



## **Talon Metals Corp.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three and six months ended June 30, 2008

Dated: August 13, 2008

**TABLE OF CONTENTS**

1. Forward-Looking Information .....	3
2. Overview .....	4
3. Exploration Projects .....	5
4. Critical Accounting Estimates and Changes in Accounting Policies .....	16
5. Financial Instruments .....	17
6. Capital Expenditure on Exploration Projects .....	18
7. Disclosure of Outstanding Share Data .....	18
8. Results of Operations .....	19
9. Summary of Quarterly Results .....	21
10. Financial Condition, Cash Flow, Liquidity and Capital Resources .....	22
11. Related Party Transactions .....	24
12. Risks .....	24
13. Internal Control Over Financial Reporting .....	26
14. Outlook .....	26

*This Management's Discussion and Analysis ("MD&A") of the consolidated financial position for the three and six months ended June 30, 2008, should be read in conjunction with the consolidated financial statements and notes of Talon Metals Corp. ("Talon" or the "Company") for the three and six months ended June 30, 2008.*

*Unless otherwise indicated all funds 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, without limitation, information regarding mineral resources, metallurgical results, the Company's exploration plans with respect to the São Jorge, Água Branca and other projects, exploration results and potential mineralization and resources) constitute forward-looking information. Forward-looking information reflects the current expectations or beliefs of the Company based on information currently available to the Company. 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, the preliminary nature of metallurgical results, changes in gold prices, changes in equity markets, the possibility that future exploration results will not be consistent with the Company's expectations, political developments in Brazil, changes to regulations affecting the Company's activities, delays in obtaining or failures to obtain required regulatory approvals, uncertainties relating to the availability and costs of financing needed in the future, the uncertainties involved in interpreting drilling results and other geological data, and the other risks involved in the gold exploration and development industry. 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 gold will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource estimates included in this MD&A are well established, by their nature, resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. Mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no certainty that mineral resources can be upgraded to mineral reserves through continued exploration.

## 2. Overview

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

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

The principal asset, the São Jorge Gold Project ("**São Jorge**") in Pará State, Brazil, is an advanced-staged gold exploration project and Phase I and Phase II diamond drilling and work programs were completed in respect of São Jorge in 2005 and 2006, respectively. The results of the Phase I drilling were utilized in an independent National Instrument 43-101 ("**NI 43-101**") mineral resource estimate undertaken by SRK Consulting (Canada) Inc. ("**SRK**") in the latter part of 2006. Subsequent to that resource estimate, further drilling results were received and exploration undertaken, and in light of the significant increase in the price of gold in 2007, Talon has commissioned an independent consulting firm to undertake an updated NI 43-101 review of the mineral resource estimate for the Wilton Zone at São Jorge, which is expected to be completed in the third quarter of 2008.

At the Água Branca Gold Project, surface exploration was undertaken in 2007 to identify and define the targets in preparation for a preliminary drilling program, which commenced in the fourth quarter and was completed in April 2008.

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

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

### **3. Exploration Projects**

#### **São Jorge Gold Project**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Also in 2007, in light of the significant increase in the price of gold, Talon has commissioned an independent consulting firm to undertake an updated NI 43-101 mineral resource estimate for the Wilton Zone at São Jorge, which will incorporate drilling results received subsequent to the original resource estimate completed in the second half of 2006. The updated mineral resource estimate for the Wilton Zone is scheduled to be completed in the third quarter of 2008.

During the second quarter of 2008, the Company started an auger drilling program and trenching on both extensions of Wilton Zone in order to better evaluate induced polarization (IP) anomalies and delineate potential drill targets.

A total of \$191,041 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. These licences have been converted to exploration licences and transferred into the name of Brazmin Ltda, a 100% held subsidiary of Talon. Nine payments totalling approximately US\$150,000 have been made to the vendors. A further option payment is due in March 2009 of approximately US\$150,000. The property area is subject to a 2% net smelter return ("**NSR**") royalty, with a buyout of US\$2 million.

In September 2006, Brazmin Ltda signed option agreements to acquire a 100% interest in an additional 7,725 hectares of ground adjacent to the above licences bringing the total area at Água Branca to 17,081 hectares. Staggered option payments are payable in respect of the ground acquired in September 2006.

The Company applied for the rights to an additional area of 33,259 hectares to cover available land adjacent to the current land holdings.

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

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

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

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

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

Highlights of the drilling included:

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

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

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

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

(\*open in one direction)

(\*\* open in two directions)

At Serra da Abelha, which is defined by an 800 by 250 metre wide +100 ppb gold in soil anomaly, an infill soil program, structural mapping and rock grab sampling was conducted over the main anomalous zone during the third quarter of 2007. The

regional soil grid was extended on a northwest direction in order to close the extension of the existing soil anomaly. Results from extension of the soil grid are pending.

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

In October 2007, Talon initiated a 2,000-metre Phase II Drill Program to test the Serra da Abelha, Jerimun, Heaven West and Sierra Delta targets at Água Branca. Due to the incessant rains, the drilling program was delayed and was only concluded in April 2008. The drilling program was comprised of 21 drill holes and a total of 2,316.80 metres. Drilling was performed by Boart Longyear-Geoserv, which is ISO 14001 accredited.

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

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

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

Four drill holes (448.25 metres) were drilled at the Heaven West target. Drilling intercepted hydrothermal alteration zones (mainly sericite, chlorite and silica) overprinting a monzogranitic body. Dolerite dykes and quartz veins are commonly associated with these zones. The percentage of sulphides is commonly less than 3%, but locally can be up to 10-15% of the altered rock. Pyrite is the most common sulphide and galena locally occurs and is associated with quartz veining. Assays were received and announced in the Company's news release of July 7, 2008. Hole ABD-026-08 intercepted 5.60 metres grading 1.69 g/t Au.

The Sierra Delta target was tested by eight drill holes totaling 827.80 metres. Drilling identified a large hydrothermal system which overprints felsic intrusives and subvolcanic rocks. The presence of a significant and pervasive quartz-sericite-pyrite (QSP) alteration style suggests a possible epithermal system. Several mineralized zones (from 1.00 metre to 29.30 metres width) with variable gold grades (from 0.15 to 4.84 g/t Au) were intercepted at the Sierra Delta target, mainly in drill holes ABD-027-08 and ABD-031A/B. The Company is analyzing the entire data set from the Sierra Delta target in order to decide the future strategy for this target.

Highlights from the Sierra Delta drill results included:

- 4.12 g/t Au over 2.99 metres in ABD-034-08;
- 4.84 g/t Au over 0.97 metre and 1.77 g/t Au over 2.88 metres in ABD-029C-08; and
- 4.00 g/t Au over 1.00 metre in ABD-028-08.

The updated exploration results from the Phase II Drill Program are contained in the Company's news releases of July 7, 2008.

During the six months ending June 30, 2008, a total of \$511,493 was spent at Água Branca.

### **Campo Grande Gold Project**

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

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

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

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

During the six months ending June 30, 2008, a total of \$4,192 was spent at Campo Grande.

## Other Properties

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

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

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

Under the terms of the LOI, Talon will pay:

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

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

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

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

The systematic rock channel sampling program was extended during the first quarter of 2008. The program focused on the widespread zone where mineralization was encountered during the initial evaluation phase. A total of 34 channels, comprising 1,472 linear-metres were sampled on five pre-selected exploration sectors,

denominated as; Veranice, Reginaldo, Petronilio, Nelson and Ananias sectors. The whole program generated 489 samples, with an average length of 3.0 metres per sample. Assays were received during the second quarter of 2008 and confirmed the previous grade and thickness.

Selected intercepts included:

- 69.90 metres grading 0.63 g/t Au (open on one direction);
- 10.90 metres grading 2.56 g/t Au (including 3.00 metres grading 8.25 g/t Au);
- 6.00 metres grading 1.50 g/t Au;
- 3.00 metres grading 1.54 g/t Au;
- 30.05 metres grading 0.50 g/t Au (open on one direction);
- 37.80 metres grading 0.28 g/t Au;
- 31.60 metres grading 0.33 g/t Au;
- 3.00 metres grading 1.77 g/t Au;
- 9.00 metres grading 1.23 g/t Au (including 3.00 metres grading 2.87 g/t Au);
- 3.00 metres grading 3.19 g/t Au;
- 3.00 metres grading 1.37 g/t Au;
- 21.20 metres grading 0.56 g/t Au (open on one direction);
- 9.00 metres grading 0.66 g/t Au (open on one direction);
- 18.60 metres grading 0.34 g/t Au;
- 9.00 metres grading 0.43 g/t Au; and
- 8.10 metres grading 0.45 g/t Au (open on one direction).

In addition, the Company completed a regional evaluation program along the 8,757-hectare property. Mapping, rock and stream sediment sampling were conducted over the prospective metavolcano-sedimentary sequence, which holds additional potential for base metal and nickel laterite mineralization. Assay results are pending.

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

The Rio Maria Project ("**Rio Maria**") consists of five exploration licence applications covering 43,379 hectares in the name of Brazmin Ltda and located in southeastern Pará State. Past exploration at Rio Maria focused primarily on iron oxide copper-gold and sedimentary copper-zinc potential. However, property-scale exploration has

identified Rufino's trend, a +10-kilometre gold anomaly that is yet to be drill tested. Based on exploration by Talon and past operators, the Company determined that the Rio Maria did not meet Talon's current corporate objectives and a decision was made to farm the project out. As such, Rio Maria was written down by \$62,405 to reduce the value of this project to zero in 2007.

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

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

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

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

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

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

Effective February 2007, Brazauro Resources Corporation ("**Brazauro**") acquired Talon's interests in the Tocantinzinho Gold Project (the "**Toc Project**") in Brazil in exchange for 13,150,000 treasury shares of Brazauro (TSX-V:BZO). Subsequently, in September 2007, Talon sold about 62% of its share position in Brazauro (8,214,500 common shares) for approximately \$6.6 million. Accordingly Talon's

interest in the Toc Project comprises the remaining 4,935,500 million common shares of Brazauro it holds (approximately 6% of the outstanding shares of Brazauro as at March 28, 2008).

During the third quarter of 2007, Talon entered into an agreement to assign its option to acquire a 100% interest in the Tartarugalzinho Gold Project ("**Little Turtle**") to Beadell Resources Limited ("**Beadell**"). Under the terms of the agreement Talon received a total of US\$650,000 in cash and shares from Beadell (ASX:BDR). The share consideration amounted to 2.45 million common shares of Beadell which are currently designated as "held for trading" on the Company's Consolidated Balance Sheets.

During the six months ended June 30, 2008, an amount of \$229,115 was expended on Other Properties, primarily related to property maintenance costs and additions to projects.

### **Qualified Person**

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

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

##### **Critical Accounting Estimates**

In preparing financial statements in accordance with Canadian Generally Accepted Accounting Principles, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities and expenses for the six month period ended June 30, 2008. Critical accounting estimates represent estimates that are uncertain and for which changes in those estimates could materially impact on the Company's financial statements. Management reviews its estimates and assumptions on an ongoing basis using the most current information available. The following accounting estimates are critical:

(a) Impairment of mineral properties and deferred expenditures

Mineral properties and deferred expenditures are the most significant assets of the Company and represent capitalized expenditures related to the development of these properties. The Company reviews and evaluates its mineral properties and deferred expenditures for impairment quarterly or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable.

(b) 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 that some portion or all of the future income tax assets will be realized and whether a valuation allowance is required.

(c) Stock based compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. This model requires the Company to make reasonable assumptions in order to derive parameters such as the expected volatility of the Company's shares, and the expected life of the stock options and interest rates, all of which are based on historical information. Future behaviours of these parameters are beyond the Company's control, and thus, may be significantly different from the Company's estimates. Please refer to Section 8 of this MD&A for details on the parameters used in the option pricing model.

### Changes in Accounting Policies or GAAP

Effective January 1, 2008, Talon adopted the following new accounting standards of the Canadian Institute of Chartered Accountants (“CICA”):

- CICA Handbook Section 3862, “Financial Instruments – Disclosures” ;
- CICA Handbook Section 3863, “Financial Instruments Presentation”;
- CICA Handbook Section 1535, “Capital Disclosures”; and
- CICA Handbook Section 1400, “Going Concern.”

The adoption of these new accounting standards is not expected to have any significant impact on the Company's financial statements. Please refer to Note 3, 9 and 10 of the June 30, 2008 consolidated financial statements for additional details.

### 5. Financial Instruments

	June 30, 2008	December 31, 2007
Held for trading, measured at fair value:		
Cash and cash equivalents	\$12,843,282	\$14,599,696
Investments	4,434,850	3,325,826
Loans and receivables, measured at amortized cost:		
Accounts receivable	101,400	82,198
Financial liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	114,816	299,948

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

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due or at reasonable cost. The Company has sufficient cash in treasury to meet all expected obligations at June 30, 2008.

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. The Company records its investments using the quarter end bid price. Changes in the bid price, will affect the fair value of these investments. The Company is minimally 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. In addition, the Company's investment in Beadell is denominated in Australian dollars. 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 mineral properties and deferred expenditures are comprised as follows:

	June 30, 2008 (unaudited)	Additions	December 31, 2007
<b>Brazilian Resources</b>			
<b>Mineração Ltda</b>			
São Jorge Project	\$5,637,128	\$191,041	\$5,446,087
<b>BRAZMIN LTDA</b>			
Água Branca Project	2,412,126	511,493	1,900,633
Campo Grande Project	744,677	4,192	740,485
Other Projects	939,305	229,115	710,190
	<u>\$9,733,236</u>	<u>\$935,841</u>	<u>\$8,797,395</u>

## 7. Disclosure of Outstanding Share Data

The following details the share capital structure as at August 13, 2008:

	<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Total</u>
Common Shares			27,054,222
Stock options	Apr 18, 2010	\$1.25	1,495,000
Stock options	May 31, 2011	\$2.00	230,500
Stock options	Dec 20, 2011	\$1.00	200,000
Stock options	Apr 18, 2012	\$0.98	50,000
Stock options	Aug 23, 2012	\$1.00	365,000
Stock options	Feb 18, 2013	\$0.57	200,000
Total fully diluted number of shares			<u>29,594,722</u>

**A summary of options outstanding as at June 30, 2008 is presented below:**

	<b>Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding – beginning of year	2,340,500	\$1.26
Granted	200,000	0.57
<b>Total</b>	<b>2,540,500</b>	<b>\$1.20</b>
Exercisable – end of period	2,241,750	\$1.27

## **8. Results of Operations**

### **Review of Operations**

(thousands of C\$)

	<b>Three months ended Jun 30, 2008 (unaudited)</b>	<b>Three months ended Jun 30, 2007 (unaudited)</b>	<b>Six months ended Jun 30, 2008 (unaudited)</b>	<b>Six months ended Jun 30, 2007 (unaudited)</b>	<b>Year ended Dec 31, 2007</b>
Interest income	\$75	\$80	\$192	\$164	\$415
Administration expense <sup>1</sup>	488	446	856	783	1,833
Foreign currency translation gain (loss) <sup>2</sup>	16	(61)	54	(57)	(120)
Stock based compensation expense	42	(105)	205	(105)	255

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

<sup>2</sup> Foreign currency translation gain (loss) is due to the appreciation/depreciation of Brazilian real versus the US dollar.

Net earnings for the three month period ended June 30, 2008 were \$1,023,538 or \$0.04 per share (basic and diluted) and was primarily due to and unrealized gains on investments in Brazauro and Beadell shares which more than offset operating expenses. Net loss for the three month period ending June 30, 2007 was \$978,845 or \$0.04 per share (basic and diluted) mainly the result of an unrealized loss on investment in Brazauro shares.

Net earnings for the six month period ended June 30, 2008 were \$293,990, as net losses in the first quarter, primarily due to operating expenses, were more than offset by net earnings in the second quarter. Investments at June 30, 2008 increased by approximately \$1.1 million from December 31, 2008 as a result of favourable

changes in the closing bid prices of Brazauro and Beadell shares. Net earnings for the first six months of last year were \$8,467,901, primarily due to a gain on investment related to the sale of the Toc Project.

Subsequent to the end of the second quarter of 2008, share prices of Brazauro and Beadell declined, and the combined unrealized losses on these investments from June 30 to August 12, 2008 totalled approximately \$1.86 million. These losses will be reflected on the Company's financial statements for the third quarter of 2008.

Stock based compensation expense is a function of stock options granted and vested during the reporting period.

### **Capitalized exploration**

Capitalized exploration for the three and six month periods ended June 30, 2008, amounted to \$442,699 and \$935,841 respectively. This relates mainly to work done on Água Branca. This compares to \$548,696 and \$1,056,722 for the three and six month periods respectively last year.

### **Stock Options**

A summary of options outstanding as at June 30, 2008 is presented in Section 7 of this MD&A. For the three months ended June 30, 2008, an amount of \$41,653 was expensed for options vested and granted in 2008, compared to a reversal of \$105,503 in the same period last year.

During the second quarter of 2008, the Company issued no stock options.

### Estimated fair value of stock options

The Company determined the fair value of the 200,000 stock options issued during the first quarter, using the Black-Scholes option pricing model under the following assumptions:

Expected life	5 years
Fair value (\$/option)	\$0.47
Risk-free interest rate	3.80%
Volatility	117%
Dividends	0%

## 9. Summary of Quarterly Results

(All numbers are unaudited)

	<b>Three months ended Jun 30, 2008</b>	<b>Three months ended Mar 31, 2008</b>	<b>Three months ended Dec 31, 2007</b>	<b>Three months ended Sept 30, 2007</b>
Total Revenues	\$75,140	\$116,978	\$172,156	\$79,374
Net Earnings / (Loss)	1,023,538	(729,548)	(1,722,479)	8,171
Net Earnings / (Loss) basic per share	0.04	(0.03)	(0.06)	0.00
Net Earnings / (Loss) diluted per share	0.04	(0.03)	(0.06)	0.00
	<b>Three months ended Jun 30, 2007</b>	<b>Three months ended Mar 31, 2007</b>	<b>Three months ended Dec 31, 2006</b>	<b>Three months ended Sept 30, 2006</b>
Total Revenues	\$79,791	\$83,989	\$124,890	\$111,512
Net Earnings / (Loss)	(978,845)	9,446,746	(793,500)	(214,142)
Net Earnings / (Loss) basic per share	(0.04)	0.35	(0.03)	(0.01)
Net Earnings / (Loss) diluted per share	(0.04)	0.30	(0.03)	(0.01)

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

Foreign currency translation gain or loss reflects changes in Canadian dollar / US dollar and US dollar / Brazilian real exchange rates on foreign currency balances.

Quarterly trends in Net earnings (Loss) are also impacted by gains and losses on investments and mineral properties, both realized and unrealized. This factor was particularly significant in the quarter ended March 31, 2007 as net earnings included a realized gain on the sale of the Toc Project of \$9,301,551.

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

### **Cash Flow Highlights** (thousands of C\$)

	Three months ended June 30, 2008 (unaudited)	Three months ended June 30, 2007 (unaudited)	Six months ended June 30, 2008 (unaudited)	Six months ended June 30, 2007 (unaudited)	Year ended Dec. 31, 2007
Operating activities	\$(440)	\$(278)	\$(804)	\$(625)	\$(1,439)
Financing activities	-	-	-	-	-
Investing activities	(450)	(2, 261)	(952)	(2, 774)	4,600
Beginning cash & cash equivalent balance	13,734	10, 579	14,599	11, 439	11,439
Increase / (decrease) in cash & cash equivalents	(890)	(2, 539)	(1,756)	(3, 399)	3,160
Ending cash & cash equivalents balance	\$12,844	\$8, 040	\$12,843	\$8, 040	\$14,599

#### **Operating Activities**

Operating activities for the three months ended June 30, 2008 consumed \$440,563 primarily due to net operating expenses and a reduction in payables and receivables. In the same quarter last year operating activities consumed \$277,622. Operating activities for the six months ended June 30, 2008 consumed \$804,301, primarily due to net operating expenses and a reduction in payables. In the six month period last year operating activities consumed \$624,907.

#### **Financing Activities**

There were no financing activities for the three and six month periods ended June 30, 2008 and 2007.

#### **Investing Activities**

Investing activities for the three months ended June 30, 2008 consumed \$449,779 from additions to capitalized exploration. In the same period a year ago, investing activities consumed \$2,261,360 due to additions to capitalized exploration and a loan receivable. Investing activities for the six months ended June 30, 2008 consumed

TALON METALS CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the three and six months ended June 30, 2008

\$952,113, primarily due to additions to capitalized exploration. In the same six month period last year, investing activities consumed \$2,774,352 due to additions to capitalized exploration and a loan receivable.

The Company estimates total 2008 expenditures to be approximately \$2 million. Cash and cash equivalents were \$12.8 million as of June 30, 2008. All cash equivalents are held in government securities (e.g. T-bills). The Company therefore has sufficient liquidity to sustain operations through the medium-term.

**A summary of Contributed Surplus for the period ended June 30, 2008 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
Options	Granted 2007	290,826
Options	Forfeited 2007	(35,450)
<hr/>		
Balance	Dec 31, 2007	3,119,938
Options	Granted 07/08	205,067
Warrants	Expired 2008	1,612,190
<hr/>		
Balance	June 30, 2008	\$4,937,195
<hr/>		

## **11. Related Party Transactions**

On August 1, 2004, the Company entered into an administrative service agreement (the "**Tau Agreement**") with Tau Capital Corp. ("**Tau**"). The controlling shareholder of Tau is a 6% shareholder of the Company. The Tau Agreement was to terminate on July 31, 2007 and 2008, but automatically renewed on the same terms and conditions for a further one year period. The terms of the Tau Agreement require the Company to pay Tau a monthly service fee of \$22,500. For the three and six months ended June 30, 2008 and 2007, fees paid to Tau for these services were \$67,500 and \$135,000 respectively in both years.

Consulting fees paid to officers of the Company for the three and six months ended June 30, 2008 and 2007, were \$73,207 and \$140,755 respectively in both years. In addition an amount of \$39,782 (2007:\$nil) was charged to the Company by Tau in respect of services rendered outside of the Tau Agreement for the three month period ended June 30, 2008. For the six months ended June 30, 2008, this amount was \$67,509 (2007:\$nil).

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.

Accounts receivable and other assets, at June 30, 2008, include \$22,500 paid to Tau for management fees for July 2008 (July 2007:\$22,500).

## **12. Risks**

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

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

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

disposal areas which may result in environmental pollution and consequent liability.

Although Talon maintains insurance to protect against certain risks in such amounts as it considers 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 but 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 the commencement of mining operations, will require substantial additional financing. Failure to obtain sufficient financing will result in a delay or indefinite postponement of exploration, development or production on any or all of the Company's properties or even a loss of a property interest. Additional financing may not be available when needed or if available, the terms of such financing might not be favourable to the Company.

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

The Company's operations are currently conducted in Brazil and, as such, the Company's operations are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties vary from country to country and include, but are not limited to, terrorism; hostage taking; military repression; extreme fluctuations in currency exchange rates; high rates of inflation; labour

unrest; the risks of war or civil unrest; expropriation and nationalization; renegotiation or nullification of existing concessions, licences, permits and contracts; illegal mining; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

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

### **13. Internal Control Over Financial Reporting**

No changes were made to the Company's internal control over financial reporting during the three months ended June 30, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **14. Outlook**

Talon will continue to pursue its exploration program in 2008 at its Brazilian gold projects. An updated NI 43-101 review of the mineral resource estimate for the Wilton Zone at São Jorge is expected to be completed in the third quarter of 2008.

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.