development of mineral deposits involves significant financial risks. The success of the Company will be impacted by a number of factors including financing, currency, exploration and extraction risks, political uncertainty, regulatory issues and environmental and other regulations.

The share price of the Brazauro and Beadell shares are subject to volatility. There can be no assurance that an active trading market for the Brazauro and Beadell

shares is sustainable. The trading price could be subject to wide fluctuations in response to factors beyond the Company's control including, quarterly variations in Brazauro's and Beadell's results of operations, changes in earnings, estimates by analysts, conditions in the industry and general market or economic conditions. Such fluctuations could adversely affect the value of the Brazauro and Beadell shares held by the Company.

(n) Share issue costs –

Share issue costs related to equity financing are charged directly to deficit.

(o) Revenue recognition –

Revenue comprises interest income and is recognized when earned.

## 5. Capital Expenditure on Exploration Projects

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

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
<b>Brazilian Resources</b>		
<b>Mineração Ltda</b>		
São Jorge Project	\$5,446,087	\$5,114,914
<b>BRAZMIN LTDA</b>		
Água Branca Project	1,900,633	893,784
Campo Grande Project	740,485	359,822
Tartarugalzinho Project	-	583,790
Other Projects	710,190	474,368
<b>EIMB</b>		
Tocantinzinho Project	-	744,214
	<u>\$8,797,395</u>	<u>\$8,170,892</u>

## 6. Disclosure of Outstanding Share Data

The following details the share capital structure as at March 28, 2008:

	<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Total</u>
Common Shares			27,054,222
Stock options	Apr 18, 2010	\$1.25	1,495,000
Stock options	May 31, 2011	\$2.00	230,500
Stock options	Dec 20, 2011	\$1.00	200,000
Stock options	Apr 18, 2012	\$0.98	50,000
Stock options	Aug 23, 2012	\$1.00	365,000
Total fully diluted number of shares			<u>29,394,722</u>

**A summary of options outstanding as at December 31, 2007 is presented below:**

	<b>Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding – beginning of year	2,452,500	\$1.36
Granted	300,000	0.98
Granted	415,000	1.00
Forfeited	(320,000)	1.25
Forfeited	(207,000)	2.00
Forfeited	(250,000)	0.98
Forfeited	(50,000)	1.00
<b>Total</b>	<b>2,340,500</b>	<b>\$1.10</b>
Exercisable – end of year	1,942,167	\$1.31

## **7. Results of Operations**

### **Review of Operations**

(thousands of \$)

	<b>Three months to Dec 31, 2007 (unaudited)</b>	<b>Three months to Dec 31, 2006 (unaudited)</b>	<b>Year ended Dec 31, 2007</b>	<b>Year ended Dec 31, 2006</b>
Interest Income	<b>\$172</b>	\$125	<b>\$415</b>	\$428
Administration <sup>1</sup>	<b>534</b>	366	<b>1,833</b>	1,616
Foreign exchange gain (loss)	<b>24</b>	(205)	<b>(120)</b>	(137)
Stock based compensation expense	<b>407</b>	347	<b>255</b>	651

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

Net earnings for the year ended December 31, 2007 of \$6,753,593 or \$0.25 per share (basic and diluted) were primarily due to gains on the sale of mineral properties and investments of \$9,553,975 partly offset by operating expenses of \$2,088,688 and foreign currency translation losses. These gains included \$9.3 million related to the gain on the sale of the Toc project in the first quarter of 2007, and \$0.2 million related to the sale of approximately 62% of the Company's share position in Brazauro in the third quarter. Regarding the revaluation to the bid price as at December 31, 2007, Talon also recorded an unrealized gain for the year of

\$227,336 related to the Beadell shares, and an unrealized loss of \$1,233,875 for the year related to the remaining Brazauro shares.

The net loss for the year ended December 31, 2006 was \$1,976,205 or \$0.08 per share (basic and diluted) primarily due to operating expenses of \$2,267,086 which were partially offset by interest income.

Stock based compensation expense is a function of stock options granted, vested and cancelled during the reporting period. In 2007, 827,000 options were cancelled and 715,000 options were granted.

### **Capitalized exploration**

Capitalized exploration for the years ended December 31, 2007 and 2006, amounted to \$2,091,976 and \$3,401,051 respectively. This relates mainly to work done on the Água Branca, Campo Grande and other projects.

### **Stock Options**

A summary of options outstanding as at December 31, 2007 is presented in Section 6 of this MD&A. For the twelve months ended December 31, 2007 an amount of \$290,826 was expensed for options granted in 2007. An amount of \$35,450 was reversed against stock based compensation expense in respect of the unvested portion of options forfeited during 2007. The net amount of \$255,376 is shown on the Consolidated Statements of Operations and Deficit.

During the third quarter of 2007, the Company issued a total of 415,000 stock options to officers and employees. These options expire in August 2012 and vest over a period of 24 months. The exercise price is \$1.00 per share. All these options, other than the 50,000 options which were forfeited, are outstanding at December 31, 2007. The Company determined the fair value of these options using the Black-Scholes option pricing model. Assumptions used were an expected life of five years, risk-free interest rate of 4.3%, volatility of 110% and dividends of 0%.

During the second quarter of 2007, the Company issued a total of 300,000 stock options to management. These options expire in April 2012 and vest over a period of 18 months. The exercise price is \$0.98 per share. All these options, other than 250,000 of them cancelled during the fourth quarter of 2007, are outstanding at December 31, 2007. The Company determined the fair value of these options using the Black-Scholes option pricing model. Assumptions used were an expected life of five years, risk-free interest rate of 4.3%, volatility of 102% and dividends of 0%.

No stock options were issued in the first or fourth quarters of 2007.

### Summary of Quarterly Results

	Three months ended Dec 31, 2007 (unaudited)	Three months ended Sept 30, 2007 (unaudited)	Three months ended June 30, 2007 (unaudited)	Three months ended March 31, 2007 (unaudited)
Total Revenues	\$172,156	\$79,374	\$79,791	\$83,989
Net Earnings / (Loss)	(1,722,479)	8,171	(978,845)	9,446,746
Net Earnings / (Loss) basic per share	(0.06)	0.00	(0.04)	0.35
Net Earnings / (Loss) diluted per share	(0.06)	0.00	(0.04)	0.30

	Three months ended Dec 31, 2006 (unaudited)	Three months ended Sept 30, 2006 (unaudited)	Three months ended June 30, 2006 (unaudited)	Three months ended March 31, 2006 (unaudited)
Total Revenues	\$124,890	\$111,512	\$121,317	\$70,208
Net Earnings / (Loss)	(793,500)	(214,142)	(858,970)	(109,593)
Net Earnings / (Loss) basic per share	(0.03)	(0.01)	(0.03)	(0.01)
Net Earnings / (Loss) diluted per share	(0.03)	(0.01)	(0.03)	(0.01)

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

Foreign currency translation gain or loss reflects changes in Canadian dollar / US dollar and US dollar / Brazilian real exchange rates as funds are moved from the Company's bank account to Brazil to pay corporate and exploration expenses.

Quarterly trends in Net Loss are also impacted by gains and losses on investments and mineral properties, both realized and unrealized. This factor was particularly significant in the quarter ending March 31, 2007 as net earnings included a realized gain on the sale of the Toc project of \$9,301,551. In addition, net loss in the first quarter of 2007 also includes an unrealized gain on the Brazauro shares of \$394,500 related to the change in market value between the date the investment was obtained and the period end date.

In the second quarter ending June 30, 2007, Net Loss includes an unrealized loss of \$657,500 on the change in market value of the Brazauro shares during the period.

In the third quarter ending September 30, 2007, the total realized and unrealized gains on investments and mineral properties was \$486,878 as a result of both the

sale of the Little Turtle to Beadell, as well as the sale of approximately 62% of the Company's share position in Brazauro.

## 8. Fourth Quarter

Net losses for the three month period ending December 31, 2007 and 2006 \$1,722,479 or \$0.06 per share (basic and diluted) and \$793,500 or \$0.03 per share (basic and diluted) respectively. In the fourth quarter of 2007, there was an unrealized loss of \$773,445 on the change in market value of the Brazauro shares during the period. There was also an unrealized loss of \$40,248 on the change in value of Beadell shares during the fourth quarter of 2007.

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

### Cash Flow Highlights

(thousands of \$)

	<b>Three months to Dec 31, 2007 (unaudited)</b>	<b>Three months to Dec 31, 2006 (unaudited)</b>	<b>Year ended Dec 31, 2007</b>	<b>Year ended Dec 31, 2006</b>
Operating activities	<b>\$(121)</b>	\$ (399)	<b>\$(1,439)</b>	\$(1,684)
Financing activities	-	(167)	-	10,685
Investing activities	<b>(620)</b>	(709)	<b>4,600</b>	(3,448)
Beginning cash & cash equivalent balance	<b>15,340</b>	12,714	<b>11,439</b>	5,887
Increase/ (decrease) in cash & cash equivalents	<b>(741)</b>	(1,275)	<b>3,160</b>	5,552
Ending cash & cash equivalent balance	<b>\$14,599</b>	\$11,439	<b>\$14,599</b>	\$11,439

### Operating Activities

Operating activities for the year ended December 31, 2007 consumed \$1.4 million compared with \$1.7 million in 2006. For the three months ended December 31, 2007 operating activities consumed \$0.121 million, versus \$0.399 million in the same period a year ago.

### **Financing Activities**

There were no financing activities for the year ended December 31, 2007, while in the prior year, financing activities generated \$10.7 million as a result of a private placement financing. For the three months ended December 31, 2007 financing activities generated \$nil versus a usage of \$0.167 million in the same period a year ago.

### **Investing Activities**

Investing activities for the year ended December 31, 2007 generated \$4.6 million primarily due to proceeds of \$6,489,370 from the sale of the Brazauro shares as discussed previously. In the same period a year ago, investing activities consumed \$3.4 million primarily due to investment in mineral properties and deferred exploration expenses. For the three months ended December 31, 2007 investing activities utilized \$0.62 million versus \$0.71 million in the same period a year ago.

The Company estimates total 2008 expenditures to be approximately \$2 million. Cash and cash equivalents were \$14.6 million as of December 31, 2007. The Company therefore has sufficient liquidity to sustain operations through the medium-term.

### **A summary of Contributed Surplus for the two years ended December 31, 2007 is as follows:**

Balance	Dec 31, 2005	\$931,827
Options	Granted 2006	651,462
Warrants	Expired 2006	1,109,363
Balance	Dec 31, 2006	2,692,652
Warrants	Expired 2007	171,910
Options	Forfeited 2007	290,826
Options	Granted 2007	(35,450)
Balance	Dec 31, 2007	<u>\$3,119,938</u>

## 10. Summary of Selected Annual Results

(in thousands of \$)

	Year to Dec 31, 2007	Year to Dec 31, 2006	Year to Dec 31, 2005
Total Revenue	\$415	\$428	\$52
Net gain (loss)	6,754	(1,976)	(2,858)
Basic and diluted earnings (loss) per share	0.25	(0.08)	(0.17)
Total Assets	26,893	19,864	10,711
Total Liabilities	300	280	778
Dividends declared	0	0	0
Foreign exchange loss	120	137	63

The primary factor that has caused year over year variations in annual results is the disposition of Toc and the resulting \$9.3 million realized gain in the first quarter of 2007.

## 11. Related Party Transactions

On August 1, 2004, the Company entered into an administrative service agreement (the "**Tau Agreement**") with Tau Capital Corp. ("**Tau**"). The controlling shareholder of Tau is a 6% shareholder of the Company. The Tau Agreement was to terminate on July 31, 2007, but automatically renewed on the same terms and conditions for a further one year period. The terms of the Tau Agreement require the Company to pay Tau a monthly service fee of \$22,500. For the year ended December 31, 2007 and 2006, fees paid to Tau for these services were \$270,000 and \$270,000 respectively.

Accounts receivable and other assets, at December 31, 2007, include \$22,500 paid to Tau for management fees for January 2008.

Consulting fees paid to officers of the Company for the year ended December 31, 2007 and 2006 were \$295,955 and \$250,873 respectively. In addition an amount of \$66,047 (2006:\$nil) was charged to the Company by Tau in respect of services rendered outside of the management agreement.

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.

## **12. Risks**

The Company is subject to a number of risk factors due to the nature of the mineral business in which it is engaged, the limited extent of its assets and its stage of development. The following factors should be considered, among others:

The exploration for mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration or development programs planned by Talon or any of its joint venture partners will result in a profitable commercial mining operation.

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

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

All phases of the Company's operations are subject to environmental regulation which is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies.

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

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

The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral concessions may be disputed. Although the Company believes it has taken reasonable measures to ensure valid title to its

material properties, there is no guarantee that title to any of its material properties will not be challenged or impaired. Third parties may have valid claims underlying portions of the Company's interests, including prior unregistered liens, agreements, transfers or claims, including native land claims, and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

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

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

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

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

### **13. Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this MD&A, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the

Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* of the Canadian Securities Administrators) and other reports filed or submitted under Canadian securities laws is recorded, processed, analyzed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**14. Internal Control Over Financial Reporting**

No changes were made to the Company's internal control over financial reporting during the three months ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**15. Outlook**

Talon will continue to pursue base and precious metal exploration in the coming year at its São Jorge, Água Branca, Barra do França, Campo Grande and other projects. Projects that do not meet Talon's objectives may be farmed out to third parties. The Company also continues to actively review potential acquisitions both within and outside Brazil to enhance the Company's portfolio of projects.