



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

**MANAGEMENT DISCUSSION AND ANALYSIS**

For the three and six months ended June 30, 2007

Dated: August 13, 2007

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*This Management's Discussion and Analysis ("MD&A") of the consolidated financial position for the three and six months ended June 30, 2007, should be read in conjunction with the unaudited consolidated financial statements and notes of Talon Metals Corp. ("Talon" or the "Company") for the three and six months ended June 30, 2007 and the 2006 Annual Report.*

*Unless otherwise indicated all funds in this document are in Canadian Dollars.*

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 and Água Branca 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, 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 is 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**

Talon is focused on the acquisition, exploration and development of high-quality base and precious 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 Project ("São Jorge" or the "Project") in Pará State, 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.

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. As well, the Company is evaluating other potential base and/or precious metal opportunities globally.

In the second quarter of 2007, the Company officially changed its name to Talon Metals Corp. from BrazMin Corp. The new name better reflects managements' intent to broaden the geographic focus of the Company with the announcement this quarter that the Company is actively reviewing several potential acquisitions both within and outside Brazil. Coincident with the name change, the trading symbol on the Toronto Stock Exchange was changed to "TLO".

At the annual meeting of shareholders, which was held during the second quarter of 2007, Dr. Fiona Childe and Mr. Stuart Comline were elected to the Board of Directors, expanding the board to seven members. Mr. Don Lewis did not stand for re-election as a director.

## **3. Exploration Projects**

### **São Jorge Gold Project**

During 2005, the Company entered into two agreements with independent third parties whereby approximately 40,000 hectares of adjacent mineral rights were acquired, thereby increasing the total project area to 57,420 hectares. 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 B 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 the São Jorge project 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 National Instrument 43-101 ("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\$400,000 were payable, all of which have been made. Also, one of the newly 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\$1,500,000.

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 Resources Ltd. ("Centaurus") in 2004. Talon has received a document from the Brazilian Mining Department ("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.

As of March 31, 2006, the Company completed the 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, 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 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 estimate of indicated mineral resources is presented in Table 1.

**Table 1: Wilton Zone Indicated Mineral Resource**<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 this mineral resource estimate 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 grams per tonne ("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 commenced in May 2006. The drilling portion of this program has been completed, and 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 period under review, surface work, including 20.5 km of grid-based soil sampling, was conducted at São Jorge. Soil sampling focused on several west-northwest trending structural corridors sub-parallel to the Wilton Zone. Anomalous gold values were received over the final 600 metres of one line. Further work is planned for the upcoming period to further define this anomaly.

A total of \$201,336 has been expended on São Jorge during the six 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 Brazil. An application to transfer these rights from the vendor to Brazmin Ltda., and to convert them into exploration licenses, was submitted to the DNPM. Talon has received notification from the DNPM that the conversion process was completed and the transfer of the licences into the name of Brazmin Ltda., was published in the official Government Gazette. Eight payments totalling US\$70,000 have already made to the vendors. A further option payment is due in March 2008 of US\$80,000 and a final option payment of

US\$150,000 is due in March 2009. 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 11,079 hectares of ground adjacent to the above permits, from three independent vendors. This brings the total area at Água Branca to 20,435 hectares. Staggered option payments are payable in respect of the areas acquired in September 2006.

Subsequent to the second quarter of 2007, Brazmin Ltda. signed agreements to acquire a further 5,123 hectares contiguous to the main Água Branca block. There is an underlying royalty of 1%, purchasable on this ground for US\$500,000.

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. The Project 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. A total of 585 channel samples have been collected from saprolite and mottled-zone exposures, shafts and adits. Results from these samples have been received and 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.

Based on the results of the geological mapping, sampling and interpretation of the results of the geophysical survey, drill targets were identified for a proposed Phase I Drill Program in the Camarão Hill target area. This program commenced in October 2006, as reported in a Talon news release of October 17, 2006. A total of 2,416 metres were drilled in 13 holes, covering approximately 550 metres strike extent of the 750 by 300 metre Camarão Hill target area. All results from this program have been received and 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 six month period under review, surface exploration was carried out over several regional targets, including Heaven, Jerimun and Serra da Abelha. Surface work included including mapping and rock and soil sampling. Anomalous gold values were obtained at Serra da Abelha and Jerimun. 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. Further surface work is planned in the third quarter of 2007 with the objective of delineating drill targets at Água Branca.

During the six months ending June 30, 2007, a total of \$265,100 was spent at Água Branca.

### **Tocantinzinho Gold Project**

On September 13, 2006 Talon announced that an agreement had been reached whereby Brazauro Resources Corporation ("Brazauro") would acquire all of Talon's interests in the Tocantinzinho gold project area ("Toc") in exchange for 13,150,000 treasury shares of Brazauro. The agreement consolidates Talon's mineral interests with Brazauro's and extends the mineral land holdings of Brazauro in the area.

Toc is located in the Tapajós Gold District of Brazil, approximately 90 kilometres northwest of São Jorge.

In a news release dated December 4, 2006, the Company announced that the DNPM in Brazil had awarded title for Toc to a party related to Brazauro. As a result, on February 7, 2007, Talon announced that it had completed the acquisition of the 13,150,000 shares of Brazauro (representing 17.2% of the issued and outstanding shares of Brazauro as at August 13, 2007) in settlement of the sale of all of its interests in Toc. Outside of these shares, Talon does not own beneficially, directly or indirectly, any shares of Brazauro. For a limited period of time, Brazauro will have the right to direct the voting of the shares issued to Talon except in certain conditions. The acquisition by Brazauro was accomplished by the purchase of a wholly-owned subsidiary of Talon, EIMB, which indirectly held Talon's Toc interests. (See Section 7 of this MD&A for information on the gain on this transaction.) Pursuant to the

acquisition agreement, the Company entered into a placement rights agreement with Brazauro, under which the Company granted Brazauro the rights to be notified by the Company of every proposed sale, transfer, assignment, or any other transaction which alienates the Brazauro shares. In the event the transaction involves 100,000 or less shares, five business days notice must be given. If the transaction involves 100,001 to 500,000 shares, fifteen days must be given, and more than 500,000 shares, 30 days notice must be given. The placement rights agreement terminates when the Company ceases to own a minimum of 10% of the issued and outstanding Brazauro shares.

The Company has designated its holdings in Brazauro as "held for trading" and 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 Gerais state, approximately 115 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 net smelter royalty 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 25 and April 5, 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. Subsequent to completion of the drill program, follow up surface mapping and sampling was conducted at Campo Grande.

During the six months ending June 30, 2007, a total of \$368,992 was spent at Campo Grande.

### **Tartarugalzinho ("Little Turtle") Gold Project**

During 2005, Talon purchased from an independent third party the option to acquire a 100% interest in the 9,602 hectare Tartarugalzinho Project ("Little Turtle"), located in Amapá State, Brazil. 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. In 2007, this annual payment was renegotiated to be made in two semi-annual instalments of US\$50,000 each.

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. The cost of the drilling program and related expenses to date amounts to \$646,478. Gold assay results from all holes drilled by the Company have been received and published. These results generally confirm the results obtained during the 1980's by the previous operator.

During the six month period under review, a total of \$62,688 was spent by Talon at Little Turtle.

As previously stated, the Company's intention has been to farm out Little Turtle. Subsequent to the second quarter of 2007, the Company entered into an agreement to assign its option to acquire a 100% interest in this project to a third party. Under the terms of the agreement Talon will receive cash and shares from the third party who is currently preparing for an Initial Public Offering (IPO). The third party has already paid Talon an initial non-refundable payment of US\$50,000 and a further US\$50,000 has been paid to the underlying vendor via a non-arm's length party to cover the June 2007 property payment. Completion of this transaction is contingent upon factors outside the control of the Company, including the successful IPO of the third party company's shares on a foreign stock exchange.

### **Other Properties**

The Company owns or has interests in several other mineral properties in Brazil. Preliminary exploration programs were commenced on the recently acquired Terra Nova and Batistão properties in Mato Grosso state. Surface sampling and geological mapping was conducted on the Rio Maria property in Pará state.

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 of Australia ("Troy"). 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 net smelter royalty.

During the six months ended June 30, 2007, an amount of \$208,913 was expended on these properties, primarily related to property maintenance and acquisition costs.

It is anticipated that some work will be performed during the second half of 2007 on the Terra Nova and Batistão properties and at least one additional property. The scope, magnitude and estimated expenditures of such programs will be dependent on the results of preliminary ground investigations.

A total of \$350,000 has been budgeted for these programs in 2007. The Company has sufficient funds for this work.

### **Qualified Person**

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

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

### (a) General-

The preparation of consolidated financial statements in accordance with 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) 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.

### (c) 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.

### (d) Mineral properties and deferred exploration costs –

Interest 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 development expenditures, are not recoverable, these costs are written down to net recoverable amount of the deferred development expenditures.

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.

(e) 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.

(f) Values –

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.

(g) Cost of maintaining mineral properties -

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

(h) 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 Company's mining obligations are denominated in U.S. dollars.

The share price of the Brazauro shares held by Talon, are subject to volatility. There can be no assurance that an active trading market for the Brazauro shares is sustainable. The trading price could be subject to wide fluctuations in response to factors beyond the Company's control including, quarterly variation's in Brazauro'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 shares held by Talon.

(i) Stock-based compensation -

From time to time, the Company may grant share purchase options to employees, directors and service providers. The Company uses the Black-Scholes option pricing model to estimate a value for these options. This model which is used to value options and warrants, require inputs such as expected volatility, expected life to exercise and interest rates. Changes in any of these inputs could cause a significant change in the stock-based compensation expense, or other expenses, charged in a period.

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.

(j) 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.

(k) 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.

(l) 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 period. The resulting gain or loss is included in the statement of operations.

(m) Financial instruments -

The Company's financial instruments include cash and cash equivalents, accounts receivable and other assets, investment in Brazauro, accounts payable and accrued liabilities and mining obligations. The fair value of these financial instruments approximates carrying value.

(n) Basic and diluted 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 loss per share is calculated by adjusting outstanding shares to take into account the dilutive effect of stock options and share purchase warrants.

(o) Share issue costs -

Share issue costs are charged directly to deficit.

(p) Revenue recognition –

Revenue comprises interest income and is recognized when received.

## 5. Disclosure of Outstanding Share Data:

The following details the share capital structure as at August 13, 2007:

|                                      | <u>Expiry Date</u> | <u>Exercise Price</u> | <u>Total</u> |
|--------------------------------------|--------------------|-----------------------|--------------|
| Common Shares                        |                    |                       | 27,054,222   |
| Warrants                             | Feb 10, 2008       | \$2.75                | 2,500,000    |
| Share purchase options               | Apr. 18, 2010      | \$1.25                | 1,695,000    |
| Share purchase options               | May 31, 2011       | \$2.00                | 339,500      |
| Share purchase options               | Dec 20, 2011       | \$1.00                | 200,000      |
| Share purchase options               | Apr. 18, 2012      | \$0.98                | 300,000      |
| Total fully diluted number of shares |                    |                       | 32,088,722   |

## 6. Capital Expenditure on Exploration Projects:

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

|                         | <b>June 30,<br/>2007<br/>(unaudited)</b> | <b>Addition<br/>(disposal)</b> | <b>December 31,<br/>2006<br/>(audited)</b> |
|-------------------------|--|--------------------------------|--|
| <b>BRML</b>             |  |                                |  |
| São Jorge Project       | \$5,316,250                              | \$201,336                      | \$5,114,914                                |
| <b>BRAZMIN LTDA</b>     |  |                                |  |
| Água Branca Project     | 1,158,884                                | 265,100                        | 893,784                                    |
| Campo Grande Project    | 728,814                                  | 368,992                        | 359,822                                    |
| Tartarugalzinho Project | 646,478                                  | 62,688                         | 583,790                                    |
| Other                   | 683,281                                  | 208,913                        | 474,368                                    |
| <b>EIMB</b>             |  |                                |  |
| Tocantinzinho Project   | -  | (744,214)                      | 744,214                                    |
|                         | <u>\$8,533,707</u>                       | <u>\$362,815</u>               | <u>\$8,170,892</u>                         |

**7. Results of Operations**

(thousands of \$)

**Review of Certain Operating Expenses**

|  | <b>Three<br/>Months<br/>ended<br/>June 30,<br/>2007<br/>(unaudited)</b> | <b>Three<br/>Months<br/>ended<br/>June 30,<br/>2006<br/>(unaudited)</b> | <b>Six<br/>Months<br/>ended<br/>June 30,<br/>2007<br/>(unaudited)</b> | <b>Six<br/>Months<br/>ended<br/>June 30,<br/>2006<br/>(unaudited)</b> | <b>Year<br/>ended<br/>Dec 31,<br/>2006<br/>(audited)</b> |
|--|---|---|---|---|--|
| Expenses   | <b>\$340</b>  | \$811   | <b>\$677</b>  | \$1,186   | \$2,267  |
| Foreign<br>exchange<br>gain<br>(loss) <sup>1</sup> | <b>(61)</b>   | (169)   | <b>(57)</b>   | 26  | (137)  |

The loss for the three month period ended June 30, 2007 was \$978,845 primarily due to a \$657,500 unrealized loss on investment in Brazauro shares. The loss for the three month period ended June 30, 2006 was \$858,970 mainly due to operating expenses of \$811,233. The Company recorded basic and diluted loss of \$0.04 and \$0.03 per share, respectively, for the three month periods ended June 30, 2007 and 2006.

For the six month period ended June 30, 2007 earnings were \$8,467,901 primarily due to a \$9.0 million gain on investment related to the sale of Toc which was partially offset by operating expenses. For the six month period ended June 30, 2006 net losses were \$968,563 mainly the result of operating expenses of \$1,186,333 partially offset by a foreign currency translation gain. The Company recorded basic and diluted earnings of \$0.31 for the six month period ended June 30, 2007. This compares to a loss of \$0.04 per share (basic and diluted) for the six month period in 2006.

Capitalized exploration for the three and six month periods ended June 30, 2007 was \$601,661 and \$1,107,029 respectively. This compares to \$348,404 and \$985,638 for the three and six month periods respectively last year.

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<sup>1</sup> Foreign exchange gain (loss) due to the appreciation/depreciation of the Brazilian real versus the US dollar.

TALON METALS CORP. (Formerly BrazMin Corp.)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the three and six months ended June 30, 2007

**Summary of Quarterly Results:**

*(thousands of \$ except for Net Earnings/Loss per share. All numbers are unaudited.)*

|   | <b>Three months<br/>June 30,<br/>2007</b> | <b>Three months<br/>Mar 31,<br/>2007</b> | <b>Three months<br/>Dec 31,<br/>2006</b> | <b>Three months<br/>Sept. 30,<br/>2006</b> | <b>Three months<br/>June 30,<br/>2006</b> | <b>Three months<br/>Mar 31,<br/>2006</b> | <b>Three months<br/>Dec 31,<br/>2005</b> | <b>Three months<br/>Sept 30,<br/>2005</b> |
|---|---|--|--|--|---|--|--|---|
| Total Revenues                          | \$80                                      | \$83                                     | \$124                                    | \$111                                      | \$121                                     | \$70                                     | \$16                                     | \$17                                      |
| Net Earnings / (Loss)                   | (979)                                     | 9,447                                    | (793)                                    | (214)                                      | (859)                                     | (109)                                    | (621)                                    | (453)                                     |
| Net Earnings / (Loss) basic per share   | (0.04)                                    | 0.35                                     | (0.03)                                   | (0.01)                                     | (0.03)                                    | (0.01)                                   | (0.04)                                   | (0.02)                                    |
| Net Earnings / (Loss) diluted per share | (0.04)                                    | 0.30                                     | (0.03)                                   | (0.01)                                     | (0.03)                                    | (0.01)                                   | (0.04)                                   | (0.02)                                    |

The March 31, 2007 quarterly net earnings number included a realized gain on the sale of the Tocantinzinho project of \$9,301,551. The investment in Brazauro has been designated as "held for trading" and recorded at fair market value, as required by Section 3855 (Financial Instruments) of the CICA Handbook, which was adopted by the Company on January 1, 2007. The Company also included in the Income Statement, an unrealized gain on this investment of \$394,500 in the quarter ended March 31, 2007 and an unrealized loss of \$657,500 in the quarter ended June 30, 2007. These amounts represent the change in market value between the date the investment was obtained and the March 31 period end date, and the difference between the March 31 and the June 30 period end dates.

During the quarter a total of 218,000 options issued previously were cancelled. This resulted in a reversal of \$184,208 in stock compensation expense in the current quarter.

During this past quarter, the Company continued with its exploration program with most of the capitalized expenditure relating to the Campo Grande and Água Branca projects.

**8. Financial Condition, Cash Flow, Liquidity and Capital Resources:**  
*(thousands of \$)*

**Cash Flow Highlights**

|   | <b>Three months ended June 30, 2007 (unaudited)</b> | <b>Three months ended June 30, 2006 (unaudited)</b> | <b>Six months ended June 30, 2007 (unaudited)</b> | <b>Six months ended June 30, 2006 (unaudited)</b> | <b>Year ended Dec. 31, 2006 (audited)</b> |
|---|---|---|---|---|---|
| Operating activities                            | <b>\$(278)</b>                                      | \$ (685)  | <b>\$(625)</b>                                    | \$ (1,120)  | \$ (1,684)                                |
| Financing activities                            | -   | 862   | -   | 10,838  | 10,685                                    |
| Investing activities                            | <b>(2,261)</b>                                      | (373)   | <b>(2,774)</b>                                    | (1,017)   | (3,448)                                   |
| Beginning cash & cash equivalent balance        | <b>10,579</b>                                       | 14,784  | <b>11,439</b>                                     | 5,887   | 5,886                                     |
| Increase/ (decrease) in cash & cash equivalents | <b>(2,539)</b>                                      | (195)   | <b>(3,399)</b>                                    | 8,702   | 5,553                                     |
| Ending cash & cash equivalent balance           | <b>\$8,040</b>                                      | \$14,588  | <b>\$8,040</b>                                    | \$14,588  | \$11,439                                  |

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 are outstanding at June 30, 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%. An amount of \$57,768 was taken in the Consolidated Statement of Operations and Deficit and Contributed Surplus on the Consolidated Balance Sheet in the second quarter of 2007 in respect of the 300,000 options based on the service term. A remaining amount of \$169,101 will be taken to these accounts over the remaining service term.

**A summary of options outstanding as at June 30, 2007 is presented below:**

|                             | <u>Options</u>   | <u>Weighted<br/>Average<br/>Exercise<br/>Price</u> |
|-----------------------------|------------------|--|
| Outstanding – Dec 31, 2006  | 2,452,500        | \$1.36   |
| Granted 2007                | 300,000          | 0.98   |
| Cancelled 2007              | (120,000)        | 1.25   |
| Cancelled 2007              | (98,000)         | 2.00   |
| <b>Total</b>                | <b>2,534,500</b> | <b>\$1.30</b>                                      |
| <hr/>                       |                  |  |
| Exercisable – end of period | 2,217,835        | \$1.34   |

**A summary of Contributed Surplus for the period to June 30, 2007 is as follows:**

|          |                |                    |
|----------|----------------|--------------------|
| Balance  | Dec 31, 2005   | \$931,827          |
| Options  | Granted 2006   | 651,462            |
| Warrants | Expired 2006   | 1,109,363          |
| <hr/>    |                |                    |
| Balance  | Dec 31, 2006   | 2,692,652          |
| Warrants | Expired 2007   | 171,910            |
| <hr/>    |                |                    |
| Balance  | Mar 31, 2007   | 2,864,562          |
| Options  | Cancelled 2007 | (184,108)          |
| Options  | Vested 2007    | 78,605             |
| <hr/>    |                |                    |
| Balance  | June 30, 2007  | <b>\$2,759,059</b> |

In the second quarter of 2007, related to a possible acquisition by the Company of certain mineral exploration properties, the Company advanced a short-term loan of US\$1.589 million on an interest-free basis for a period of 90 days to an arm's length corporation which indirectly hold interests in such properties. If certain conditions are satisfied, the period of the loan may be extended to 120 days. Please refer to Note 4 Loan Receivable of the Consolidated Financial Statements for further information.

The Company estimates total 2007 expenditures to be approximately \$2.2 million. Current cash is \$8.0 million. The Company therefore has sufficient liquidity to sustain operations through the medium-term. The Company could also access additional funds through the sale of some of the Brazauro shares which it owns as a result of the sale of the Tocantinzinho project.

## **9. 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 has an initial term of three years, terminating on July 31, 2007, subject to further renewal by the parties to the agreement. The terms of the Tau Agreement require the Company to pay Tau a monthly service fee of \$10,000 until the listing of the Company's shares on a Canadian stock exchange. As the shares are now listed, the agreement calls for Tau to be paid a monthly service fee of \$22,500. For the three month periods ended June 30, 2007 and 2006, fees paid to Tau for these services were \$67,500 and \$67,500 respectively. For the six month periods of each year, fees paid to Tau were \$135,000 and \$135,000 respectively.

Accounts receivable and other assets, at June 30, 2007, include \$22,500 paid to Tau for advisory services for July 2007. Consulting fees paid to officers of the Company for the three month periods ended June 30, 2007 and 2006 were \$40,000 and \$73,362 respectively. For the six month periods of 2007 and 2006, consulting fees were \$97,101 and \$133,126 respectively.

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.

## **10. 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.

## **11. Outlook**

Talon will continue to pursue base and precious metal exploration in the coming year at its São Jorge, Água Branca, 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.

## **12. Additional Information**

Additional information relating to the Company, including the Company's Annual Information Form (AIF) dated March 29, 2007, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Directors**

Sandra Cowan, Chairman  
Luis M.F. Azevedo  
Fiona C. Childe  
Stuart Comline  
Francis Crothers  
Greg S. Kinross  
Warren E. Newfield

### **Management**

Fiona C. Childe, President & CEO  
Luis M.F. Azevedo COO  
Nelson Pfaltzgraff CFO  
Paulo Ilidio de Brito<sup>1</sup> VP Exploration

<sup>1</sup> "Qualified Person" as defined under NI 43-101

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