Talon Metals Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2011

Dated: June 14, 2011

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*This Management's Discussion and Analysis ("**MD&A**") of the consolidated financial position for the three months ended March 31, 2011, should be read in conjunction with the consolidated financial statements and notes of Talon Metals Corp. ("**Talon**" or the "**Company**") for the three months ended March 31, 2011.*

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, the plans and objectives of Tlou Energy (defined below) and Rio Verde (defined below), including their respective intentions to pursue a listing on a stock exchange, and the completion of the RV Distribution (defined below), Rio Verde's exploration plans, mineral resources, metallurgical results, the Company's drilling and exploration plans, including the exploration program at the Trairão Project (defined below) and the Inajá South Project (defined below), the expected timing for and receipt of drilling and other exploration results, the Company's intentions in respect of its interests in Tlou Energy and Rio Verde, the Company's business plans and priorities, the Company's plans to acquire new projects, the Company's exploration results and potential mineralization and resources, projections in respect of capital expenditures, plans and expectations concerning the transition to IFRS (defined below), the company's liquidity and capital resources and the medium-term financial obligations of the Company, constitute forward-looking information.

Forward-looking information reflects the current expectations or beliefs of the Company based on information currently available to the Company. With respect to forward-looking information contained in this MD&A, the Company has made assumptions regarding, among other things, future currency and interest rates, the regulatory framework (including tax and trade laws and policies) in the countries in which the Company conducts its business, and the Company's ability to obtain 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: risks related to the exploration stage of the Company's properties; the possibility that future exploration results will not be consistent with the Company's expectations (including identifying additional and/or deeper mineralization); changes in iron-ore prices; delays in obtaining or failures to obtain necessary regulatory permits and approvals from government authorities, including approval of applications for licences required to conduct field based program on Talon's iron ore projects and approval of environmental impact assessment applications; failure of Tlou Energy and Rio Verde to obtain a listing on a stock exchange or to advance the development of their respective projects through further investment and exploration; delays in effecting and/or completing the RV Distribution; availability of mineral resource opportunities suitable for Talon; uncertainties involved in interpreting drilling results and other geological data; changes in the anticipated demand for iron and steel; changes in equity and debt markets; inflation; changes in exchange rates; declines in U.S., Canadian and/or global economies; uncertainties relating to the availability and costs of financing needed to complete exploration activities and demonstrate the feasibility of the Company's projects; 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 properties Talon has an interest in; equipment failure; unexpected geological or hydrological conditions; political risks arising from operating in Brazil; imprecision in preliminary resource estimates; success of future exploration and development initiatives; the existence of undetected or unregistered interests or claims, whether in contract or in tort, over the property of Talon; changes in government regulations and policies, including tax and trade laws and policies; risks relating to labour; other exploration, development and operating risks; liability and other claims asserted against Talon; volatility in prices of publicly traded securities; and other risks involved in the mineral exploration and development industry and risks specific to the Company, including the risks discussed in this MD&A under "Risks".

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

The mineral resource figures referred to in this MD&A are estimates, and no assurances can be given that the indicated levels of iron ore will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource estimates included in this MD&A are well established, by their nature, resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company.

Mineral resources are not mineral reserves and do not have demonstrated economic viability. Inferred mineral resources are estimated on limited information not sufficient to verify geological and grade continuity or to allow technical and economic parameters to be applied. Inferred mineral resources are too speculative geologically to have economic considerations applied to them to enable them to be categorized as mineral reserves. There is no certainty that mineral resources can be upgraded to mineral reserves through continued exploration.

2. Overview

*Additional information relating to the Company, including the Company's Annual Information Form ("**AIF**") for the year ended December 31, 2010, is available on SEDAR at www.sedar.com.*

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

In September 2010, Talon announced that it had acquired 100% of the rights to the Trairão Project as well as another iron ore project, the Inajá South iron project (the "**Inajá South Project**"), also situated in Pará State, Brazil. Talon acquired these projects pursuant to agreements with each of Codelco do Brasil Mineração Ltda ("Codelco") and Barrick International (Barbados) Corp. ("**Barrick Barbados**"). In October 2010, Talon began a preliminary drilling program on the Trairão Project and engaged Coffey Mining Ltd ("**Coffey**") to prepare a National Instrument 43-101 ("**NI-43-101**") compliant technical report incorporating the initial drill results to prepare a mineral resource estimate for the first target area ("**Target Area 1**") of the Trairão Project (the "**Trairão Technical Report**"). The Trairão Technical Report was completed in December 2010 and reported a global mineral resource estimate in the inferred category, for that part of Target Area 1 that was drilled of 168 million tonnes ("**Mt**") at a grade of 42% Fe, using a 35% Fe cut-off or 238 Mt at a grade of 39% Fe, using a 25% Fe cut-off and calculated to a depth of 50 metres. In March 2011, supported by a second independent technical report ("**Second Trairão Technical Report**"), further mineral resources were delineated on part of Target Area 2 which brought the cumulative inferred mineral resource for the combined drilled areas on both Target Areas 1 and 2 to 464 Mt at an average grade of 39% Fe, using a 25% cut-off.

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

In November 2010, Talon sold its rights to the Botswana CBM Project (previously known as the Saber Gas Project) to its joint venture partner and the manager of the project, Tlou Energy, in return for a 30% equity interest in Tlou Energy. Tlou Energy intends to pursue a stock exchange listing.

In December 2010, Talon transferred its rights to the Sergipe Potash Project to Rio Verde, in return for a 54% equity interest (on an undiluted basis) in Rio Verde, prior to the first closing of Rio Verde's equity private placement financing. Rio Verde intends to pursue a stock exchange listing and coincident with this listing Talon intends to distribute its shares in Rio Verde to Talon shareholders. This planned distribution was approved by Talon shareholders on June 6, 2011 and is expected to happen no later than July 31, 2011.

With regard to Talon's holdings in Tlou Energy, Talon intends to consider opportunities to maximize the value of this investment for shareholders including potential future dispositions and/or distributions to shareholders of Tlou Energy shares.

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

Subsequent to the end of the first quarter of 2011, Talon completed a short form prospectus offering with gross proceeds of approximately $28.75 million.

3. Exploration Projects

A) Managed Projects

Iron Ore Projects

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

The Pará State is one of the more recently developed iron ore producing districts in the country. The principal iron ore mines in the region are at Carajás, about 150 kilometres to the north of the Trairão Project. Exploration for iron ore by other companies continues both to the south and north of the Trairão Project.

Under the agreement with Codelco, Talon paid Codelco a nominal purchase price and has agreed to pay a royalty of US$0.7005 per tonne of iron mined and sold from the Trairão Project.

Under the agreement with Barrick Barbados, Talon acquired a subsidiary of Barrick Barbados in exchange for a nominal purchase price and is obliged to pay certain production related royalties, at varying levels in respect of specific metals. In the case of the Trairão Project, the royalty payable to Barrick Barbados is US$0.2995 per tonne of iron mined and sold. However, Talon has the right to buy back this royalty for US$599,000 during the 12 month period following the start of commercial production. In terms of the Inajá South Project, Barrick Barbados will receive a net smelter royalty of 0.5% for any base metals that may be produced and sold and 1.0% for any precious metals that may be produced and sold. Talon has the right to buy back the royalty for US$1 million during the 12 month period following the start of commercial production. Barrick Barbados has the right to buy back up to a 50% interest in any future gold mining operation in the event that Talon completes a feasibility study with respect to a deposit which identifies reserves totalling at least three million ounces of gold.

<u>Trairão Iron Ore Project</u>

The Trairão Project has exploration licences for approximately 51,635 hectares over eight properties, and applications have been made for an additional four properties covering a further 24,887 hectares, which areas have near surface iron ore potential.

Talon commenced surface exploration in 2010 which included mapping, preliminary rock and auger sampling and an interpretation of geophysical data and followed up with a preliminary 53 hole, 2,500 metre reverse circulation ("**RC**") drill program at the Trairão Project in October 2010. The preliminary drilling program was focused on grid drilling of the near surface deposits on two of the priority targets identified in earlier exploration. Talon's recent drilling program included drilling on Target Area 1, where 2,400 metres of strike was drilled and the adjacent Target Area 2, where approximately 3,000 metres of strike was drilled in the first phase of drilling. These drilling programs are centred on the two areas where the iron occurrences have been drilled previously by Codelco.

The initial drilling program aimed to investigate the lateral continuity of the iron mineralization associated with surficial deposits (eluvium and colluvium deposits) and the underlying supergene enriched saprolite and saprock zones that are developed on an extensive plateau area. The program included the drilling of 53 vertical RC drill holes to depths of between 40 and 60 metres, with an average depth of 50 metres, to test two high priority zones, where historical drilling reported significant iron grades. The drill holes were drilled on a grid configuration with hole spacing of 200 x 400 metres.

The preliminary RC drilling program was conducted by Servitec Sondagem, an established Brazilian drilling contractor.

The initial phase of drilling 53 RC drill holes was completed in December 2010 and the samples for the 22 RC drill holes (1,049 metres) drilled over 2,400 metres of strike on Target Area 1 were analysed by SGS-Geosol Laboratórios Ltda, which is ISO14001 and ISO 9001:2000 accredited and is independent of Talon.

In addition, Talon engaged independent consultants Coffey Mining Ltd. to prepare the NI 43-101 compliant Trairão Technical Report incorporating the initial drill results and the mineral resource estimate for Target Area 1. The Trairão Technical Report was completed in December 2010 and reported a global mineral resource estimate in the inferred category, for that part of Target Area 1 that was drilled of 238 Mt at a grade of 39% Fe, using a 25% Fe cut-off or 168 Mt at a grade of 42% Fe, using a 35% Fe cut-off and calculated to a depth of 50 metres. Coffey's mineral resource estimates are presented in Table 1. This mineral resource estimate was prepared by Mr. Bernardo Horta de Cerqueira Viana, an employee of Coffey and a "Qualified Person" within the meaning of NI 43-101.

In March 2011, Talon announced an increase of 95% in the inferred mineral resource estimate at the Trairão Project which was supported by the Second Trairão Technical Report. This increase in the mineral resource estimate follows receipt of the results of 31 RC drill holes (1,505 metres) on Target Area 2. The mineral resource estimate in the inferred category for Target Area 2 is estimated at 227 Mt at a grade of 39% Fe using a 25% cut-off or 158 Mt at a grade of 43% Fe using a 35% Fe cut-off and calculated to a depth of 50 metres over a strike length of 3,000 metres. Coffey's mineral resource estimates are presented in Table 2.

The cumulative inferred mineral resource estimate for the Trairão Project, including Target Areas 1 and 2, is currently 464 Mt at an average grade of approximately 39%Fe, using a 25% cut-off.

Table 1 – Target Area 1 at* Trairão *Global Mineral Resource Estimate using variable cut-off grades (effective date: December 23, 2010).[1]

Grade Tonnage Report
NI 43-101 Inferred Mineral Resources
Block Model: 100, 100 10 (25, 25, 5); Rotate Bearing: 35°

Cut Off Grade (Fe %)	Tonnes (Mt)	Fe (%)	SiO_2 (%)	Al_2O_3 (%)	Mn (%)	P (%)	LOI (%)
Soil							
25	22.40	50.21	7.94	10.63	0.05	0.092	8.89
35	22.40	50.21	7.94	10.63	0.05	0.092	8.89
Saprolite							
25	152.72	39.48	21.75	12.65	0.11	0.054	8.25
35	124.97	41.23	19.39	12.46	0.11	0.055	8.32
Saprock							
25	62.68	32.95	38.50	7.98	0.16	0.047	5.64
35	20.89	39.11	29.79	7.06	0.16	0.064	6.28

Grand Total

Cut Off Grade (Fe %)	Tonnes (Mt)	Fe (%)	SiO_2 (%)	Al_2O_3 (%)	Mn (%)	P (%)	LOI (%)
25	237.80	38.77	24.86	11.23	0.12	0.056	7.62
35	168.26	42.16	19.16	11.55	0.11	0.061	8.14

[1] For additional information on the Trairão Project and these mineral resource estimates see the independent technical report entitled "Independent Technical Report on Exploration and Mineral Resource Estimate" and dated December 23, 2010 which has been filed on SEDAR and may be accessed at the Company's profile at www.sedar.com.

Table 2 – Target Area 2 at* Trairão *Mineral Resource Estimate using variable cut-off grades (effective date: March 21, 2011).[2]

Grade Tonnage Table
Inferred Mineral Resource Estimates – Effective Date: 21st March 2011
Block Model: 100x100x10 m^3(sub - blocking 25x25x5 m^3).

Cut Off Grade (Fe %)	Tonnes (Mt)	Fe (%)	SiO2 (%)	Al2O3 (%)	Mn (%)	P (%)	LOI (%)
Soil							
25	36.05	47.72	10.98	11.21	0.05	0.056	8.58
35	35.97	47.75	10.94	11.21	0.05	0.056	8.57
Saprolite							
25	176.13	38.34	27.60	9.99	0.13	0.044	6.76
35	119.44	42.25	22.53	9.36	0.14	0.048	6.95
Saprock							
25	14.66	32.89	40.21	5.83	0.19	0.032	5.67
35	2.88	38.53	32.47	6.02	0.21	0.035	5.53
Grand Total							
25	226.85	39.48	25.77	9.91	0.12	0.045	6.98
35	158.29	43.43	20.08	9.72	0.12	0.050	7.29

[2] For additional information on the Trairão Project and these mineral resource estimates see the independent technical report entitled "Second Independent Technical Report on Mineral Resources" and dated March 29, 2011 which has been filed on SEDAR and may be accessed at the Company's profile at www.sedar.com.

Currently, Talon has two RC rigs and three diamond drill rigs on site. The RC rigs have completed the preliminary drilling program on the 5,000 metre long western extension of Target Area 2. All holes have been drilled on a 400 x 200 metre spaced grid and are drilling to the maximum depth capacity of the rigs of between 80 and 135 metres. In addition the RC rigs have completed the initial drill program on the 7,200 metres of strike on Target Area 3. To date a total of 13,647 metres have been drilled in 226 holes by the two RC rigs. The diamond drill rigs concluded a short drilling program on Target Area 3 and are currently conducting an infill drilling program on Target Area 1 and its northern strike extension. Thereafter, these rigs will be used to drill for additional metallurgical samples and for infill drilling with an aim to increase confidence in the mineral resource estimates on the priority areas of

Target Area 2. To date, a total of 20 diamond drill holes were completed for a total of 2,862 linear metres. Preliminary mapping, sampling and grid surveying surveys continue on Target Areas 4 to 12, to determine drilling layouts. Preliminary metallurgical sampling and testwork is in progress.

A total of $1,739,972 was spent by Talon on the Trairão Project in the first quarter of 2011.

Inajá South Iron Project

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

The Inajá South Project is located 120 kilometres south of the Trairão Project, and comprises one mineral licence, with an area of 6,577 hectares. Within the licence area, an Archean age banded iron formation ("**BIF**") of the Inajá greenstone belt is developed along a prominent ridge over a strike length of 9 kilometres. The principal target here is the BIF, which is similar to the targets currently being prospected by other companies on the adjacent licences. Talon has commenced exploration on this project which to date has included geological mapping and rock sampling, combined with a re-interpretation of the aero magnetic data. Subsequently two trenches (630 metres have been excavated which have exposed the banded iron formations and hematite rich zones which are the targets at this project. Mapping and sampling of the trenches will commence shortly.

A nominal amount has been spent on this project since being acquired in September 2010**.**

B) Projects Not Managed by Talon

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

Rio Verde'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. Rio Verde holds exploration licences for a total area of 106,152 hectares and has applications for exploration licences pending for a further 1,785 hectares. Rio Verde is a private Brazilian focused fertilizer company.

In December 2010, Talon closed the transaction to transfer 100% its rights in the Sergipe Potash Project to Rio Verde, in return for a 54% stake in Rio Verde or approximately 26.6 million shares. Talon's intent to complete this transaction was announced in October 2010, when Talon signed a Letter of Intent with Rio Verde. This transaction was aligned with Talon's strategy to secure a partner to develop this project.

In early 2011, following the completion an equity private placement by Rio Verde, Talon's interest in Rio Verde was reduced to approximately 46% on an undiluted basis and 44% on a fully-diluted basis. Furthermore, in April 2011 Talon's shareholding in Rio Verde was reduced by one million shares, to approximately 25.6 million shares.

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

Talon utilized the existing exploration data to complete an interpretation of the basin which has led to a better understanding of the geological structures and mineralization controls within the evaporitic sequence and has enhanced the process of selecting drilling sites.

Ercosplan Inginieursgesellschaft Geotechnik und Bergbau mbH ("**Ercosplan**"), potash industry specialists, had been engaged by Talon to assist with the data interpretation process on the Sergipe basin. This data interpretation identified 11 oil wells, in or near the properties which had intersected potash mineralization, in seven distinct project areas with known potash mineralization, which range in depths from 500 metres to 1,700 metres below surface. The mineralization occurs in individual seams of between 2 metres and 45 metres, and some multiple seam intersections, where the cumulative thickness of the potash mineralization is between 18 and 66 metres. Ercosplan estimated the cumulative order of magnitude of potash mineralization within these properties, 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 carnalitite mineralization.

Early in the first quarter of 2011 drilling of the first drill hole commenced. However, due to a cavern encountered beneath the drill hole site, Rio Verde had to relocate the drill rig by about 70 metres from the initial drilling location. The new drill site is closer to a pre-existing oil well where significant sylvinite occurrences were previously identified. The proximity of the new drill site to the oil well allows for the original plan of twinning the oil well to remain unchanged. The program consists of 4,050 metres split into three holes of 1,350 metres each. Including analysis, each hole is expected to take approximately 90 days to complete, with drill results expected in the fall of 2011. Two seismic lines, totalling 15.5 km, have been planned to start by end of 2011. The aim of the drilling program is to confirm the mineralization that has been intersected in the oil wells and define a NI 43-101 compliant resource estimate.

Rio Verde also has a portfolio of phosphate exploration projects on which they expect to commence exploration in 2011. Rio Verde is also reviewing other advanced stage phosphate opportunities for acquisition.

Rio Verde intends to list on a recognized stock exchange in the third quarter of 2011.

Proposed Rio Verde Distribution

Talon has stated its intention to distribute its shares in Rio Verde to Talon shareholders (the "RV Distribution") by no later than July 31, 2011, as announced in the Company's news release of June 6, 2011 which followed a shareholder meeting in which the RV Distribution was approved. However, should certain pre-conditions of the arrangement agreement not be met by Rio Verde by July 31, 2011, Talon may decide not to proceed with the proposed arrangement nor complete the RV Distribution.

The estimated Rio Verde balances that will be de-consolidated by Talon upon distribution of the Rio Verde shares are presented in the following table as if the distribution occurred on March 31, 2011:

(Thousands of C$)	
Cash and cash equivalents	$7,107
Accounts receivable and other assets	1,021
Equipment	137
Mineral properties and deferred exploration expenditures	8,977
Accounts payable and accrued liabilities	(124)
Non controlling interest	($14,355)

The Company will follow the guidance contained in IFRS, in particular IFRIC 17 *Distributions of Non-cash Assets to Owners*, in accounting for the RV Distribution during the period in which the distribution is completed, which is expected to be in the third quarter of 2011.

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

The Botswana CBM Project, formerly known as the Saber Gas Project, is an unconventional gas project with interests in various coal bed methane ("**CBM**") and shale gas prospects in the Karoo age rocks in the Kalahari and 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).

Talon completed the sale of its interests in the Botswana CBM Project in November 2010 and received: (i) approximately 19.2 million shares in Tlou Energy, representing a 30% equity interest in Tlou Energy at the time of the transaction and (ii) options to purchase an aggregate of 4,945,055 shares of Tlou Energy at an exercise price of AUD$1.25 each, exercisable until June 20, 2013. Tlou Energy intends to pursue a stock exchange listing.

The Botswana CBM Project is wholly owned by Tlou Energy and the Company has a 30% equity interest in Tlou Energy. The Company does not have a direct ownership interest in the Botswana CBM Project. It is estimated that, as of September 1, 2009, the licences comprising the Botswana CBM Project contain a 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 (the "**CBM Report**") dated

September 1, 2009 by Gustavson and Associates, independent reservoir engineers and geological consultants.

The CBM Report provides a probabilistic distribution of the potentially recoverable portion of "Contingent Resources" as defined by the Canadian Oil and Gas Exploration Handbook, and does not represent an estimate of reserves. 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. There is no certainty that it will be commercially viable to produce any portion of the resources. The specific contingencies which prevent the classification of these resources as reserves are that it has not yet been demonstrated that the CBM can be produced at economic rates, and that the area lacks sufficient infrastructure to establish access to a gas market.

The coals and coaly shales in the licences comprising the Botswana CBM Project are known accumulations that have been drilled, logged, and partially tested, with positive indications of CBM. While some of the tests have been very encouraging, results cannot yet be deemed to have proven the commerciality of future development, or to have clearly defined the quantities of CBM likely to be produced from any of the existing wells. Thus, the Botswana CBM Project licence areas do not yet have any reserves.

Significant positive factors relative to the estimate include an extensive acreage with known coal deposits, coal gas content data which shows methane in the coal in potentially commercial quantities, pilot projects which have shown encouraging early results and a stable political situation. Significant negative factors relative to the estimate include a lack of infrastructure in the area resulting in uncertainty in the gas market and the uncertainty regarding the ability to produce commercially.

Tlou Energy completed drilling at Masama in the second quarter of 2010. These holes intersected the anticipated stratigraphy of shales and coal seams that host the gas. Subsequently, Tlou Energy drilled the next five core holes in the exploration program at the Kalahari block. In early 2011, Tlou began preparations for the drilling of two pre-Pilot wells at the Kalahari block. Well designs were completed in April 2011. Drilling is expected to begin in June 2011 with testing underway in August 2011.

C) Other Projects

São Jorge Gold Project

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

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

Brazilian Gold made the initial payment of $1,000,000 in cash and $500,000 in Brazilian Gold shares in October 2010. Brazilian Gold is required to make additional payments of $500,000 in cash and $1,000,000 in shares by August 2011. A final payment of $750,000 in cash and $750,000 in shares is due by May 2012. The São Jorge Agreement provides for a 1% net smelter return royalty ("**NSR**") payable to Talon upon commencement of commercial production.

Água Branca Gold Project

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

On December 10, 2009, Talon concluded an agreement with Brazauro Resources Corporation ("**Brazauro**") (TSX: BZO), whereby Brazauro has been granted 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 has received payments of US$250,000. In December 2010 Talon received a further US$130,000. In order to exercise its option, Brazauro is required to make one additional payment to Talon of US$1.87 million on or before September 30, 2011. In addition, Brazauro must spend US$1 million on exploration by May 10, 2012, including the completion of a minimum of 2,000 metres of core sample drilling by May 10, 2011, which has been completed. In the event Brazauro fully exercises its option, Talon is also entitled to a 2% NSR from any future metal production, 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 in Água Branca which will revert to Talon.

Juruena Gold Project

The Juruena Gold Project ("**Juruena**") comprises 25,150 hectares located in northern Mato Grosso State, Brazil. In July 2010 Talon concluded a sale agreement with Lago Dourado Minerals Ltd ("**Lago**"). Under the terms of this agreement, Talon sold 100% of its indirect interest in Juruena to Lago for approximately $1 million, 500,000 Lago common shares (at a deemed price of $0.50 per share) and 500,000 Lago warrants. The sale agreement with Lago supersedes an option agreement (and related agreements) of February 2010 with Gungnir Resources Inc. The sale of Juruena to Lago closed in July 2010.

Campo Grande Gold Project

Talon's Campo Grande Gold Project ("**Campo Grande**") is located in Minas Gerais State, approximately 110 kilometres west of the state capital of Belo Horizonte and 15 kilometres north of the Town of Pitangui. Campo Grande consists of three exploration licences totalling 2,611 hectares. Talon did not conduct any exploration activities on Campo Grande during the period under review as it is seeking a farm-out partner.

Batistão Gold Project

The Batistão Gold Project ("**Batistão**") comprises a 20,000-hectares property located in the Peixoto de Azevedo Mineral Province on the northern portion of Mato Grosso State, Brazil. In April 2010, Talon concluded an agreement with Mineração Regent Brasil Ltda ("**Regent**"), a private company, regarding Batistão. Under the terms of this agreement, Talon sold 100% of its indirect interest in Batistão to Regent for an initial payment of $50,000 which was received in November 2010. A further payment of $100,000 is due in November 2011. Also Talon is entitled to a 2% NSR from any future mining which Regent can re-purchase for $1 million. Following the signing of this agreement, Regent was acquired by Brazilian Gold Corp. (TSXV: BGC).

Rio Maria Project

The Rio Maria Project ("**Rio Maria**") consists of five exploration licence applications covering 43,379 hectares located in southeastern Pará State, Brazil. In the fourth quarter of 2007, Talon entered into an agreement with Reinarda Mineracao Ltda. ("**Reinarda**"), a Brazilian subsidiary of Troy Resources NL ("**Troy**"), regarding Rio Maria. Under the terms of the agreement Reinarda earned a 51% interest in Rio Maria by paying Talon a total of US$150,000 and committing to expenditure of US$100,000 over twelve months ending December 31, 2008. On or about July 2010 Reinarda elected not to increase their ownership of Rio Maria to 100%, consequently Talon currently owns a 49% interest in Rio Maria.

Qualified Person

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

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

4. Critical Accounting Estimates and Changes in Accounting Policies

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

i. the recoverability of amounts receivable and prepayments which are included in the condensed consolidated interim statement of financial position;
ii. the estimated useful live of equipment which is included in the condensed consolidated interim statement of financial position and the related amortization included in the condensed consolidated statement of comprehensive loss;
iii. the inputs used in accounting for share purchase option expense in the condensed consolidated interim statement of comprehensive loss;
iv. the nil provision for income taxes which is included in the condensed consolidated interim statements of comprehensive loss and composition of deferred income tax assets and liabilities included in the condensed consolidated interim statement of financial position.

Talon considers the following accounting policies to be critical in the preparation of its financial statements.

Resource properties and deferred exploration and evaluation costs

Interests in mineral exploration properties are recorded at cost. Exploration expenditures, other than those of a general nature, relating to mineral properties in which an interest is retained are deferred and carried as an asset until the results of the projects are known. If the project is unsuccessful or if exploration has ceased because continuation is not economically feasible, the cost of the property and the related exploration expenditures are written off.

The cost of mineral properties includes the cash consideration and the negotiated value of shares issued on the acquisition of properties. Properties acquired under option agreements, whereby option payments are made at the discretion of the company, are recorded in the financial statements at the time payments are made. Certain option payments that management has determined are likely to be made, have been accrued in the financial statements. The proceeds from options granted on properties are credited to the cost of the related property.

Once the feasibility of a project has been established, deferred exploration expenses and other costs are segregated as deferred development expenditures. These costs are amortized over the estimated useful life of the related mineral property as commercial production commences. If the net carrying amount of the deferred exploration expenses is not recoverable, these costs are written down to net recoverable amount of the deferred exploration expense.

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

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

Share-based payments

The share option plan allows Talon employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of Talon. The fair value is measured at grant date and each tranche is recognized on a graded basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Impairment of non-financial assets

At each financial position reporting date the carrying amounts of Talon's non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each financial position reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization

Investments in associates

Talon accounts for its investments in companies over which it has significant influence using the equity basis of accounting whereby the investments are initially recorded at cost and subsequently adjusted to recognize Talons share of earnings or losses of the investee companies and reduced by dividends received, if any. Carrying values of investments are reviewed for indicators of impairment and written down to estimated fair values if there is evidence of impairment. Such impairment would be recorded in the condensed consolidated statements of operations.

International Financial Reporting Standards

Effective January 1, 2011 Canadian publicly listed entities were required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010. The three months ended March 31, 2011 is the Company's first reporting period under IFRS.

The Company's IFRS conversion team identified three phases to our conversion: initial diagnostic phase, impact analysis, evaluation and solution development phase and implementation and review phase. Post-implementation will continue in future periods, as outlined below.

The following outlines the Company's transition project, IFRS transitional impacts and the on-going impact of IFRS on the financial results. Note 21 to the interim financial statements provides more detail on the key Canadian GAAP to IFRS difference, the accounting policy decisions and IFRS 1, First-Time Adoption of International Financial Reporting Standards, optional exemptions for significant or potentially significant areas that have had an impact on the financial statements on transition to IFRS or may have an impact in future periods.

In preparing the March 31, 2011 interim financial statements the Company determined that there were no other material changes required to the Company's financial statements in order to comply with International Accounting Standard 34, Interim Financial Reporting ("**IAS 34**")

Transitional Financial Impact

The tables set out in note 21 to the condensed interim financial statements have not been reproduced as there were no changes identified upon transition to IFRS. The tables in note 21 present the following information.

a) The Company' equity on adoption of IFRS on January 1, 2010, and at March 31, 2010 and December 31, 2010 for comparative purposes.

b) The statement of income for the three months ended 2010 and for the year ended December 31, 2010.

In preparing the March 31, 2011 interim financial statements the Company determined that there were no other material changes required to the Company's historical financial statements in order to comply with IAS 34.

Control Activities

For all areas of financial reporting, the effectiveness of internal controls over financial reporting and disclosure controls and procedures has been assessed and no significant changes have been determined to be necessary. In addition, controls over the IFRS changeover process have been implemented through a continuous training of accounting staff. Management has reviewed the design, implementation and documentation of the internal controls over accounting process changes resulting from the application of IFRS accounting policies and has determined that there is no material impact. Management applied the existing control framework to the IFRS changeover process. All accounting policy changes and transitional financial position impacts were subject to review by senior management and the Audit Committee of the Board of Directors.

Business Activities and Key Performance Measures

Management has assessed the impact of the IFRS transition project on the Corporation's financial condition and performance and has determined the impact to be immaterial due to the relatively small scale of operating activities.

Information Technology and Systems

The IFRS transition project did not have a significant impact on the Company's information systems for the convergence periods. Management also does not expect significant changes in the post-convergence periods.

Post-Implementation

The post-implementation phase will involve continuous monitoring of changes in IFRS in future periods. Management notes that the standard-setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that we have selected. In particular, there may be additional new or revised IFRSs or interpretations developed by the International Financial Reporting Interpretations Committee ("**IFRIC**") that may impact the Company's financial statements in the future. The impact of any new standards and interpretations will be evaluated as they are drafted and published.

5. Financial Instruments

	March 31, 2011 (unaudited)	Dec 31, 2010
Held for trading, measured at fair value:		
Cash and cash equivalents	$10,344,486	$12,345,677
Term deposits	4,783,806	3,503,928
Investments	1,845,130	1,137,426
Loans and receivables, measured at amortized cost:		
Accounts receivable	1,318,881	672,616
Loans receivable	-	-
Financial liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	1,619,523	2,139,930

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

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

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due or at reasonable cost. The Company has sufficient cash in treasury to meet all obligations at March 31, 2011.

Market risk is the risk that changes in market prices including foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments. Talon revalues its marketable securities using the quarter end bid price and as such, values are subject to change.

Through Talon's indirect interest in the Botswana CBM Project, the Company is exposed to movements in the following currencies: Botswana pula, South African rand, Australian dollars, Euros and British pounds. The Company is also exposed to movements in the United States dollar and the Brazilian real as transfers are made to the Brazilian subsidiaries in United States dollars and then converted by them to Brazilian reals.

The Company is exposed to interest rate risk only to the extent of its interest income on Treasury bills. These are typically short-term investments with a term of less than ninety days.

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

6. Capital Expenditure on Exploration Projects

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

	Mar 31, 2011	Dec 31, 2010
Mineral properties		
Trairão Iron Ore Project	$2,345,978	$606,006
Rio Verde Projects	8,976,748	8,108,941
São Jorge Gold Project	-	-
Água Branca Gold Project	1,163,223	1,118,904
Campo Grande Gold Project	519,586	519,586
Other Projects	597,477	597,477
	$13,603,012	$10,950,914

7. Disclosure of Outstanding Share Data

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

	Expiry Date	Exercise Price	Total
Common Shares			91,686,687
Stock options	Feb 18, 2013	$0.57	200,000
Stock options	Jun 11, 2014	$0.39	553,500
Stock options	May 21, 2015	$0.40	4,495,850
Stock options	Oct 26, 2015	$0.70	985,000
Stock options	Jan 17, 2016	$1.58	835,000
Stock options	Feb 7, 2016	$2.12	70,000
Stock options	Mar 3, 2016	$2.48	530,000
Warrants	Oct 29, 2012	$3.10	5,637,300
Brokers Warrants	Oct 29, 2012	$2.55	552,852
Stock options	May 25, 2016	$1.95	2,085,000
Total fully diluted number of shares			107,631,189

A summary of options outstanding as at March 31, 2011 is presented below:

	Options	Weighted Average Exercise Price
Outstanding – beginning of year	6,739,000	$0.45
Cancelled	(25,000)	0.70
Granted	1,435,000	1.85
Exercised	(340,000)	0.40
Exercisable – end of year	7,809,000	$0.80

8. Results of Operations

Review of Operations
(Thousands of C$)

	Three months ended Mar 31, 2011 (unaudited)	Three months ended Mar 31, 2010 (unaudited)	Year ended Dec 31, 2010
Interest income	$9	$0.2	$73
Administration expense[1]	1,012	493	6,406
Foreign currency translation gain (loss) [2]	(115)	32	(19)
Stock based compensation expense	2,817	-	2,634

[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 5: Financial Instruments.*

The Company's loss is reported under IFRS for the first time this quarter. While the IFRS conversion did not have a significant impact on the financial statements the following general comments are provided.

The most significant impact on the Company relates to the acquisition of Rio Verde during 2010. The Company elected to early adopt CICA Handbook section 1582 in accounting for the transaction in order to use a consistent basis of accounting with IFRS 3, *Business Combinations*. In that regard, reference is made to notes 2(b) and 4 to the annual financial statements for the year ended December 31, 2010 that contain more detailed information with respect to the accounting for the transaction.

In preparing the March 31, 2011 interim financial statements the Company determined that there were no other material changes required to the Company's financial statements in order to comply with IAS 34.

Net loss for the three month period ended March 31, 2011 was $3.2 million or $0.04 per share (basic and diluted), which was primarily due to administration expenses and stock based payments, reduced by an unrealized gain on investments. This compares to a net loss of $0.3 million or $0.01 per share (basic and diluted) for the three months ended March 31, 2010, which was primarily due to administration expenses, partially reduced by a gain on investments.

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

Capitalized exploration
Amounts spent on exploration on mineral properties for the three months ended March 31, 2011 and 2010 amounted to $2,656,173 and $301,901 respectively. This primarily relates to the Sergipe Potash Project in 2010, and to the Trairão Project, Inajá South Project and Rio Verde's projects in the first quarter of 2011.

Stock options
A summary of options outstanding as at March 31, 2011 is presented in *Section 7* of this MD&A.

An amount of $2,817,051 was expensed for options granted in the first quarter 2011 compared to $nil for options vested and granted in the same period in 2010. Stock based compensation expense is a function of stock options granted and vested during the reporting period.

Estimated fair value of stock options

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

Expected life	5 years
Risk-free interest rate	2.60%
Volatility	215%-218%
Dividends	0%

9. Summary of Quarterly Results

(All numbers are unaudited*)

	Three months ended Mar 31, 2011	Three months ended Dec 31, 2010	Three months ended Sept 30, 2010	Three months ended Jun 30, 2010
Total revenues	$8,541	$3,398,102	$907,799	$2,004
Net earnings / (loss)	(3,158,972)	1,433,780	(435,044)	(5,079,819)
Net earnings / (loss) per share – basic and diluted	(0.04)	0.02	(0.01)	(0.08)

	Three months ended Mar 31, 2010	Three months ended Dec 31, 2009	Three months ended Sept 30, 2009	Three months ended Jun 30, 2009
Total revenues	$200	$1,312	$2,281	$3,024
Net earnings / (loss)	(265,013)	(510,769)	(1,241,929)	(668,968)
Net earnings / (loss) per share – basic and diluted	(0.01)	(0.02)	(0.05)	(0.03)

* The amounts included in the above tables are unchanged from those previously reported under Canadian GAAP as no changes resulted from the Company's conversion to IFRS.

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

Foreign currency translation gain or loss reflects changes in Canadian dollar / US dollar and US dollar / Brazilian real exchange rates on foreign currency balances. Beginning in the first quarter of 2010 (following the merger with Saber Energy Corp.) this also includes the other currencies mentioned in *Section 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.

Significant Equity Investees - *Tlou Energy*

As of the date of this MD&A, Talon owns approximately 19 million shares in Tlou Energy, representing an ownership interest of approximately 30%. Talon also holds 4,945,055 options to purchase an aggregate of 4,945,055 Tlou Energy shares.

Summary of assets, liabilities and results of operations for Tlou Energy's fiscal quarters ended March 31, 2011 and 2010 in $AUD (unaudited)

	March 31, 2011	March 31, 2010
ASSETS		
Current Assets	$8,163,864	$14,395,961
Non-Current Assets	31,039,314	4,872,063
TOTAL ASSETS	39,203,178	19,268,024
LIABILITIES		
Current Liabilities	1,802,848	691,398
TOTAL LIABILITIES	1,802,848	691,398
EQUITY	37,400,330	18,576,626

	March 31, 2011	March 31, 2010
Revenue	25,546	108,162
Expenses	311,699	263,517
Total comprehensive income	$(337,245)	$(155,355)
Talon's ownership percentage	30%	n/a

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

Cash Flow Highlights
(Thousands of C$)

	Three months ended Mar 31, 2011 (unaudited)	**Three months ended Mar 31, 2010 (unaudited)**	**Year Ended Dec 31, 2010**
Operating activities	$(2,764)	$(569)	$(4,578)
Investing activities	(4,010)	(574)	6,376
Financing activities	4,785	190	7,740
Beginning cash & cash equivalent balance	12,333	2,807	2,807
Increase / (decrease) in cash & cash equivalents	(1,989)	(953)	9,538
Ending cash & cash equivalents balance	$10,344	$1,854	$12,345

Operating Activities

Operating activities for the three month period ended March 31, 2011 consumed $2,763,963 primarily due to net operating expenses. This compares to utilization of $568,638 in the first quarter of last year mainly due to net operating expenses.

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

Financing Activities

Financing activities for the three month period ended March 31, 2011 were $4,784,519 primarily due to the proceeds on the exercise of warrants.

For the three month period ended March 31, 2010, financing activities were $190,224 representing a partial repayment of the loan receivable.

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

Subsequent to the end of the first quarter of 2011, there was a short form prospectus offering with gross proceeds of approximately $28.75 million.

Investing Activities

Investing activities for the three month period ended March 31, 2011 utilized $4,009,529 primarily due to capitalized exploration costs and purchase of term deposits. This compares to a utilization of $574,283 in the prior year, primarily due to proceeds on the sale of Beadell and cash assumed on the acquisition of the assets of Saber, less capitalized exploration costs and purchase of term deposits.

Investing activities for the year ended December 31, 2010 generated $6,376,544 primarily due to proceeds on disposal of assets classified as held for sale, proceeds on sale of certain projects, cash assumed from Rio Verde and Saber Energy Corp. and maturity of term deposits.

Liquidity and Capital Resources

The Company plans to spend approximately $20.2 million on exploration between April 2011 and September 2012.

Cash and cash equivalents were $10.3 million as of March 31, 2011. Subsequent to the end of the first quarter of 2011, there was a short form prospectus offering with gross proceeds of approximately $28.75 million.

All cash equivalents are held in government securities (e.g. T-bills). In March 2011, warrants were exercised which increased total cash assets by approximately $3.2 million. A further $1.45 million was received in the first quarter as proceeds from a short form prospectus offering. In addition, an estimated $1.5 million of the Assets Held for Sale is related to equipment from the Botswana CBM Project that Talon intends to sell. (Subsequent to the end of the first quarter of 2011, this equipment was sold for proceeds of approximately US$1.5 million.) The Company therefore has sufficient liquidity and capital resources to sustain operations through the medium-term.

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

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

A summary of Contributed Surplus for the period from January 1, 2009 to March 31, 2011 is as follows:

Balance	Jan 1, 2009	$4,994,057
Options	Granted 2009	269,779
Balance	Dec 31, 2009	5,263,836
Options	Exercised	(32,650)
Options	Granted 2010	2,633,769
Balance	Dec 31, 2010	7,864,955
Options	Exercised	(132,300)
Options	Granted 2011	2,817,051
Balance	March 31, 2011	$10,549,706

11. Related Party Transactions

The Company has entered into an administrative service agreement (the "**Tau Agreement**") with Tau Capital Corp. ("**Tau**"). The Tau Agreement terminated on March 31, 2011. A new agreement has been entered into between Talon and Tau. This agreement became effective on April 1, 2011 and has an initial term of one year, which can be renewed. Under this agreement, Talon has agreed to pay Tau a monthly service fee of $58,500. For the three months ended March 31, 2011, fees paid to Tau for these services were $99,000 (2010: $69,870).

Consulting fees paid to officers of the Company (Stuart Comline and Luis Azevedo) for the three months ended March 31, 2011 were $58,922 (2010:$64,004). In addition, an amount of $48,554 (2010:$19,447) was charged to the Company by Tau in respect of services rendered outside of the Tau Agreement. Consulting fees paid to a Company owned by an officer of the Company (Luis Azevedo) for the three months ended March 31, 2011 were $41,465 (2010:$41,465).

Prepayments at March 31, 2011 include $33,000 paid to Tau for service fees for April 2011 (2010:$22,500).

Accounts payable at March 31, 2011 include $41,563 payable to an officer of the Company for consulting fees (2010:$11,607).

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The remuneration of key management of the Company for the three months ended March 31, 2011 and 2010 was as follows.

	2011	2010
Aggregate compensation	$698,069	$66,522
Share based compensation	$647,800	$ -

Key management were awarded the following share options under the employee share option plan during the three months ended March 31, 2011:

Date of grant	Number of options	Exercise price	Expiry
January 17, 2011	410,000	$1.58	January 2016

12. Risks

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

The 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 programs planned by Talon will result in a profitable commercial mining operation. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal and iron ore prices that are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in Talon not receiving an adequate return on invested capital.

Mining 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 iron ore, 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, mining operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequential liability.

The economic viability of iron ore projects such as the Trairão Project is effected, in part, by the ability of the operator to enter into off-take agreements and access smelting facilities. No assurance can be made that Talon will be successful in entering into off-take agreements in respect of local and/or export sales or in accessing local smelting facilities.

Uncertainty Relating to Inferred Mineral Resources

There is a risk that the inferred mineral resources referred to in this MD&A cannot be converted into mineral reserves as the ability to assess geological continuity is not sufficient to demonstrate economic viability. Due to the uncertainty that may attach to inferred mineral resources, there is no assurance that inferred mineral resources will be upgraded to resources with sufficient geological continuity to constitute proven and probable mineral reserves as a result of continued exploration.

Infrastructure

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

Land Title

The Company's interests in mineral properties are comprised of exclusive rights under government licenses and contracts to conduct operations in the nature of exploration and, in due course if warranted, development and mining, on the license areas. Maintenance of such rights is subject to ongoing compliance with the terms of such licenses and contracts. While the Company intends to take all reasonable steps to maintain title to its mineral properties, there can be no assurance that it will be successful in extending or renewing mineral rights on or prior to the expiration of their term. The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral concessions may be disputed. Although the Company believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to any of its properties will not be challenged or impaired. Third parties may have valid claims underlying portions of the Company's interests, including prior unregistered liens, agreements, transfers or claims (including native land claims) and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

Additional Capital

The exploration and development of the Company's properties, including continuing exploration and development projects, and the construction of mining 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.

Insurance and Uninsured Risks

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

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

Governmental Regulation; Environmental Risks and Hazards

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

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

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

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

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

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

Competition

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

Iron Ore Prices

The Company's principal business is the exploration and development of iron ore. Talon's future prospects are largely dependent on movements in the price of iron ore. Iron ore prices have historically been volatile and are primarily affected by the demand for and price of steel in addition to the supply/demand balance. Given the historical volatility of iron ore prices and the particular effects of the recent global financial crisis, there are no assurances that the iron ore price will remain at economically attractive levels. An increase in iron ore supply without a corresponding increase in iron ore demand could be expected to result in a decrease in the price of iron ore. Similarly, a decrease in iron ore demand without a corresponding decrease in the supply of iron ore would be expected to result in a decrease in the price of iron ore. A continued decline in iron ore prices would adversely impact the business of Talon and could affect the feasibility of Talon's iron ore projects. A continued decline in iron ore prices would also be expected to adversely impact the Company's ability to attract financing.

Iron ore prices are also affected by numerous other factors beyond the Company's control, including the relative exchange rate of the U.S. dollar with other major currencies, global and regional demand, political and economic conditions, and transportation costs in major iron ore producing regions. Although iron ore prices in 2010 generally increased over prices in 2009, iron ore prices in 2009 had decreased significantly as compared to prevailing iron ore prices in 2008. Given the historical volatility of iron ore prices and the effects of the recent global financial crisis, there are no assurances that iron ore prices will remain at economically attractive levels.

Reduced Global Demand for Steel or Interruptions in Steel Production

Iron ore is used almost exclusively in the production of iron products, which are subsequently transformed into steel. As such, demand for iron ore is directly related to global levels of steel production. The global steel manufacturing industry is cyclical in nature and has historically been subject to fluctuations based on a variety of factors, including general economic conditions and interest rates. Fluctuations in the demand for steel can lead to similar fluctuations in iron ore demand. Accordingly, a decrease in economic growth rates could lead to a reduction in demand for iron ore, which could have an adverse effect on the Company's business. In addition, materials such as aluminum, composites and plastics are substitutes for steel and an increase in their use could adversely affect the demand for steel and consequently, the demand for iron ore.

Foreign Subsidiaries and Repatriation of Funds

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

Foreign capital investments, such as capital investments to be made by Talon in its Brazilian subsidiaries must be registered with the Central Bank of Brazil for purposes of profit remittances to non-resident investors such as the Company, reinvestment of profits and its eventual repatriation. The repatriation of such foreign capital investments requires the prior authorization of the Central Bank of Brazil, which may delay the timing of such repatriation.

Foreign Operations

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

Changes, if any, in natural resource or investment policies or shifts in political attitude in Brazil or, to a lesser extent, Botswana may adversely affect the Company's operations, or investments or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety.

Talon is required to enter into agreements with surface owners of the lands which it does not own. Although Brazilian laws guarantee mining companies access to third party lands, the Company may have to initiate legal action in court in order to set up indemnification amounts to such landowners, which may ultimately cause delays to the development of Talon's mineral projects.

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

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

Exchange Rate Fluctuations

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. Iron ore or other minerals are generally sold in US dollars and the Company's costs are incurred principally in Canadian dollars and Brazilian reals. The appreciation of non-US dollar currencies against the US dollar can increase the cost of iron ore and other mineral exploration and production in US dollar terms. The Company is also subject to exchange rate fluctuations through its ownership of shares in Tlou Energy, which are denominated in Australian dollars.

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

Securities of small-cap companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally and market perceptions of the attractiveness of particular industries. In the past several years, worldwide securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered exploration or development stage companies, have experienced declines in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. As a consequence, market forces may render it difficult or impossible for the Company to secure placees to purchase new share issues at a price which will not lead to severe dilution to existing shareholders, or at all.

The price of Talon's common shares is also likely to be significantly affected by short-term changes in iron ore or other relevant mineral prices or in its financial condition or results of operations. Other factors unrelated to the Company's performance that may have an effect on the price of Talon's common shares include the following: the value of Rio Verde and Tlou Energy and the ability of either company to list its shares on a stock exchange, which could impact the value of the shares of Rio Verde and Tlou Energy held by Talon; the extent of analytical coverage available to investors concerning the Company's business may be limited if investment banks with research capabilities do not follow the Company's securities; lessening in trading volume and general market interest in the Company's securities may affect an investor's ability to trade significant numbers of Talon's common shares; the size of the Company's public float may limit the ability of some institutions to invest in the Company's securities; and a substantial decline in the price of Talon's common shares that persists for a significant period of time could cause the Company's securities to be delisted, further reducing market liquidity.

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

Risks of Investments in Securities

Talon holds equity investments in a number of public and private companies and the Company may acquire additional investments in other entities from time to time. The value of the Company's equity investments is subject to the risks inherent in investments in securities, including the risk that the financial condition of the issuers of the equity securities held by the Company may become impaired or, in the case of securities listed on a stock exchange, that the general condition of the stock exchange may deteriorate. There is no guarantee that the shares of Tlou Energy and Rio Verde, which are presently not listed on any stock exchange, will be listed in the near term or at all.

Key Executives and Consultants

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

Dividend Policy

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

Possible Conflicts of Interest

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

Political, Judicial, Administrative, Taxation or Other Regulatory Factors

Talon may be adversely affected by changes in political, judicial, administrative, taxation or other regulatory factors in the areas in which Talon does or will operate and holds its interests, including but not limited to, changes in Brazilian government policy or practices with respect to the granting or confirmation of mineral and exploration interests in Talon's mineral projects, as well as unforeseen matters.

13. Internal Control Over Financial Reporting

No changes were made to the Company's internal control over financial reporting during the period beginning January 1, 2011 and ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

14. Outlook

Throughout 2011 and 2012, Talon expects to continue its exploration program at the Trairão Project and the Inajá South Project. At the Trairão Project, an aggressive exploration program is planned whereby the drilling will continue, with an increased number of drill rigs, with an aim to extend the resources delineated thus far, as well as conducting a number of geological, geophysical and metallurgical studies and surveys on the extensive occurrences of iron mineralization on the project area.

At the Inajá South Project, geological mapping is underway and it is anticipated that drilling will commence in the second quarter of 2011 in order to assess the potential of this project.

In the second quarter of 2011 it is anticipated that Rio Verde will become a listed company. Coincident with this listing Talon intends to distribute its shares in Rio Verde to Talon shareholders. This planned distribution is expected to happen no later than July 31, 2011.

During 2011, it is anticipated that Tlou Energy will become a listed company.