



Talon Metals Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2010

Dated: August 13, 2010

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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, 2010, 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, 2010.

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 the Company's plans and objectives, mineral resources, metallurgical results, the Company's drilling and exploration plans, including the drilling plans for the Sergipe Potash Project (defined below), the Company's objectives with respect to its exploration program at the Sergipe Potash Project, statements related to agreements with Brazilian Gold Corporation and Tlou Energy Ltd and the timelines for closing such transactions, the Company's business plans and priorities, the Company's intention to continue to satisfy TSX listing requirements regarding the maintenance of a qualifying mineral exploration and development property, the Company's plans to dispose of, option out or expand existing projects, the Company's plans to acquire new projects, the Company's exploration results and potential mineralization and resources, market trends with respect to demand for and the price of gold and potash, projections in respect of capital expenditures, the plans and expectations of the Company and Tlou Energy (defined below) concerning the Saber Gas Project (defined below), including the drilling program thereon, plans and expectations concerning the transition to IFRS (defined below), and the medium-term financial obligations of the Company and its ability to maintain its interests in the Sergipe Potash Project constitute forward-looking information.

Forward-looking information reflects the current expectations or beliefs of the Company based on information currently available to the Company. With respect to forward-looking information contained in this MD&A, the Company has made assumptions regarding, among other things, future currency and interest rates, the regulatory framework (including tax and trade laws and policies) in the countries in which the Company conducts its business, and the Company's ability to obtain qualified staff and equipment in a timely and cost-efficient manner to meet the Company's demand.

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: volatility of and sensitivity to market prices for gold, potash and gas and prices (market or otherwise) for electricity; the intentions of Brazilian Gold Corporation in respect of the agreement for São Jorge, delay in, or failure of Brazilian Gold Corporation to comply in all material respects with the agreement for São Jorge; the intentions of Tlou Energy in respect of the agreement for the Saber Gas

Project, delay in, or failure of Tlou Energy to comply in all material respects with the agreement for the Saber Gas Project; failure of Tlou Energy to list on the Australian Stock Exchange; delays in obtaining or failures to obtain necessary regulatory permits and approvals from government authorities, including approval of applications for licences required for Talon to conduct field based program on its potash projects and approval of environmental impact assessment applications; availability of mineral resource opportunities suitable for Talon; uncertainties involved in interpreting drilling results and other geological data; changes in the anticipated demand for electricity in southern Africa; changes in the anticipated demand for fertilizer including factors related to world population growth, income per capita, the use of biofuels and area of arable land; changes in equity and debt markets; inflation; changes in exchange rates; declines in U.S., Canadian and/or global economies; failure of Tlou Energy's investment to advance the development of the Saber Gas Project; uncertainties relating to the availability and costs of financing needed to complete exploration activities and demonstrate the feasibility of the Company's projects; failure to establish estimated mineral resources, exploration costs varying significantly from estimates; delays in the exploration and development of, and/or commercial production from, the Saber Gas Project and the properties Talon has an interest in; inability to commercially exploit the resources which may be contained in the Saber Gas Project, including the production of downstream products such as petrochemicals; inability to secure and produce sufficient water to support gas production; actual gas usage varying from assumptions; equipment failure; unexpected geological or hydrological conditions; political risks arising from operating in Brazil and Africa; imprecision in preliminary resource estimates, including estimates of the life and recovery thereof; success of future exploration and development initiatives; the existence of undetected or unregistered interests or claims, whether in contract or in tort, over the property of Talon; changes in government regulations and policies, including tax and trade laws and policies; risks relating to labour; other exploration, development and operating risks; liability and other claims asserted against Talon; volatility in prices of publicly traded securities; and other risks involved in the mineral exploration and development industry and risks specific to the Company, including the risks discussed in this MD&A under **"Risks"**.

Forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

The mineral resource figures referred to in this MD&A are estimates, and no assurances can be given that the indicated levels of gold or potash 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 year ended December 31, 2009, is available on SEDAR at www.sedar.com.

Talon is focused on the acquisition, exploration and development of high-quality mineral resource projects. Management remains guardedly optimistic that, despite the changed circumstances in recent times, the long term fundamentals of the mineral resource industry are attractive. The Company has acquired a balanced portfolio of mineral exploration properties.

On June 15, 2010, Talon announced plans to divest 100% of its principal asset, the São Jorge Gold Project ("**São Jorge**") to Brazilian Gold Corporation ("**Brazilian Gold**"). São Jorge is an advanced-staged gold exploration project with a National Instrument 43-101 ("**NI 43-101**") mineral resource estimate for the Wilton Zone of 343,000 troy ounces of gold and an additional 458,000 troy ounces of gold in the inferred resource category. The anticipated closing date of the transaction with Brazilian Gold is expected to be in the third quarter of 2010.

In view of the intended disposal of São Jorge and other gold projects Talon has turned attention to the exploration for, and the development of, potash deposits, particularly in Brazil, where there is growing demand for the commodity. Accordingly, the Company has acquired a portfolio of holdings with potential for potash. This commenced with the acquisition from Bancor Mineração Ltda of certain properties with potash potential in the Sergipe and Alagoas States of Brazil (the "**Sergipe Potash Project**"), as announced in Talon's May 25, 2009 news release.

Subsequently, during the second half of 2009, the rights to further licences with potash potential were acquired or optioned through negotiations which were concluded with third parties. Talon applied for other licences in the same area and these were subsequently granted, thereby increasing the land position of the Sergipe Potash Project. This project now comprises ten onshore and two offshore potash targets. Exploration licences are held over a total area of 107,987 hectares and further applications have been made for an additional 4,982 hectares.

In the past year, Talon has acquired a large amount of historical exploration data, principally geophysical data, including data from extensive seismic surveys as well as data from oil well drilling, which had been undertaken by the oil industry in the Sergipe basin since the 1960s. This extensive data base has now been reinterpreted by Talon and has led to the identification of eleven wells in which potash mineralization has been intersected, on or near Talon's properties. This has resulted in the delineation of seven discrete targets, each with known potash mineralization, within those properties and on which drilling will commence in the third quarter.

Talon announced a Heads of Agreement ("**HOA**") with Saber Energy Corp.,

regarding a potential merger of the two companies in a news release of September 25, 2008. Also on this date, Talon announced it had agreed to loan up to \$6 million to Saber Energy Corp. On September 1, 2009, Talon entered a definitive agreement with Saber Energy Corp. (the "**Pre-Merger Agreement**") with respect to the Merger. On March 24, 2010 the Merger was completed. On March 25, 2010 Talon filed a business acquisition report regarding the Merger on SEDAR. In addition, all of the above agreements and all subsequent amendments have been filed on SEDAR and may be accessed on Talon's SEDAR profile at www.sedar.com.

On August 12, 2010, subsequent to the end of the second quarter, Talon announced its plans to complete a transaction to sell its interests in the Saber Gas Project to Tlou Energy Ltd ("Tlou Energy"). In return, Talon would receive a 30% interest in Tlou Energy. Tlou Energy intends to pursue a listing on the Australian Stock Exchange. This transaction with Tlou Energy is subject to a number of conditions and approvals.

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 mineral projects in different commodities is aimed at securing rights to projects which have the ability to enhance the Company and provide value to shareholders.

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 June 15, 2010, Talon announced that it had concluded an agreement (the "**São Jorge Agreement**") with Brazilian Gold (TSXV:BGC) whereby Brazilian Gold has been granted an option to purchase a 100% interest in São Jorge. Under the terms of the São Jorge Agreement, Brazilian Gold is required to pay Talon a total of \$2,250,000 in cash and \$2,250,000 in Brazilian Gold shares (calculated as the number of Brazilian Gold shares equal to the dollar amount divided by the twenty day volume-weighted average trading price of Brazilian Gold shares).

Brazilian Gold is required to make an initial payment of \$1,000,000 in cash and \$500,000 in Brazilian Gold shares. Brazilian Gold is required to make additional payments of \$500,000 in cash and \$1,000,000 in shares 270 days after the closing date. A final payment of \$750,000 in cash and \$750,000 in shares is due 540 days after the closing date. The São Jorge Agreement is subject to a 1% net smelter return royalty ("**NSR**") payable to Talon upon commencement of commercial production.

The closing date of this transaction is expected to be in the third quarter of 2010. This transaction is subject to any approvals required under the rules of the Toronto Stock Exchange and applicable corporate law.

Between 2005 and 2008, Talon conducted extensive exploration at the São Jorge

Project including geological mapping, both ground and aerial geophysical surveys, soil geochemical surveys and some 82 diamond drill holes in two phases of drilling, to a depth of 150 metres and incorporating some 18,056 metres of drilling, principally on the Wilton zone.

In 2008, based on Phase II drill results, Talon commissioned Coffey Mining (“Coffey”), an independent consulting firm, to undertake a NI 43-101 compliant mineral resource estimate for the Wilton Zone at São Jorge.

In a news release dated September 4, 2008, the Company announced the results of Coffey’s mineral resource estimate for the Wilton Zone. Using a 0.5 grams per tonne (“g/t”) gold cut-off, Coffey classified only that material in the Wilton Zone occurring within 260 metres of surface as a mineral resource. Coffey’s mineral resource estimates are presented in Table 1. This mineral resource estimate was prepared by Mr. Bernardo Viana (Member: AIG), an employee of Coffey and a “Qualified Person” within the meaning of NI 43-101.

Table 1 : Global Mineral Resource Estimate for the Wilton Zone at São Jorge using a 0.5 g/t Au cut-off grade (effective date: September 4, 2008).¹

São Jorge Project – Wilton Zone Grade Tonnage Report Multiple Indicator Kriging Estimate 10E x 10mN x 2.5mRL Selective Mining Unit ²			
Indicated Mineral Resource			
Cut-off Grade (g/t Au)	Million Tonnes³	Average Grade (g/t Au)	Contained Gold (Kozs)³
0.5	8.334	1.3	343
Inferred Mineral Resource			
Cut-off Grade (g/t Au)	Million Tonnes³	Average Grade (g/t Au)	Contained Gold (Kozs)³
0.5	12.576	1.1	458

¹ For additional information on São Jorge and these mineral resource estimates see the independent technical report entitled “Talon Metals Corp.: São Jorge Gold Project, Para State, Brazil, National Instrument 43-101 Second Technical Report” and dated September 4, 2008, which has been filed on SEDAR and may be accessed on the Company’s profile at www.sedar.com.

² Specification on the size of the blocks used in the block modeling.

³ Appropriate rounding has been applied. “Kozs” indicates thousand troy ounces.

A total of \$50,600 has been expended on São Jorge during the six month period under review. In the second quarter of 2010, following the announcement of the planned sale of São Jorge this asset was written down by \$2,029,737 which brings it to the value of the net present value of the expected proceeds of \$4,150,000. As the

Company expects this sale to close in the third quarter of 2010, this asset has been reclassified under Assets Held for Sale. (See Note 10 of the Q2 2010 Financial Statements.)

Sergipe Potash Project

Talon's Sergipe Potash Project comprises ten onshore and two offshore potash targets located in the Sergipe-Alagoas basin in the Sergipe and Alagoas States of Brazil. Talon holds exploration licences for a total area of 107,987 hectares and has applications for exploration licences pending for a further 4,982 hectares.

Eight of Talon's potash targets were acquired from Bancor Mineração Ltda. ("**Bancor**"), a Brazilian subsidiary of Kmine Holdings Ltd., a private company, as announced in Talon's news release of May 25, 2009.

On December 7, 2009, Talon concluded an agreement to acquire a 75% interest in a subsidiary of Lara Exploration Ltd. ("**Lara**") which holds 13 potash exploration licences with a total area of 21,500 hectares located immediately north-northeast of Vale's Taquari-Vassouras mine boundary in Sergipe State, Brazil. These licences were transferred to Talon in April 2010.

These potash targets are in the same sedimentary basin as established oil producing areas and the nearby Taquari-Vassouras potash mine which is the only potash producing mine in Brazil and which produced 607,000 tonnes of potash in 2008.

There is a significant amount of technical data on the Sergipe-Alagoas basin, generated by the oil and gas industry since 1960. To date, Talon has acquired the logs of 286 historical oil wells within this basin, some of which are strategically located within Talon's target areas.

In addition, Talon has acquired other existing exploration data, including 234 line kilometres of 2-D seismic data, downhole geophysical profiles and the data from regional gravity and magnetometer surveys. All of this data originated from exploration programs focused on oil and gas and therefore was reinterpreted in order to apply it to potash exploration. Overall, the amount of historical data available within the Sergipe basin includes 4,590 oil wells and 618 2-D seismic lines.

Talon has engaged two consultants to assist with the acquisition, collation and interpretation of a large volume of data from previous exploration in the area of the Talon's potash properties. Stratageo Soluções Tecnológicas Ltda ("**Stratageo**"), a Rio de Janeiro based consultancy firm primarily serving the oil and gas industry, has collated all the seismic and drilling data Talon acquired on the Sergipe basin and is working with Talon's management to undertake an interpretation of the basin structure and potash distribution within the basin. This work has been completed for the Sergi target and is nearing completion for the Capela target. Thereafter the interpretation will extend to other targets within the Company's land holdings.

Ercosplan Ingenieurgesellschaft Geotechnik und Bergbau mbH ("**Ercosplan**"), potash industry specialists, have been engaged to work with Stratageo and Talon's management to further interpret the data and assess the potash potential of the Sergipe basin and to propose an appropriate exploration program. This data interpretation identified eleven oil wells, in or near Talon's properties which had intersected potash mineralization, either as sylvinite or carnallite, which has led to the delineation of seven distinct drilling targets with known potash mineralization, which range in depths from 500 metres to 1700 metres below surface. The mineralization occurs in individual seams of between 2 metres and 45 metres, with the thicker seams containing carnallite and intercolated internal salt seams. In the multiple seam intersections, the cumulative thickness of the potash mineralization is between 18 and 66 metres. Ercosplan estimated the cumulative order of magnitude of potash mineralization within Talon's ground holdings, and within a 1,500 metre "area of influence" radius of each of the mineralized intersections in the oil wells, to be 450 million tonnes of sylvinite mineralization and 1,100 million tonnes of carnallite mineralization.

A Phase II exploration program, incorporating 5,250 metres of drilling, will commence during the third quarter of 2010. The aim of the drilling program is to extend the mineralization that has been intersected in the oil wells and to determine the most attractive of the seven target areas delineated, as well as to define a NI 43-101 compliant resource estimate. Talon has been granted environmental licences for its Sergi target area and is submitting further applications for environmental licences for additional target areas.

Talon has also entered into preliminary discussions with parties who have expressed an interest in participating in the exploration of the Company's Sergipe Potash Project.

A total of \$777,868 was spent by Talon on the Sergipe Potash Project in the six month period under review.

Água Branca Gold Project

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

Following a review of the exploration results in the fourth quarter of 2008, Talon decided to identify a partner in order to continue the development of Água Branca.

On December 10, 2009, Talon concluded an agreement with Brazauro Resources Corporation ("**Brazauro**") (TSX:BZO), whereby Brazauro has the option to earn a 100% interest in Água Branca. Subsequently, Brazauro was acquired by Eldorado Gold Corporation (TSX:ELD).

Under the terms of this agreement, Talon received an initial payment of US\$60,000 immediately and a further US\$60,000 on the submission of the licences to Departamento Nacional de Produção Mineral ("**DNPM**") for transfer to Brazauro. In order to exercise its option, Brazauro is required to make additional payments to Talon of US\$130,000 on or before December 31, 2010 and a further payment of US\$1.87 million on or before September 30, 2011. In addition, Brazauro must spend US\$1 million on exploration within two years of the transfer of the licences, including the completion of a minimum of 2,000 metres of core sample drilling in the first year.

Talon is also entitled to a 2% NSR which Brazauro can re-purchase for US\$2 million. If the payments are not made or the exploration program is not completed, Brazauro forfeits its ownership rights.

A total of \$nil was spent at Água Branca during the six months ended June 30, 2010.

Campo Grande Gold Project

Talon's Campo Grande Gold Project ("**Campo Grande**") is located in Minas Gerias State, approximately 110 kilometres west of the state capital of Belo Horizonte and 15 kilometres north of the Town of Pitangui. A major road transects the Campo Grande property 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 17th century.

Campo Grande consists of three exploration licences totaling 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) diamond drill program with the objective of providing an initial drill test of the soil anomaly. 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.

Talon did not conduct any exploration activities on Campo Grande during the period under review as it is seeking a farm-out partner.

During the six month period ended June 30, 2010, a total of \$1,742 was spent at Campo Grande.

Other Projects

The Company owns or has interests in several other projects in Brazil (the "**Other Projects**") including the following.

The Juruena Gold Project ("**Juruena**") comprises 25,150 hectares located in northern Mato Grosso State, Brazil. In July 2010, subsequent to the end of the second quarter, Talon concluded an agreement with Lago Dourado Minerals Ltd ("**Lago**"), a private company. Under the terms of this agreement, Talon sold 100% of its indirect interest in Juruena to Lago. This agreement supersedes the option agreement (and related agreements) of February 2010 with Gungnir Resources Inc. As this sale closed in July 2010, this asset has been reclassified under Assets Held for Sale. (See Note 10 of the Q2 2010 Financial Statements.)

The Batistão Gold Project ("**Batistão**") comprises a 20,000-hectares property, which is 100% owned by Talon. The project is located on the Peixoto de Azevedo Mineral Province on the northern portion of Mato Grosso State, Brazil. Talon relocated all of the historical drill holes at Batistão and completed the compilation of existing geological, geochemical and geophysical data. Currently the Company is seeking a farm-out partner for Batistão.

The Rio Maria Project ("**Rio Maria**") consists of five exploration licence applications covering 43,379 hectares located in southeastern Pará State, Brazil. Based on exploration by Talon and past operators, the Company determined that 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 \$nil in 2007.

In the fourth quarter of 2007, Talon entered into an agreement with Reinarda Mineracao Ltda. ("**Reinarda**"), a Brazilian subsidiary of Troy Resources NL ("**Troy**"), regarding Rio Maria. Under the terms of the agreement Reinarda earned a 51% interest in Rio Maria by paying Talon a total of US\$150,000 and committing to expenditure of US\$100,000 over twelve months ending December 31, 2008 (this payment and expenditure was made within the specified timeframe). Reinarda can increase their ownership of Rio Maria to 100%, with a 2% NSR royalty payable to Talon, and by making an additional US\$200,000 payment and further expenditures totaling US\$250,000 over the following 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.

Effective February 2007, 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. In March 2009, Talon sold a further 3,600,000 shares for approximately \$1.7 million and in April 2009 Talon sold its remaining 1,335,500 common shares of Brazauro for about \$0.6 million.

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 were sold by Talon in the first quarter of 2010 for gross proceeds of approximately \$724,000.

During the six month period ended June 30, 2010, an amount of \$169,524 was expended on the Other Projects.

Saber Gas Project

The Saber Gas Project ("**Saber**") is an unconventional gas project with interests in various coalbed methane ("**CBM**") and shale gas prospects in the Karoo age rocks in the Kalahari and Zambesi basins in Botswana, Africa. This project's total licence area covers 1,207,727 hectares (2,984,358 acres) in three blocks. The Masama block ("**Masama**") totals 410,059 hectares (991,038 acres), the Kalahari block ("**Kalahari**") totals 386,769 hectares (955,727 acres) and the Kweneng block ("**Kweneng**") totals 419,899 hectares (1,037,593 acres).

Prior to the Merger of Saber Energy Corp and Talon in March 2010, Saber Energy Corp. entered into a series of agreements (the "**Tlou Transaction Agreements**") with Tlou Energy, a joint venture between Mitchell Energy Group and Walcot Capital, pursuant to which Tlou Energy acquired an indirect interest in Kalahari, Masama and Kweneng. Pursuant to the Tlou Transaction Agreements, Tlou Energy has the right to retain its interest in the Saber Gas Project by completing certain specified exploration requirements including drilling a minimum of 12 core holes and other commitments (the "**Farm-in Requirements**") on or before October 17, 2011 (the "**Farm-in Period**"). The cost for Tlou Energy to undertake this work is estimated at US\$8 million.

In the event that Tlou Energy completes the Farm-in Requirements within the Farm-in Period, Talon is not required to contribute to the funding of the subsequent exploration program in respect of each of Kalahari, Masama and Kweneng (the "**Second Exploration Program**"). That is, at Talon's election, Tlou Energy is required to 'carry' Talon for the Second Exploration Program. Tlou Energy must also 'carry' Talon in respect of the exploration program under which the first pilot well is drilled on each of Kalahari, Masama and Kweneng, and for up to 225 days following the date of commencement of such pilot well program (such date of commencement being referred to as the "**First Well Spud Date**"). Prior to the expiry of such 225-day period, Talon has a right to maintain its interest in each project by making payment to Tlou Energy of an amount prescribed by a pre-determined formula. In the event that there are exploration programs on any of the Kalahari, Masama and Kweneng after the Second Exploration Program, but prior to the First Well Spud Date, Talon is required to fund its *pro rata* share of such programs or its interest will be diluted in accordance with a pre-determined dilution formula.

Also pursuant to the Tlou Transaction Agreements, Tlou Energy (Proprietary) Limited, a wholly-owned Botswana subsidiary of Tlou Energy, has been appointed as exclusive manager and operator of the Saber Gas Project.

The licences comprising the Saber Gas Project contain an estimated contingent gas resource of approximately 14 trillion cubic feet ("**tcf**") and 34 tcf (on a low and high estimate basis), with a best estimate of 23 tcf. This estimate is based on a Canadian National Instrument 51-101 compliant resources report dated September 1, 2009 by Gustavson and Associates, independent reservoir engineers and geological consultants. Talon has a 90% interest in Kalahari, a 21% interest in Masama and a

25% interest in Kweneng, with Tlou Energy holding the balance in each block (except for Masama where a third party has a 15% holding). Contingent resources are defined as those quantities of gas estimated on a given date to be potentially recoverable from known accumulations, but are not currently economic. There is no certainty that it will be commercially viable to produce any portion of the resource. Additional information with respect to the resources report can be found in Appendix "D" Saber Energy Corp. Information Brochure to the management information circular of Talon Metals Corp. dated February 2, 2010, which is available on SEDAR profile at www.sedar.com.

Tlou Energy commenced drilling at Masama in the fourth quarter of 2009 and completed five holes in the second quarter of 2010. These holes intersected the anticipated stratigraphy of shales and coal seams that host the gas. While awaiting the results of test work, Tlou Energy moved the drill rigs from Masama to Kalahari to begin the drilling the next five core holes in the exploration program. As of the date of this MD&A, four core holes have been drilled at Kalahari and although full results are awaited, the results in hand meet the expectations of Tlou Energy's technical team. The third and final section of the exploration program will be two core holes at Kweneng. Tlou Energy anticipates that all drilling will be completed by the end of the third quarter of 2010.

On August 12, 2010, subsequent to the end of the second quarter, Talon announced its plans to complete a transaction to sell its interests in the Saber Gas Project to Tlou Energy Ltd. In return, Talon would receive a 30% interest in Tlou Energy. Tlou Energy intends to pursue a listing on the Australian Stock Exchange. In addition, Talon has an option to increase its stake in Tlou Energy by subscribing for up to an additional 4,890,110 shares. Also, there is a provision for one Talon representative to be appointed to Tlou Energy's board of directors and Talon also has the right to nominate a second director. The Saber drilling equipment being held for sale is not part of this proposed transaction and will remain the property of Talon. This transaction is subject to a number of conditions and approvals, including the approval of both Tlou Energy and Talon shareholders. This transaction is intended to supersede the Tlou Transaction Agreements.

As the Company expects the sale of its interests in the Saber Gas Project to close in the third quarter of 2010, this asset has been reclassified under Assets Held for Sale. (See Note 10 of the Q2 2010 Financial Statements.)

Qualified Person

Talon's exploration programs in Brazil are managed by Talon's VP Exploration, Mr. Paulo Ildio de Brito (Member: AusIMM), 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

In preparing financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"), management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities and expenses for the reporting period under review. 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 property, plant and equipment

Property, plant and equipment subject to amortization is reviewed for impairment periodically or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss must be recognised if the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. In that event, the asset must be written down to its fair value and an impairment loss recorded in the statement of operations.

The fair value is based on the present value of the estimated cash flows. Management's estimate of future cash flows is subject to risk and uncertainties and it is reasonably possible that changes could occur which may affect the recoverability of the Company's long-lived assets and may have a material effect on the Company's results of operations and financial position.

(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 enacted tax rates or 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 9 Results of Operations* of this MD&A for details on the parameters used in the option pricing model.

5. Changes in Accounting Policies

During 2009, the CICA amended Handbook Section 3862, "Financial Instruments – Disclosures" and these new disclosure requirements were incorporated into the year end 2009 financial statements.

There was no material impact on the Company's financial statements upon adoption of this new standard and none are expected in the future. Please refer to Note 3 of the December 31, 2009 consolidated financial statements for additional details.

Future Accounting Changes

In January 2009, the CICA issued the following new accounting standards:

- Handbook Section 1582 "Business Combinations";
- Handbook Section 1602 "Non-Controlling Interests"; and
- Handbook Section 1601 "Consolidated Financial Statements".

These are all based on the International Accounting Standards Board's ("IASB") International Financial Reporting Standard 3, "Business Combinations" which is discussed further in the next section. These new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Please refer to Note 3 of the December 31, 2009 consolidated financial statements for additional details.

On April 29, 2009, the CICA amended Section 3855, "Financial Instruments – Recognition and Measurement", adding/amending paragraphs regarding the application of effective interest method to previously impaired financial assets and embedded prepayment options. The amendments are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 with early adoption permitted. These amendments are not expected to have a significant impact on the Company's accounting for its financial instruments.

Adoption of IFRS

In February 2008, the CICA announced that GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of 2011 for which the current and comparative information will be prepared under IFRS. The Company is required to apply all of those IFRS standards which are effective for fiscal year ending December 31, 2011 and apply them to its opening January 1, 2010 balance sheet.

The Company's IFRS implementation project consists of three primary phases which will be completed by a combination of in-house resources and external consultants.

- *Phase I* - Initial diagnostic phase (Target completion date Q3 2010) – Involves preparing a preliminary impact assessment to identify key areas that may be impacted by the transition to IFRS. Each potential impact identified during this phase is ranked as having a high, moderate or low impact on Talon's financial reporting and the overall difficulty of the conversion effort.
- *Phase II* - Impact analysis, evaluation and conversion phase (Target completion date of the Q1 2011 with primary effort directed during the second half of 2010) – Involves the selection of IFRS accounting policies by senior management and the review by the audit committee, the quantification of the impact of changes on Talon's existing accounting policies on the opening IFRS balance sheet and the development of draft IFRS financial statements.
- *Phase III* - Implementation and review phase (Target completion dates will correspond to each quarterly filing period in 2011, with primary effort directed during the first half of 2011) – Involves training key finance and other personnel and implementation of the required changes to Talon's information systems and business policies and procedures. It will enable the Company to collect the financial information necessary to prepare IFRS financial statements and obtain audit committee approval of IFRS financial statements.

The table below summarizes the expected timing of key activities related to the Company's transition to IFRS.

Initial analysis of key areas for which changes to accounting policies may be required	Completed
Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives	Completed
Assessment of first-time adoption (IFRS 1) requirements and alternatives	Completed
Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives	In progress, completion expected during Q3 2010
Resolution of the accounting policy change implications on information technology, internal controls and contractual arrangements	In progress, completion expected during Q3 2010
Management and employee education and training	Throughout the transition process
Quantification of the Financial Statement impact of changes in accounting policies	Throughout 2010

Financial reporting expertise and communication to stakeholders

The Company has retained an external consultant to establish appropriate IFRS financial reporting expertise at all levels of the business. The external consultant will advise and train key finance and operational staff. Talon has also provided Audit Committee members with detailed project scoping, timelines and deliverables. Based on matters brought to their attention the Audit Committee members will review the Audit Committee Charter and make the necessary changes to reflect the requirements for IFRS financial expertise as applicable. The Audit Committee will continue to receive periodic presentations and project status updates from the external consultant and management. The Company will also ensure that its key stakeholders are informed about the anticipated effects of the IFRS transition.

The Company has completed part of the initial diagnostic phase and has continued to assess the differences during the first quarter. The Company will continue to update its disclosures throughout the remainder of 2010 to reflect specific actions taken to facilitate adoption of IFRS effective January 1, 2011. The differences that have been identified in the diagnostic phase are summarized below.

a) Transitional impact on financial statement presentation

The Company's financial statements will have a different format upon transition to IFRS.

The components of a complete set of IFRS financial statements are: statement of financial position (balance sheet), statement of comprehensive income, statement of changes in equity, statement of cash flows, and notes including accounting policies. Income statement will be presented as a component of the statement of comprehensive income. Balance sheet may be presented in ascending or descending order of liquidity. Income statement is classified by each major functional area – marketing, distribution, etc.

Impact on the Company: *The Company will reformat the financial statements in compliance with IAS 1.*

b) IFRS-1 transitional policy choices and exceptions for retrospective application

IFRS-1 contains the following policy choices with respect to first-time adoption that are applicable to the Company.

Designation of previously recognized financial instruments:

IFRS: IAS 39 restricts the circumstances in which the option to measure a financial instrument at fair value through profit or loss is available. In particular, an entity is permitted to designate, at the date of transition to IFRS, any financial asset or financial liability as at fair value through profit or loss provided the asset or liability meets the criteria.

GAAP: Contains no similar restriction.

Impact on the Company: *The Company has certain long-term investments that it has previously designated as held-for-trading. These investments were disposed of*

in early 2010. The Company will assess the transitional impact during Phase II by reference to IAS 39 methodology.

Property, plant and equipment:

IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost or using the historical valuation under the prior GAAP.

Impact on the Company: *The Company will elect to use the historical cost carrying values as determined under Canadian GAAP for transitional purposes.*

- c) Mandatorily applicable standards with retrospective application (i.e., not specifically exempt under IFRS - 1)

Deferred mineral exploration costs

Upon adoption of IFRS, the Company will have a choice between retaining its existing policy of capitalizing all prefeasibility evaluation and exploration (“E&E”) expenditures and electing to change its policy retrospectively to expense some or all prefeasibility costs.

Impact on the Company: *The Company will make a final determination of its policy in this area during Phase II.*

Property, plant and equipment - cost

IFRS: IAS 16 contains more extensive guidance with respect to components within property, plant and equipment. When an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately (component accounting).

GAAP: Section 3061 essentially contains similar guidance but is less extensive.

Impact on the Company: *The Company understands that the “components” approach is primarily intended to apply to major inspection or overhaul cost that is embedded in the cost of an item of property, plant and equipment. The Company has not identified any major inspection or overhaul cost with respect to its property, plant and equipment at the time of initial recognition and does not expect a material impact upon transition.*

Provision for environmental rehabilitation

IFRS – IFRS 37 applies to a constructive obligation, where the event creates valid expectations that the entity will discharge the obligation, as well as a legal obligation. The amount recognized should be the best estimate of the expenditure required to settle the obligation at the balance sheet date. Present value should be used where the effect of the time value of money is material. The discount rate (or rates) utilized should be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Impact on the Company: *The Company does not expect a material impact upon transition.*

Functional currency

The Company uses the Canadian dollar as both its functional and reporting currency. IAS 21 contains a more comprehensive framework for the determination of functional currency.

Impact on the Company: *During Phase II, the Company will review the IAS 21 criteria to determine whether there is a material impact upon transition at January 1, 2010 or at December 31, 2010 and for the interim periods and the year then ended. The Company does not expect a material impact upon transition.*

Share based compensation

IFRS: Under IFRS 2, graded vesting awards must be accounted for as though each instalment is a separate award. IFRS does not provide for an election to treat the instruments as a pool and recognize expense on a straight line basis.

GAAP: Straight line basis is permissible under Canadian GAAP.

Impact on the Company: *The Company has recognized option expense on a graded basis that is consistent with the IFRS 2 amortization methodology and had no unvested options at January 1, 2010. Accordingly, the Company does not expect any transitional impact for options unvested at January 1, 2010. For options granted on or after January 1, 2010 the Company will calculate the aggregate fair value as though each instalment is a separate award and will amortize the value on a graded basis.*

Impact on information systems and processes and controls

Based on findings from the diagnostic phase of the project, the Company does not expect that adoption of International Accounting Standards will have a pervasive impact on its present systems and processes. The Company expects to implement certain minor changes to the general ledger account descriptions as well as the calculation methodologies currently in use for certain specific financial statement areas such as asset impairment, share based compensation, etc. As the accounting policies are selected, appropriate changes to ensure the integrity of internal control over financial reporting and disclosure controls and procedures will be made. For example, any changes in accounting policies could result in additional controls or procedures being required to address reporting of first time adoption as well as ongoing IFRS reporting requirements. The accounting policy choices discussed above are based on the Phase I preliminary assessment and are not necessarily Talon's final accounting policy choices. The certifying officers plan to complete the design, and initially evaluate the effectiveness of, any significant changes to controls in the third quarter of 2010 to prepare for certification under IFRS in 2011.

6. Financial Instruments

	Jun 30, 2010 (unaudited)	Dec 31, 2009
Held for trading, measured at fair value:		
Cash and cash equivalents	\$2,254,291	\$2,807,195
Term deposit	751,000	1,500,000
Investments	-	528,112
Loans and receivables, measured at amortized cost:		
Accounts receivable	676,257	21,388
Loans receivable	-	5,000,000
Financial liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	1,675,045	920,069

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

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

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due or at reasonable cost. The Company has sufficient cash in treasury to meet all expected obligations at June 30, 2010.

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 recorded its investments in Brazauro and Beadell shares using the quarter end bid price. The Company sold its shares in Brazauro in the second quarter of 2009 and its shares in Beadell in the first quarter of 2010.

Through its project in Africa, the Company is exposed to movements in the following currencies: Botswana pula, South African rand, Australian dollars, Euros and British pounds. 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.

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.

7. Capital Expenditure on Exploration Projects

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

	Jun 30, 2010 (unaudited)	Additions (Reductions) net	Dec 31, 2009
<i>Mineral properties</i>			
Sergipe Potash Project	\$1,529,555	\$777,868	\$751,687
São Jorge Gold Project	-	(6,129,137)	6,129,137
Água Branca Gold Project	1,250,224	(63,544)	1,313,768
Campo Grande Gold Project	514,233	1,742	512,491
Other Projects	350,431	(360,406)	710,837
	<u>\$3,644,443</u>	<u>\$(5,773,477)</u>	<u>\$9,417,920</u>

8. Disclosure of Outstanding Share Data

The following details the share capital structure as at August 13, 2010:

	<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Total</u>
Common Shares			63,877,950
Stock options	May 31, 2011	\$2.00	205,500
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
Stock options	Jun 11, 2014	\$0.39	644,500
Stock options	May 21, 2015	\$0.40	<u>4,974,500</u>
Total fully diluted number of shares			70,517,450

A summary of options outstanding as at June 30, 2010 is presented below:

	Options	Weighted Average Exercise Price
Outstanding – beginning of year	3,185,000	\$1.04
Expired	(1,520,000)	1.26
Granted	4,974,500	0.40
Exercisable – end of period	6,639,500	\$0.51

9. Results of Operations

Review of Operations

(Thousands of C\$)

	Three months ended Jun 30, 2010 (unaudited)	Three months ended Jun 30, 2009 (unaudited)	Six months ended Jun 30, 2010 (unaudited)	Six months ended Jun 30, 2009 (unaudited)	Year ended Dec 31, 2009
Interest income	\$2	\$3	\$2	\$9	\$13
Administration expense ¹	3,058	440	3,551	871	2,950
Foreign currency translation gain (loss) ²	(111)	7	(79)	9	(20)
Stock based compensation expense	1,940	246	1,940	264	270

¹ Administration is Total Expenses excluding stock based compensation expense.

² Foreign currency translation gain (loss) is due to the appreciation/depreciation of the currencies mentioned in *Section 6: Financial Instruments*.

Net loss for the three month period ended June 30, 2010 was \$5.1 million or \$0.08 per share (basic and diluted) which was primarily due to write down of projects and stock based compensation expense. This compares to a net loss of \$668,968 or \$0.03 per share (basic and diluted) for the three months ended June 30, 2009, which was primarily due to administration and stock compensation expenses.

Net loss for the six month period ended June 30, 2010 was \$5.3 million or \$0.11 per share (basic and diluted) which relates to write down of projects and stock based compensation expense. Net loss for the six month period ended June 30, 2009 was \$89,264, or \$0.01 per share (basic and diluted) which relates to operating expenses reduced by realized and unrealized gains on investments.

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

Capitalized exploration

Capitalized exploration on mineral properties for the three and six month periods ended June 30, 2010 amounted to \$697,833 and \$999,734 respectively. This primarily relates to the Sergipe Potash Project, and to work done on Talon's smaller projects, as well as São Jorge. This compares to \$507,579 and \$632,404, respectively, for the three and six month periods last year, which was mainly related to the Sergipe Potash Project. All exploration on the Saber Gas Project in this period was fully funded by Tlou Energy.

Stock options

A summary of options outstanding as at June 30, 2010 is presented in *Section 8* of this MD&A. For the three months ended June 30, 2010, an amount of \$1,940,451 was expensed for options vested and granted in 2010 compared to \$246,460 for options vested and granted in the same period last year.

During the second quarter of 2010, the Company issued 4,974,500 stock options. A total of 1,520,000 options expired on April 18, 2010.

Estimated fair value of stock options

The Company determined the fair value of the 4,974,500 stock options issued during the second quarter of 2009, using the Black-Scholes option pricing model under the following assumptions:

Expected life	5 years
Fair value (\$/option)	\$0.39
Risk-free interest rate	2.60%
Volatility	199%
Dividends	0%

10. Summary of Quarterly Results

(All numbers are unaudited)

	Three months ended Jun 30, 2010	Three months ended Mar 31, 2010	Three months ended Dec 31, 2009	Three months ended Sept 30, 2009
Total revenues	\$2,004	\$200	\$1,312	\$2,281
Net earnings / (loss)	(5,079,819)	(265,013)	(510,769)	(1,241,929)
Net earnings / (loss) per share - basic and diluted	(0.08)	(0.01)	(0.02)	(0.05)
	Three months ended Jun 30, 2009	Three months ended Mar 31, 2009	Three months ended Dec 31, 2008	Three months ended Sept 30, 2008
Total revenues	\$3,024	\$6,038	\$136,268	\$66,901
Net earnings / (loss)	(668,968)	579,704	(2,941,957)	(4,185,194)
Net earnings / (loss) per share - basic and diluted	(0.03)	0.02	(0.11)	(0.16)

Quarterly trends in total revenues reflect interest received on cash balances, interest on loan and other income. Trends in quarterly expenses are driven primarily by office and general expenses followed by professional, consulting and/or management fees. The most variable component of total expenses generally was 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.

Beginning in the first quarter of 2010 (following the Merger with Saber) this also includes the other currencies mentioned in *Section 6: Financial Instruments*.

Quarterly trends in net earnings (loss) are also impacted by gains and losses on investments, both realized and unrealized. This factor was particularly significant in the first and fourth quarters of 2009 and the third quarter of 2008.

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

Cash Flow Highlights

(Thousands of C\$)

	Three months ended Jun 30, 2010 (unaudited)	Three months ended Jun 30, 2009 (unaudited)	Six months ended Jun 30, 2010 (unaudited)	Six months ended Jun 30, 2009 (unaudited)	Year ended Dec 31, 2009
Operating activities	\$(1,407)	\$(524)	\$(1,975)	\$(1,073)	\$(2,283)
Investing activities	2,394	545	1,232	2,447	888
Financing activities	-	-	190	-	-
Beginning cash & cash equivalent balance	1,267	5,555	2,807	4,202	4,202
Increase / (decrease) in cash & cash equivalents	987	21	(553)	1,374	(1,395)
Ending cash & cash equivalent balance	\$2,254	\$5,576	\$2,254	\$5,576	\$2,807

Operating Activities

Operating activities for the three month period ended June 30, 2010 consumed \$1,406,877 primarily due to net operating expenses. This compares to utilization of \$523,604 in the second quarter of last year mainly due to net operating expenses.

Operating activities for the six month period ended June 30, 2010 consumed \$1,975,515 primarily due to net operating expenses. Operating activities for the six months ended June 30, 2009 consumed \$1,073,198, primarily due to net operating expenses.

Operating activities for the year ended December 31, 2009 consumed \$2,283,252, primarily due to net operating expenses.

Financing Activities

There were no financing activities in the second quarter of 2010 or 2009. In the six months ended June 30, 2010, financing activities were \$190,224 which represented a partial repayment of the loan receivable in the first quarter. There were no financing activities for the six month period ended June 30, 2009.

There were no financing activities during the year ended December 31, 2009.

Investing Activities

Investing activities for the second quarter of 2010 generated \$2,394,233 primarily due to proceeds on the sale of a term deposit. This compares to generation of \$544,598 in the second quarter of last year, primarily due to proceeds on a term deposit and the sale of investments, net of a loan receivable and capitalized exploration.

Investing activities for the six month period ended June 30, 2010 generated \$1,232,387 primarily due to proceeds on the sale of a term deposit. Investing activities for the six months ended June 30, 2009 generated \$2,446,991 primarily due to proceeds on a term deposit and the sale of investments, net of a loan receivable and capitalized exploration

Investing activities for the year ended December 31, 2009 generated \$887,885, primarily due to proceeds on the sale of investments partially offset by capitalized exploration expenses.

Liquidity and Capital Resources

The Company plans to spend approximately \$3 million during 2010 on exploration. Assuming positive outcomes, a further \$2.2 million expenditure is anticipated. Expenditure beyond this will be dependent on any new projects acquired and/or additional exploration programs.

Cash and cash equivalents were \$2.3 million as of June 30, 2010. All cash equivalents are held in government securities (e.g. T-bills). In addition there was a term deposit of \$0.75 million. In July 2010, a cash payment from the sale of Juruena increased total cash assets to \$4 million. In addition, approximately \$3.7 million of the Assets Held for Sale is related to equipment at the Saber Gas Project that Talon intends to sell. The Company therefore has sufficient liquidity and capital resources to sustain operations through the short-term.

However, in the medium-term Talon has substantial obligations to maintain its interests in the Sergipe Potash Project, which may require the issuance of equity securities for cash. In the event that the proposed transaction with Tlou Energy announced in August 2010 is not completed, none of Talon's funds will be spent on exploration for the Saber Gas Project until Tlou Energy completes the Farm-in Requirements and for up to a further 225 days.

Historically Talon's sole source of funding has been the issuance of equity securities for cash, primarily through private placements to sophisticated investors and institutions. The Company's access to such funding is always uncertain and there can be no assurance of continued access to equity funding if required in order for the Company to meet its planned long-term business objectives. This is particularly true in the current uncertain global financial markets which may continue to be characterised by significant reductions in liquidity.

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

A summary of Contributed Surplus for the period from January 1, 2009 to June 30, 2010 is as follows:

Balance	Jan 1, 2009	\$4,994,057
Options	Granted 2009	269,779
Balance	Dec 31, 2009	5,263,836
Options	Granted 2010	1,940,451
Balance	June 30, 2010	\$7,204,287

12. Related Party Transactions

The Company has entered into an administrative service agreement (the "**Tau Agreement**") with Tau Capital Corp. ("**Tau**"). Until December 6, 2009, a director of the Company, who at that time was also a 5% shareholder of the Company, was the controlling shareholder of Tau. The Tau Agreement terminates on December 31, 2010, but can be renewed. The terms of the Tau Agreement require the Company to pay Tau a monthly service fee of \$33,000. The monthly amount prior to the Merger was \$22,500. For the three months ended June 30, 2010, fees paid to Tau for these services were \$99,000 (2009: \$67,500).

Consulting fees paid to officers of the Company for the three month period ended June 30, 2010 were \$59,568 (2009:\$62,566). For the six months ended June 30, 2010, this amount was \$123,572 (2009:\$128,503). In addition, an amount of \$45,638 (2009:\$35,463) was charged to the Company by Tau in respect of services rendered outside of the Tau Agreement during the second quarter. For the six months ended June 30, 2010, the amount was \$65,085 (2009:\$76,216). Consulting fees paid to a Company owned by an officer of the Company in the three month period ended March 31, 2010 were \$41,465 (2009:\$29,484). For the six months ended June 30, 2010 this amount was \$82,930 (2009:\$58,968).

Prepayments at June 30, 2010, include \$33,000 paid to Tau for administrative and advisory fees for July 2010 (June 30, 2009: \$22,500).

Accounts payable at June 30, 2010 include \$22,712 payable to an officer of the Company for consulting fees for May and June 2010 (2009: \$25,071).

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.

13. **Risks**

Talon is subject to a number of risk factors due to the nature of the mineral business in which it is engaged, the limited extent of its assets and its stage of development.

The operations of the Company are speculative due to the high-risk nature of its business which is primarily focused on the acquisition, exploration and development of mineral projects. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company. The Company may face additional risks and uncertainties other than the factors listed below, including, risks and uncertainties that are unknown to the Company or risks and uncertainties that the Company now believes to be unimportant, which could have a material adverse effect on the business of the Company. If any of the following risks actually occur, the business, financial condition or results of operations of the Company could be negatively affected.

General and Mineral Project Risk Factors

Exploration, Development and Operating Risks

Although Talon's present activities are directed towards the acquisition, financing, exploration and development of mineral projects, it is anticipated that its activities shall also include mining operations.

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration or development programs planned by Talon or any of its joint venture partners will result in a profitable commercial mining operation. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal and potash prices that are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in Talon not receiving an adequate return on invested capital.

Mining operations generally involve a high degree of risk. Talon's operations are subject to all the hazards and risks normally encountered in the exploration, development and production of potash and 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.

Additional Capital

The exploration and development of the Company's properties, including continuing exploration and development projects, and 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. The only source of funds now available to the Company is through the sale of equity capital, properties, royalty interests or the entering into of joint ventures. Additional financing may not be available when needed or if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to existing shareholders. Failure to raise capital when needed would have a material adverse effect on the Company's business, financial condition and results of operations. Global securities markets continue to experience volatility, which is resulting in difficulty in raising equity capital and market forces may render it difficult or impossible for the Company to secure places to purchase any new share issuances at prices which will not lead to severe dilution to existing shareholders, or at all.

Stock Exchange Listing

The Toronto Stock Exchange (the "TSX") has advised the Company that, if the Company has not acquired another qualifying mineral exploration and development property prior to the satisfaction of the closing conditions in respect of the Company's proposed sale of São Jorge or within 120 days thereafter, the Company will be required to meet the TSX's original listing requirements (for either a mining company or an oil and gas company) to remain listed on the TSX, failing which, within the timeframes permitted by the TSX, the shares of the Company may be delisted from the TSX.

Insurance and Uninsured Risks

Talon's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, delays in mining, monetary losses and possible legal liability.

Although Talon maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks

associated with the Company's operations. Talon may also be unable to obtain or maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to Talon or to other companies in the mining industry on acceptable terms. Talon might also become subject to liability for pollution or other hazards that may not be insured against or that Talon may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Talon to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Cyclical Potash Industry

The markets for potash tend to move in cycles. Periods of high demand, increasing profits and high capacity utilization lead to new plant investment and increased production. This growth increases supply until the market is over-saturated, leading to declining prices and declining capacity utilization until the cycle repeats. The cyclicity in prices can result in supply/demand imbalances and pressures on potash prices and profit margins which may impact Talon's financial results and the price of Talon's common shares.

Agricultural Sector

The potash industry is dependent on conditions in the economy generally and the agriculture sector. The agricultural sector can be affected by adverse weather conditions, cost of inputs, commodity prices, animal diseases, the availability of government support programs and other uncertainties that may affect sales of fertilizer products.

Governmental Regulation; Environmental Risks and Hazards

The mineral exploration activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances and other matters. Mining and exploration activities are also subject to various laws and regulations relating to the protection of the environment. Although the Company believes that its exploration activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail production or development of the Company's properties. Amendments to current laws and regulations governing the operations and activities of the Company or more stringent implementation thereof could have a material adverse effect on the Company's business, financial condition and results of operations and cause increases in exploration expenses, capital expenditures or production costs, reduction in levels of production at producing properties, or abandonment or delays in development of the Company's existing and/or new properties.

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in

a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that existing or future environmental regulation will not materially adversely affect the Company's business, financial condition and results of operations. Environmental hazards may exist on the properties on which the Company holds interests that are unknown to the Company at present and that have been caused by previous or existing owners or operators of the properties.

In particular, existing and possible future environmental and social impact legislation, regulations and actions, including the regulation of air and water quality, mining reclamation, solid and hazardous waste handling and disposal, the promotion of occupational health and safety, the protection of wildlife and ecological systems and the protection of the societies and communities of indigenous peoples, could cause significant expense, capital expenditures, restrictions and delays in the Company's activities, the extent of which cannot be predicted and which may well be beyond its capacity to fund. Environmental and social impact studies may be required for some operations, and significant fines and clean-up responsibilities may be imposed for companies causing damage to the environment in the course of their activities. Additionally, the development of the Saber Gas Project will have significant abandonment and site restoration obligations.

In addition, the Company could incur substantial losses as a result of loss of life, severe damage to and destruction of property, natural resources and equipment, pollution and other environmental damage, clean-up responsibilities, regulatory investigation and penalties, suspension of operations and repairs to resume operations.

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

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining or energy operations, including the Company, may be required to compensate those suffering loss or damage by reason of such activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations, which may adversely affect the Company.

As unconventional gas is relatively new in Botswana, there is additional regulatory complexity. Any problems experienced by other operators might adversely impact the Company, through additional regulations or greater difficulty in acquiring licences, leases, permits or regulatory approvals.

Infrastructure

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

Land Title

The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral concessions may be disputed. Although the Company believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to any of its properties will not be challenged or impaired. Third parties may have valid claims underlying portions of the Company's interests, including prior unregistered liens, agreements, transfers or claims (including native land claims) and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

Competition

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

Gold Price

The profitability of the Company's operations will be dependent upon the market price of gold. The price of gold fluctuates and is affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, the world supply of gold and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. 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, financial condition and results of operations.

In addition, declining gold prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if a project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

Potash Price

The potential economic viability of Talon's potash operations, and the corresponding value of the common shares of Talon will be affected by changes in potash prices. Potash prices can fluctuate widely and are affected by numerous factors beyond the control of Talon. The market prices for potash are affected by rates of production of potash from mining, and may be affected by a variety of unpredictable international economic, monetary and political considerations. Macroeconomic considerations include: expectations of future rates of inflation; the strength of the US dollar, the currency in which the price of potash is generally quoted, and other currencies; interest rates; global or regional economic events; and, competition from other types of fertilizers.

Foreign Subsidiaries

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

Foreign Operations

The Company's operations are currently conducted primarily in Brazil and Botswana, 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 of funds; and changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Changes, if any, in natural resource or investment policies or shifts in political attitude in Brazil or Botswana may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of

property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety.

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

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

Exchange Rate Fluctuations

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. Potash, 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 potash, gold and other mineral exploration and production in US dollar terms.

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

Securities of micro-cap and small-cap companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally and market perceptions of the attractiveness of particular industries. Worldwide securities markets have experienced and continue to experience a high level of price and volume volatility, and market price of securities of many companies, particularly those considered exploration or development stage companies, have experienced declines in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Most significantly, the share price of junior natural resources companies have experienced a decline in value and there has been a significant decline in the number of buyers willing to purchase such securities. As a consequence, market forces may render it difficult or impossible for the Company to secure places to purchase new share issues at a price which will not lead to severe dilution to existing shareholders, or at all.

The price of Talon's common shares is also likely to be significantly affected by short-term changes in potash, gold or other mineral prices or in its financial condition or results of operations as reflected in its earnings reports. Other factors unrelated to the Company's performance that may have an effect on the price of Talon's common shares include the following: the extent of analytical coverage available to investors concerning the Company's business may be limited if investment banks with research capabilities do not follow the Company's securities; lessening in trading volume and general market interest in the Company's securities may affect an investor's ability to trade significant numbers of Talon's common shares; the size of the Company's public float may limit the ability of some institutions to invest in the Company's securities; and a substantial decline in the price of Talon's common

shares that persists for a significant period of time could cause the Company's securities to be delisted, further reducing market liquidity.

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

Key Executives

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

Dividend Policy

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

Possible Conflicts of Interest

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

Risks Associated With Limited Operating History

Talon was formed in 2005. Accordingly, Talon has a limited operating history from which its business and prospects can be evaluated. As a result, forecasts of any potential growth of the business of Talon are difficult to evaluate. Talon's business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the early stage of development.

Political, Judicial, Administrative, Taxation or Other Regulatory Factors

Talon may be adversely affected by changes in political, judicial, administrative, taxation or other regulatory factors in the areas in which Talon does or will operate and holds its interests, as well as unforeseen matters.

Economic Factors

Market events and conditions in recent years, including disruption in the Canadian, U.S. and international credit markets and other financial systems and the deterioration of Canadian, U.S. and global economic conditions, could, among other things, continue to impede access to capital or increase the cost of capital, which would have an adverse effect on the Company's ability to fund its working capital and other capital requirements. Notwithstanding various actions by U.S., Canadian and foreign governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions persist. These disruptions in the credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies, particularly junior resource exploration companies such as the Company. These disruptions could, among other things, make it more difficult for the Company to obtain, or increase its cost of obtaining, capital and financing for its operations. The Company's access to additional capital may not be available on terms acceptable to the Company or at all.

Unconventional Gas Risk Factors

Risks Associated with Failure of Tlou Energy to Complete its Farm-In Requirements

In the event that the proposed transaction with Tlou Energy is not completed, the ability to conduct exploration on the Saber Gas Project and subsequently generate positive cash flow from such operations is dependent on Tlou Energy completing the Farm-in Requirements. There can be no assurance that Tlou Energy will complete the Farm-in Requirements within the Farm-in Period, or at all, or that Tlou Energy will not terminate the joint venture with Talon. Should Tlou Energy either fail to complete the Farm-in Requirements or terminate the joint venture with Talon, the Company would need to obtain the financing necessary to meet its minimum annual work and spending commitments for each licence area of the Saber Gas Project. In the event that such minimum commitments are not met, the Botswana Government has the right to suspend or terminate the Company's licences in respect of the Saber Gas Project.

Exploration, Development and Production Risks

The operations of the Saber Gas Project are subject to the risks normally incidental to the operation and development of hydrocarbons and the drilling of gas wells, including, but not limited to, encountering unexpected formation faults and pressures, pipe or cement failures, casing collapses, uncontrollable flows of gas, explosions, blow outs, surface cratering, fires, formation water and the release of contaminants into the environment. All of these potential occurrences could result in personal injuries, loss of life and substantial damage to wells and other property of Talon and

others, as well as the imposition of significant fines and penalties pursuant to environmental legislation.

An unintentional leak of gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to Talon.

Hydrocarbon operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Saber Gas Project depends on its ability, through Tlou Energy (as the operator of the Saber Gas Project), to find, acquire, develop and commercially produce reserves. The ability of Talon and Tlou Energy to find and develop reserves will depend not only on their ability to explore and develop any properties they may have from time to time, but also on their ability to select and acquire suitable producing properties or prospects. No assurance can be given that they will be able to locate satisfactory properties for acquisition or participation or that they can develop the resources into reserves. Moreover, if acquisitions or participations are identified, Talon and Tlou Energy may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that commercial quantities of hydrocarbons will be discovered or acquired.

Future exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. Limited access windows may also subject activities and projects to significant delays. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In the event that the proposed transaction with Tlou Energy is not completed, Talon anticipates that, following the completion of the Farm-in Requirements and the subsequent exploration program by Tlou Energy, if any, substantial capital expenditures for the acquisition, exploration, development and production of unconventional gas will be required for the Saber Gas Project. There can be no assurances that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on the terms acceptable to Talon.

Coal Bed Methane Operations

Unconventional gas operations in Botswana are in the early stages of development. As a result, many factors affecting the economics and success of unconventional gas

operations are unknown or not fully known at this time. The Saber Gas Project is subject to all of the operating risks associated with drilling for and producing gas, including fires, explosions, blow-outs and surface cratering, uncontrollable flows of underground gas, formation water, natural disasters, pipe or cement failures, casing collapses, embedded oilfield drilling and service tools, abnormally pressured formations and environmental hazards, such as gas leaks, pipeline ruptures and discharges of toxic gases. In addition, the exploration for, and production of unconventional gas, differs from conventional oil and gas and can pose additional operating risks.

Unconventional gas can require higher capital commitments than similar depth conventional gas developments due to such factors as the type of drilling and completion techniques required, which can entail the complexity of development of multiple coal seams. In some instances, more wells per section are required to effectively develop the resource in place. Lower wellhead pressures are typical with unconventional gas production which can require additional compression or larger flow lines.

Unconventional gas also requires a longer timeframe for testing and development. Unconventional gas often comes with water. In a sandstone or limestone reservoir, the gas molecules are between the rock particles. With unconventional gas, the gas molecules are stuck to the coal or adsorbed, and the spaces between the coal, referred to as the "cleats", must be drained of water before gas will come out of the coal. The length of this dewatering process is different in each instance, and in some instances can be lengthy before unconventional gas production begins. The operations of the Saber Gas Project may require long lead times before peak production is reached, and the sustainability of production is subject to greater uncertainty than with conventional gas.

Water production from unconventional gas requires adequate disposal in accordance with government approved regulations. The large volumes produced potentially create operational concerns.

Risks Relating to Contingent Resources

Information on resources is only an estimate and the actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by the independent evaluator. Contingent resources are defined as those quantities of oil and gas estimated on a given date to be potentially recoverable from known accumulations, but are not currently economic. Due to the uncertainty which may attach to contingent resources, there is no assurance that they will be upgraded to resources to constitute proven and probable reserves as a result of continued exploration.

Failure to Obtain an Offtake Agreement

Neither Talon nor Tlou Energy has entered into any offtake agreements for gas production from the Saber Gas Project. If an offtake agreement is not entered into, the Saber Gas Project may not be able to be developed due to the resulting inability to secure a market for the future output of gas.

Additional Capital

In the event that the proposed transaction with Tlou Energy is not completed, the exploration, evaluation and development of the Saber Gas Project will require substantial additional financing after Tlou Energy ceases to 'carry' the Company pursuant to its agreements with the Company. There can be no assurance that financing will be available or, if available, will be available on favourable terms or in a timely manner. Failure to obtain sufficient financing when needed will result in the dilution of the Company's interests in all or part of the Saber Gas Project and may result in a delay or indefinite postponement of development or production on such project and may have a material adverse effect on the Company's business, financial condition and results of operations.

Reliance on Key Personnel

The Company and Tlou Energy are dependent on the services of a small number of highly skilled and experienced employees and consultants. Due to the relatively unskilled labour market in Botswana, the loss of these persons or the inability to attract and retain additional highly skilled employees or consultants may adversely affect business and future operations.

Equipment

There is a limited availability of oilfield services and equipment in Botswana. Talon has designed and mobilized top drive drilling and support equipment specifically designed for high production underbalanced pneumatic and mud drilling for both vertical and horizontal wells. This equipment had to be imported into Botswana from other countries.

Talon is pursuing the sale of some of its unconventional gas equipment. Should this equipment be sold, there is a risk that Talon and/or Tlou Energy would not be able to obtain equipment in Botswana in a timely manner. Further, in the event that this equipment is sold and Tlou Energy either fails to complete the Farm-in Requirements or terminates the Share Sale Agreement, there is a risk that Talon would not be able to obtain additional financing to purchase new equipment from outside of the country.

United Nations Framework Convention on Climate Change and Kyoto Implementation

Botswana has not introduced comprehensive regulations addressing greenhouse gas emissions, including emission targets for specific industrial sectors, although as a signatory to the Kyoto Protocol it will be obliged to do so in due course. The Kyoto Protocol is an international agreement which sets limits on greenhouse gas emissions from certain signatory countries. The primary source of greenhouse gas emissions is the use of hydrocarbon energy. The testing and production of the Saber Gas Project will depend on hydrocarbon energy sources to conduct daily operations, and there are currently no economic substitutes for these forms of energy. The Government of Botswana has not finalized any formal regulatory programs to control greenhouse gases, and it is not yet possible to reasonably estimate the nature, extent, timing and cost of any programs contemplated or their potential effects on the operations of the licence blocks. However, the broad adoption of emission limitations

or other regulatory efforts to control greenhouse gas emissions may effect the demand for coal as well as increase production costs.

Risks in Dealing with HIV/AIDS

The per capita incidence of the HIV/AIDS virus in Botswana has been estimated as being one of the highest in the world, according to public sources. As such, HIV/AIDS remains the major healthcare challenge faced by Botswana and Talon's operations in the country. If the number of new HIV/AIDS infections in Botswana continues to increase and if the Botswana government imposes more stringent obligations on employers related to HIV/AIDS prevention and treatment, the operations of the Saber Gas Project in Botswana and profitability could be adversely affected.

14. Internal Control Over Financial Reporting

No changes were made to the Company's internal control over financial reporting during the period beginning April 1, 2010 and ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

15. Outlook

In the third quarter of 2010, Talon expects to begin its first drilling program at the Sergipe Potash Project, which has the potential to host substantial potash deposits.

Talon also expects to close its transaction with Brazilian Gold to divest São Jorge in the third quarter of 2010. Concurrently, Talon is planning to conduct work on a project which has the potential to become a qualifying mineral exploration and development property for the purposes of the TSX listing requirements in place of São Jorge.

The proposed sale of the Company's interest in the Saber Gas Project to Tlou Energy is expected to close in the third quarter of 2010, following, among other things, receipt of shareholder and other approvals.

The Company continues to review the projects in its portfolio and assess the likely balance between risk and reward and to structure its assets accordingly. As well the Company also continues to review numerous opportunities and submissions where there is potential for either an opportunity to realize a significant increase in value for shareholders, or for a short to medium term possibility of realising cash flow from projects.