Talon Metals Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2011

Dated: November 14, 2011

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*This Management's Discussion and Analysis ("**MD&A**") of the consolidated financial position for the three and nine months ended September 30, 2011, should be read in conjunction with the consolidated financial statements and notes of Talon Metals Corp. ("**Talon**" or the "**Company**") for the three and nine months ended September 30, 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 exploration plans and the timing thereof, Tlou's intention to pursue a listing on a stock exchange and the timing thereof, the Company's drilling and exploration plans, including the exploration programs and the results therefrom at the Trairão Project (defined below) and the Inajá South Project (defined below) and other projects, estimates in respect of mineral resource quantities, mineral resource qualities, the potential for increasing the Company's mineral resources, the preparation of mineral resource estimates and the timing thereof, the Company's expectations regarding the completion of a preliminary economic assessment and prefeasibility study and the respective timing thereof, as well as the Company's targets, goals, objectives and plans (including the Company's drilling-exploration plans and plans regarding assaying, metallurgical studies, beneficiation, conceptual mining, scoping, environmental and logistical studies, and the respective timing thereof), the Company's intentions in respect of its interests in Tlou Energy, 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 transition to 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 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 will not be consistent with the Company's expectations (including identifying additional and/or more extensive mineralization); changes in iron-ore prices; delays in obtaining or failures to obtain necessary regulatory permits 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, 2010, is available on SEDAR at www.sedar.com.*

Talon is focused on the exploration and development of its portfolio of iron ore projects including the Trairão project, an iron exploration project located in Pará State, Brazil (the "**Trairão Project**"). Management remains optimistic that the long term fundamentals of the mineral resource industry, and particularly for iron ore, are attractive.

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

In 2011 Talon also applied for licences for five additional exploration properties with iron potential in Brazil, including two in Mato Grosso State, for which licences have been granted, and three in Piaui State, for which applications are pending.

In October 2010, Talon began a preliminary drilling program on the Trairão Project and engaged Coffey Mining Ltd ("**Coffey**") to prepare a National Instrument 43-101 ("**NI 43-101**") compliant technical report incorporating the initial drill results to prepare a mineral resource estimate for the first target area ("**Target Area 1**") of the Trairão Project (the "**First Trairão Technical Report**"). The First Trairão Technical Report was completed in December 2010 and reported a mineral resource estimate in the inferred category, for that part of Target Area 1 that was drilled of 168 million tonnes ("**Mt**") at an average grade of 42% Fe, using a 35% Fe cut-off or 238 Mt at a grade of 39% Fe, using a 25% Fe cut-off and calculated to a depth of 50 metres. This resource includes only mineralization in the oxidized lateritic rocks overlying the Banded Iron Formations ("**BIFs**"). This report was entitled "Independent Technical Report on Exploration and Mineral Resource Estimate" and dated December 23, 2010.

In March 2011, supported by a second independent technical report ("**Second Trairão Technical Report**"), further mineral resources were delineated on part of Target Area 2 which brought the cumulative inferred mineral resource for the combined drilled areas on both Target Areas 1 and 2 to 464 Mt at an average grade of 39% Fe, using a 25% cut-off. This report was entitled "Second Independent Technical Report on Mineral Resources" and dated March 29, 2011.

In June 2011, further mineral resources were delineated on an extended part of Target Area 2 which brought the cumulative inferred mineral resource for the combined drilled areas on both Target Areas 1 and 2 to approximately 688 Mt at an average grade of 37% Fe, using a 25% cut-off.

In August 2011, mineral resources were reported for Target Area 3 which brought the cumulative inferred mineral resource for the combined drilled areas on Target Areas 1, 2 and 3 to approximately 1.1 billion tonnes at an average grade of 36% Fe, using a 25% cut-off and only including mineralization in the oxidized zone within laterite rocks overlying the BIFs. The June and August 2011 mineral resource estimates are supported by a third independent technical report ("**Third Trairão Technical Report**"). This report is entitled "Third Independent Technical Report on Mineral Resources" and is dated August 12, 2011. Copies of each of the First, Second and Third Trairão Technical Reports are available under Talon's SEDAR profile at www.sedar.com. Please see *Section 3, Exploration Projects* for additional information on the Trairão Project

Talon holds equity interests in a number of other public and private companies including Tlou Energy Ltd. ("**Tlou Energy**"), owner of the Botswana CBM Project ("**Botswana CBM Project**").

In November 2010, Talon sold its rights to the Botswana CBM Project (previously known as the Saber Gas Project) to its joint venture partner and the manager of the project, Tlou Energy, in return for a 30% equity interest in Tlou Energy. Tlou Energy intends to pursue a stock exchange listing. With regard to Talon's holdings in Tlou Energy, Talon intends to consider opportunities to maximize the value of this investment for shareholders including potential future dispositions and/or distributions to shareholders of Tlou Energy shares.

In December 2010, Talon transferred its rights to the Sergipe Potash Project to Rio Verde Minerals Development Corporation ("**Rio Verde**"), in return for a 54% equity interest (on an undiluted basis) in Rio Verde, prior to the first closing of Rio Verde's equity private placement financing. (For details on subsequent dilution, see Note 5 to the interim financial statements.) Rio Verde completed a stock exchange listing and coincident with this listing, on July 28, 2011, Talon distributed 22,921,581 ordinary shares of Rio Verde (the majority of its holding) in Rio Verde to Talon shareholders at a ratio of one ordinary share of Rio Verde for every four shares of Talon held. These Rio Verde shares are subject to a hold period ending January 30, 2012.

Management continually reviews the Company's asset base and any potential new acquisitions to ensure optimum use of shareholders' funds.

3. Exploration Projects

A) Managed Projects

Iron Ore Projects

In September 2010, Talon announced that it had acquired 100% of the rights to the Trairão Project and the Inajá South Project located in Pará State, Brazil, through concluding two separate agreements, respectively, with Codelco and Barrick Barbados.

The Pará State is one of the more recently developed iron ore producing districts in the country. 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. However, Talon has the right to buy back this royalty for US$599,000 during the 12 month period following the start of commercial production. In terms of the Inajá South Project, Barrick Barbados will receive a net smelter royalty of 0.5% for any base metals sold (sales tonnes) and 1.0% for any precious metals sold (sales tonnes). Talon has the right to buy back the royalty for US$1 million during the 12 month period following the start of commercial production. Barrick Barbados has the right to buy back up to a 50% interest in any future gold mining operation in the event that Talon completes a feasibility study with respect to a deposit which identifies reserves totalling at least three million ounces of gold.

Trairão Iron Ore Project

The Trairão Project has exploration licences for approximately 51,635 hectares over eight properties, and applications have been made for an additional four properties covering a further 24,887 hectares, which areas indicate to have potential for near surface iron ore mineralization. In October 2011, Talon submitted a positive geological report to the Departamento Nacional de Produção Mineral ("**DNPM**") in connection with maintaining some of its licences within the project area, as required by the DNPM.

In October 2010, Talon began a preliminary drilling program on the Trairão Project and engaged Coffey to prepare a NI 43-101 compliant technical report incorporating the initial drill results to prepare a mineral resource estimate for Target Area 1 of the Trairão Project. The First Trairão Technical Report was completed in December 2010 and reported a mineral resource estimate in the inferred category, for that part of Target Area 1 that was drilled of 168 Mt at an average grade of 42% Fe, using a 35% Fe cut-off or 238 Mt at an average grade of 39% Fe, using a 25% Fe cut-off and calculated to a depth of 50 metres. This report was entitled "Independent Technical Report on Exploration and Mineral Resource Estimate" and dated December 23, 2010.

In March 2011, supported by a Second Trairão Technical Report, further mineral resources were delineated on part of Target Area 2 which brought the cumulative inferred mineral resource for the combined drilled areas on both Target Areas 1 and 2 to 464 Mt at an average grade of 39% Fe, using a 25% cut-off. This report was entitled "Second Independent Technical Report on Mineral Resources" and dated March 29, 2011.

In June 2011, further mineral resources were delineated on an extended part of Target Area 2 which brought the cumulative inferred mineral resource for the combined drilled areas on both Target Areas 1 and 2 to approximately 688 Mt at an average grade of 37% Fe, using a 25% cut-off.

In August 2011, mineral resources were reported for Target Area 3 which brought the cumulative inferred mineral resource for the combined drilled areas on Target Areas 1, 2 and 3 to approximately 1.1 billion tonnes at an average grade of 36% Fe, using a 25% cut-off. The June and August 2011 mineral resource estimates are supported by a Third Trairão Technical Report.

Currently, Talon has two diamond drill rigs on site. Previously reverse circulation ("**RC**") rigs had completed the preliminary drilling program on Target Areas 1 to 13. The results of the RC drilling on Target Areas 4, 5 and 6 have been announced, whereas the results for Target Areas 7 through 13 are pending. To date a total of 444 RC drill holes have been drilled for a total of 24,215 linear metres. The diamond drill rigs are conducting an infill and deeper drilling on Target Area 1 and 2 and, subsequently, will be moved to Target Area 3 with an aim to update the mineral resource estimates on these priority target areas and to drill and investigate the fresh BIF mineralization. To date, a total of 80 diamond drill holes have been completed for a total of 10,720 linear metres.

Regional (1:75,000) and Semi detailed (1:25,000) geological mapping surveys have been completed. A detailed interpretation of Landsat and Geoeye images, as well as, radar topographic image and regional airborne magnetic data was carried out to support these mapping programs.

In 2010, a ground magnetic survey was conducted over Target Areas 1 and 2. During the second quarter of 2011, the ground magnetic survey was re-initiated over Target Area 3 with an aim to map the depth of weathering and the underlying BIFs on the highest priority targets along the Trairão ridge.

Preliminary metallurgical sampling and testwork is in progress, testing the main mineralised lithotypes and various product's specifications. Based on the initial indications of this work, the underlying BIFs at Trairão appears to have mineralization that can be beneficiated using traditional techniques; whereas the near surface weathered iron mineralization within the lateritic rocks appears to require an alternate beneficiation process. The optimal beneficiation process is yet to be determined and will ultimately depend on the final metallurgical test results. Metallurgical studies are continuing.

Talon has also initiated several studies for the Trairão Project, including environmental, conceptual mining, and logistics studies. Work on these studies is ongoing and expected to be completed in 2012.

In addition, Talon expects to complete a preliminary economic assessment in the second quarter of 2012. This assessment had previously been planned for completion in the fourth quarter of this year and has been delayed as a result of the laboratory studies taking longer than expected, in part due to backlogs at the laboratories. As a result, a prefeasibility study on the Trairão Project that had previously been targeted for completion in the third quarter of 2012 is now expected to be completed in the fourth quarter of 2012.

A total of $4,887,905 was spent by Talon on the Trairão Project in the third quarter of 2011.

Inajá South Iron Ore Project

In September 2010, Talon announced that it had acquired 100% of the rights to the Inajá South Iron Ore Project in Pará State, Brazil, through concluding an agreement with Barrick Barbados.

The Inajá South Iron Ore 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 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. Talon has commenced exploration on this project which to date has included geological and remote sensing mapping and rock sampling, combined with a re-interpretation of the aero magnetic data.

Talon excavated three trenches (total of 1,015 linear metres) to depths of approximately two metres through the steeply dipping BIFs and adjacent cherts, mafic and ultramafic rocks. Trench 1 is 2,200 metres from Trench 2, and Trench 2 is 2,800 metres from Trench 3. Highlights of the trench intersections are:

Trench 1	81.5 metres at an average of 40.3% Fe
Trench 2	252.1 metres at an average of 39.2% Fe
Trench 3	103.9 metres at an average of 35.0% Fe

Additional information regarding the results of this trenching program is contained in Talon's news release of October 6, 2011 entitled, "Talon Metals Announces Positive Results of Trench Sampling at its Inajá South Iron Project in Brazil." Preliminary metallurgical testwork is in progress using two samples collected on the existing trenches.

A preliminary RC drilling program commenced in October 2011 and to date 13 RC drill holes (797 metres) have been completed.

A total of $301,601 was spent by Talon on the Inajá South Iron Ore Project in the third quarter of 2011.

Other Iron Projects

In 2011 Talon, as part of its strategy to establish a portfolio of iron projects, applied for licences for five additional exploration properties with iron potential in Brazil. Licences have been granted for two properties in Mato Grosso State (approximately 46,700 hectares in total), while applications are pending for three properties in Piaui State (approximately 48,700 hectares in total).

B) Projects Not Managed by Talon

***Botswana CBM Project* (managed by Tlou Energy)**

The Botswana CBM Project, formerly known as the Saber Gas Project, is an unconventional gas project with interests in various coal bed methane ("**CBM**") 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 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 12 months it is anticipated that Tlou Energy will become a listed company.

In early 2011, Tlou Energy began preparations for the drilling of four wells at the Kalahari block (two pilot wells and two monitoring wells) and the drilling phase of these holes is now complete. Testing of the gas content and properties of these wells is commencing and is expected to continue over the forthcoming six months.

***Sergipe Potash Project* (owned by Rio Verde)**

In December 2010, Talon closed 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.

In April 2011, Talon stated its intention to distribute most of its shares in Rio Verde to Talon shareholders (the "**RV Distribution**"). The RV Distribution took place on July 28, 2011. Talon shareholders received one ordinary share of Rio Verde for every four shares of Talon held. These Rio Verde shares are subject to a six month hold period (ending before market open on January 30, 2012) as required by the syndicate of brokers for Rio Verde's equity financing completed in June 2011. Rio Verde began trading on the Toronto Stock Exchange on August 3, 2011. Additional information regarding Rio Verde can be found under Rio Verde's SEDAR profile at www.sedar.com.

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

As of the date of this MD&A Talon holds approximately 3.5 million shares of Rio Verde.

C) Other Projects

São Jorge Gold Project

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

On June 15, 2010, Talon announced that it had concluded an agreement (the "**São Jorge Agreement**") with Brazilian Gold Corporation ("**Brazilian Gold**") (TSXV: BGC) whereby Brazilian Gold has been granted an option to purchase a 100% interest in São Jorge. Under the terms of the São Jorge Agreement, Brazilian Gold is 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).

Brazilian Gold made the initial payment of $1,000,000 in cash and $500,000 in Brazilian Gold shares in October 2010. In July 2011, Brazilian Gold made a second payment of $500,000 in cash and $1,000,000 in shares (897,961 shares). If Brazilian Gold wishes to exercise the option, it must make a final payment of $750,000 in cash and $750,000 in shares by May 2012. If the option is exercised, the São Jorge Agreement provides for a 1% net smelter return royalty ("**NSR**") payable to Talon upon commencement of commercial production.

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 Person

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 disclosed herein) including sampling, analytical and test data underlying the technical information.

The "Qualified Person", as such term is defined in NI 43-101, who prepared the mineral resource estimates and other technical information presented in this MD&A is Mr. Bernardo Horta de Cerqueira Viana, who is a geologist independent of Talon and an employee of Coffey.

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 condensed consolidated interim statement of financial position;

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

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

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

In preparing the September 30, 2011 interim financial statements the Company determined that there were no material changes required to the Company's financial statements in order to comply with International Accounting Standard 34, Interim Financial Reporting ("**IAS 34**")

Transitional Financial Impact

The tables set out in note 20 to the condensed interim 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 September 30, 2010 and December 31, 2010 for comparative purposes.

b) The statement of income for the three and nine months ended September 30, 2010 and 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 ("**IFRIC**") 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

	September 30, 2011 (unaudited)	**Dec 31, 2010**
Held for trading, measured at fair value:		
Cash and cash equivalents	$28,310,151	$12,345,677
Term deposits	-	3,503,928
Investments	2,143,556	1,137,426
Loans and receivables, measured at amortized cost:		
Accounts receivable and advances	280,153	672,616
Financial liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	2,181,871	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.

Beginning in the third quarter of 2008, Talon was exposed to a credit risk to the extent its loan receivable related to Saber Energy Corp. might not be repaid, and the assets held as security for the loan could not be sold. Following the closing of the Company's merger with Saber Energy Corp. in March 2010, this loan was cancelled.

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 September 30, 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.

Through Talon's indirect interest in the Botswana CBM Project, the Company is 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 in United States dollars and then converted by them 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.

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

6. Capital Expenditure on Exploration Projects

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

	Sept 30, 2011	**Dec 31, 2010**
Mineral properties		
Iron Ore Projects	$12,119,193	$606,006
Rio Verde Projects	-	8,108,941
Água Branca Gold Project	-	1,118,904
Campo Grande Gold Project	519,586	519,586
Other Projects	-	597,477
	$12,638,779	$10,950,914

7. Disclosure of Outstanding Share Data

The following details the share capital structure as at November 14, 2011:

	Expiry Date	Exercise Price	Total
Common Shares			91,776,687
Stock options	Feb 18, 2013	$0.57	200,000
Stock options	Jun 11, 2014	$0.39	553,500
Stock options	May 21, 2015	$0.40	4,405,850
Stock options	Oct 26, 2015	$0.70	985,000
Stock options	Jan 17, 2016	$1.58	835,000
Stock options	Feb 7, 2016	$2.12	70,000
Stock options	Mar 3, 2016	$2.48	530,000
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	2,085,000
Stock options	October 1, 2016	$1.00	250,000
Total fully diluted number of shares			107,881,189

A summary of options outstanding as at September 30, 2011 is presented below:

	Options	Weighted Average Exercise Price
Outstanding – beginning of year	6,739,000	$0.45
Cancelled	(25,000)	0.70
Granted	1,435,000	1.85
Granted	2,085,000	1.95
Exercised	(46,000)	0.39
Exercised	(93,650)	0.40
Exercised	(430,000)	0.40
Outstanding – end of 3rd quarter	9,664,350	$1.00

8. Results of Operations

Review of Operations
(Thousands of C$)

	Three months ended Sept 30, 2011 (unaudited)	Three months ended Sept 30, 2010 (unaudited)	Nine months ended Sept 30, 2011	Nine months ended Sept 30, 2010	Year ended Dec 31, 2010
Interest income	$3	$4	$10	$6	$73
Administration expense[1]	1,947	1,193	3,994	4,690	6,406
Foreign currency translation gain (loss) [2]	(69)	(84)	(360)	(164)	(19)
Share based payments & personnel expense	575	66	5,563	2,059	2,634

[1] Administration 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.*

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 September 30, 2011 interim 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 September 30, 2011 was $2.9 million or $0.03 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 $0.4 million or $0.01 per share (basic and diluted) for the three months ended September 30, 2010, which was primarily due to administration expenses which more than offset the gain on the sale of the Juruena Gold Project.

Net loss from continuing operations for the nine month period ended September 30, 2011 was $11.3 million or $0.13 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 $5.8 million or $0.11 per share (basic and diluted) for the nine months ended September 30, 2010, which was primarily due to administration expenses, the write down of projects and share based payments.

Net loss attributable to Rio Verde discontinued operations for the nine months ended September 30, 2011 amounted to $962,391. This amount is comprised of a de-consolidation gain of $1,187,929 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.

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

Capitalized exploration
Amounts incurred on exploration on mineral properties excluding discontinued operations for the three months ended September 30, 2011 and 2010 amounted to $5,211,412 and $509,008 respectively. This primarily relates to the Sergipe Potash Project in 2010, and to the Trairão Project in 2011.

Amounts incurred on exploration on mineral properties for the nine months ended September 30, 2011 and 2010 amounted to $11,536,608 and $1,508,742 respectively. This primarily relates to the Sergipe Potash Project in 2010, and to the Trairão Project in 2011.

Stock options
A summary of options outstanding as at September 30, 2011 is presented in *Section 7* of this MD&A.

During the third quarter of 2011, the Company issued no stock options, however subsequent to the end of the quarter 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 nine month period ending September 30, 2011, using the Black-Scholes option pricing model under the following range of assumptions:

Expected life	5 years
Risk-free interest rate	2.60%
Volatility	218%-235%
Dividends	0%

9. Summary of Quarterly Results

(All numbers are unaudited*)

	Three months ended Sept 30, 2011	**Three months ended June 30, 2011**	**Three months ended Mar 31, 2011**	**Three months ended Dec 31, 2010**
Total revenues	$992,615	$25,175	$8,541	$3,398,102
Net gain/(loss) from continuing operations	(2,903,468)	(5,917,928)	(3,158,972)	1,433,780
Net gain/(loss) from continuing operations per share – basic and diluted	(0.03)	(0.07)	(0.04)	0.02
	Three months ended Sept 30, 2010	**Three months ended Jun 30, 2010**	**Three months ended Mar 31, 2010**	**Three months ended Dec 31, 2009**
Total revenues	$907,799	$2,004	$200	$1,312
Net gain/(loss) from continuing operations	(435,044)	(5,079,819)	(265,013)	(510,769)
Net gain/(loss) from continuing operations per share – basic and diluted	(0.01)	(0.08)	(0.01)	(0.02)

* 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 acquired 2.57 million shares of Tlou Energy as part of a rights offering. As of the date of this MD&A, Talon owns approximately 21.8 million shares in Tlou Energy, representing an ownership interest of approximately 31%. Talon also holds 4,945,055 options to purchase an aggregate of 4,945,055 Tlou Energy shares.

Summary of assets, liabilities and results of operations for Tlou Energy for the nine month period ended September 30, 2011 in $AUD (unaudited). The close of day exchange rate on November 10, 2011 as reported by the Bank of Canada for the conversion of Canadian dollars to Australian dollars was Cdn$1.00=A$1.0321.

	Sept 30, 2011
ASSETS	
Current Assets	$4,616,114
Non-Current Assets	31,401,459
TOTAL ASSETS	36,017,573
LIABILITIES	
Current Liabilities	1,406,996
TOTAL LIABILITIES	6,116,460
EQUITY	$29,901,113
	Nine months ended Sept 30, 2011
Revenue	$92,963
Expenses	7,233,557
Total comprehensive income	$8,219,325
Talon's ownership	30%

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

Cash Flow Highlights
(Thousands of C$)

	Nine months ended Sept 30, 2011 (unaudited)	**Nine months ended Sept 30, 2010 (unaudited)**	**Year Ended Dec 31, 2010**
Operating activities	$(4,698)	$(2,743)	$(4,578)
Investing activities	(21,394)	3,576	6,376

	Nine months ended Sept 30, 2011 (unaudited)	**Nine months ended Sept 30, 2010 (unaudited)**	**Year Ended Dec 31, 2010**
Financing activities	42,057	190	7,740
Beginning cash & cash equivalent balance	12,345	2,807	2,807
Increase / (decrease) in cash & cash equivalents	15,965	1,023	9,538
Ending cash & cash equivalents balance	$28,310	$3,830	$12,345

Operating Activities

Operating activities for the nine month period ended September 30, 2011 consumed $4,698,311 primarily due to net operating expenses. This compares to utilization of $2,743,266 in the same period of last year mainly due to net operating expenses.

Operating activities for the year ended December 31, 2010 consumed $4,577,927 primarily due to net operating expenses.

Financing Activities

Financing activities for the nine month period ended September 30, 2011 generated $42,056,926 primarily due to the proceeds on the private placement and subscription receipts. This compares to $190,224 in the same period of last year mainly due to partial repayment of a loan receivable.

For the year ended December 31, 2010 financing activities were $7,739,865, primarily from proceeds from private placements.

Investing Activities

Investing activities for the nine month period ended September 30, 2011 utilized $21,394,141 primarily due to capitalized exploration costs and cash deconsolidated on distribution of the Rio Verde shares. This compares to a generation of $3,575,825 in the same period in the prior year, primarily due to proceeds on the sale of mineral properties and a term deposit, as well as proceeds on disposal of assets held for sale.

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.

Liquidity and Capital Resources

The Company plans to spend approximately $16 million on exploration between October 2011 and December 2012.

Cash and cash equivalents were $28 million as of September 30, 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.

Talon's approximately $4.8 million loan receivable related to Saber Energy Corp. was cancelled and replaced with the assets of Saber Energy Corp. on the completion of the merger which occurred in the first quarter of 2010.

A summary of Contributed Surplus for the period from January 1, 2009 to September 30, 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	(220,944)
Options	Granted 2011	5,493,537
Balance	Sept 30, 2011	$13,137,548

11. <u>Related Party Transactions</u>

The Company has entered into an administrative service agreement (the "**Tau Agreement**") with Tau Capital Corp. ("**Tau**"). The Tau Agreement terminated on March 31, 2011. A new agreement has been entered into between Talon and Tau. This agreement became effective on April 1, 2011 and has an initial term of one year, which can be renewed. Under this agreement, Talon has agreed to pay Tau a monthly service fee of $58,500. For the nine months ended September 30, 2011, fees paid to Tau for these services were $450,000 (2010: $297,000).

Consulting fees paid to officers of the Company (Stuart Comline, Eddie Scholtz and Luis Azevedo) for the nine months ended September 30, 2011 were $337,493 (2010:$183,140). In addition, an amount of $196,071 (2010:$114,291) was charged to the Company by Tau in respect of services rendered outside of the Tau Agreement and the new agreement with Tau referred to above. Consulting fees paid to a company owned by an officer of the Company (Luis Azevedo) for the nine months ended September 30, 2011 were $254,575 (2010:$124,395).

Prepayments at September 30, 2011 include $58,500 paid to Tau for service fees for October 2011 (2010:$33,000).

Accounts payable at September 30, 2011 include $15,000 payable to an officer of the Company for consulting fees (2010:$21,688).

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 officers and directors of the Company for the nine months ended September 30, 2011 and 2010 was as follows.

	2011	2010
Aggregate compensation	$1,351,827	$1,114,302
Share based payments	$815,334	$908,700

Officers and directors were awarded the following share options under the employee share option plan during the nine months ended September 30, 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

12. 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.

General and Mineral Project Risk Factors

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. It is impossible to ensure that the exploration programs planned by Talon will result in a profitable commercial mining operation. 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 Mineral Resources

There is a risk that the inferred 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 mineral resources, there is no assurance that inferred mineral resources will be upgraded to resources with sufficient geological continuity to constitute proven and probable mineral reserves as a result of continued exploration.

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, 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 places 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. Although iron ore prices in 2010 generally increased over prices in 2009, iron ore prices in 2009 had decreased significantly as compared to prevailing iron ore prices in 2008. 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 shares of Tlou Energy 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 is 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. 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.

13. <u>Internal Control Over Financial Reporting</u>

No changes were made to the Company's internal control over financial reporting during the period beginning July 1, 2011 and ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

14. Outlook

Throughout 2011 and 2012, Talon expects to continue its exploration program at the Trairão Project and the Inajá South Project. At the Trairão Project, the exploration program will continue and diamond drilling will be undertaken into mid 2012. Talon's aim is to update the existing mineral resource estimates delineated thus far, as well as conduct a number of geological, geophysical and metallurgical studies and surveys, as well as other studies related to mine development and planning, on the extensive occurrences of iron mineralization on the project area.

The following are significant milestones which Talon intends to accomplish over the next 18 months at the Trairão Project:

Q4 2011

- Completion of initial metallurgical studies

2012

- Completion of mining, infrastructure scoping, environmental and metallurgical studies
- *Inferred* and *Indicated* resource estimates completed for Target Areas 1-13
- Completion of a Preliminary Economic Assessment (incl. infrastructure & environmental studies)
- Complete Prefeasibility Study
- Position the Company to be able to apply for a mining licence

At the Inajá South Project, drilling and related studies are underway in order to assess the potential of this project.

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 and at present it is reviewing a number of submitted projects from third parties, with an aim of identifying opportunities where there may be a possibility to realize value for shareholders.

In the next 12 months, Tlou Energy intends to continue with its CBM exploration program in Botswana and become a listed company. Tlou Energy is also reviewing other opportunities in Southern Africa.