



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2020

Dated: May 14, 2020

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This Management's Discussion and Analysis ("MD&A") of the consolidated financial position for the three months ended March 31, 2020, should be read in conjunction with the consolidated financial statements of Talon Metals Corp. ("Talon" or the "Company") and notes thereto for the three months ended March 31, 2020.

Unless otherwise indicated, all monetary statements in this document are in Canadian dollars.

FORWARD-LOOKING INFORMATION

This MD&A contains certain "forward-looking information". All information, other than information pertaining to historical fact, which addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future, including, among other things, the exploration plans, completion and timing of the Company's main objectives, including Objective 1 (defined below) and Objective 2 (defined below), the completion of the recommendations in the Updated PEA (defined below) and the cost and timing thereof for the Tamarack Project, payments to Kennecott (defined below) pursuant to the 2018 Option Agreement (defined below), estimates in respect of mineral resource quantities, mineral resource qualities, the Company's targets, goals, objectives and plans, the Company's business plans, priorities and budget, projections in respect of capital expenditures and the Company's liquidity and capital resources (including, the Company's expected working capital requirements and the Company's plans to raise additional capital, cut additional costs and/or sell non-core assets), is forward-looking information.

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

Forward-looking information is subject to significant risks and uncertainties and other factors that could cause the actual results to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: the failure of exploration programs to identify mineralization, the failure to establish estimated mineral resources and any reserves; the grade, quality and recovery of mineral resources varying from estimates; risks related to the exploration stage of the Company's properties; the possibility that future exploration results and metallurgical testing will not be consistent with the Company's expectations; changes in nickel, copper and/or PGE prices; COVID-19; delays in obtaining or failures to obtain necessary regulatory permits and approvals from government authorities, including approval of applications for licences/permits required to conduct field based programs; uncertainties involved in interpreting drilling results, and the beneficiation process and other geological and product related data; changes in the anticipated demand for nickel, copper, cobalt and/or gold and PGEs; changes in equity and debt markets; inflation; changes in exchange rates; declines in U.S., Canadian and/or global economies; uncertainties relating to the availability and costs of financing needed to complete exploration activities and demonstrate the feasibility of the Company's projects; exploration costs varying significantly from estimates; delays in the exploration, mineral processing and development of, and/or commercial production from the properties Talon has an interest in; equipment failure;

unexpected geological or hydrological conditions; political risks; 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 or the Tamarack Project; changes in government regulations 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 and Uncertainties*".

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 minerals will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results, beneficiation tests and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource estimates included in this MD&A are well established, by their nature, resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company.

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

Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2019, is available on SEDAR at www.sedar.com.

GOING CONCERN

The consolidated financial statements of the Company have been prepared on a going concern basis which contemplates that the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent on its ability to raise financing, sell non-core assets and/or cut costs. There can be no assurance that the Company will be successful in raising financing, selling non-core assets and/or cutting sufficient costs to meet the Company's commitments.

The Company has not earned any revenue to date from its operations. The Company, and its joint venture partner, Kennecott Exploration Company ("**Kennecott**"), are in the process of exploring the Tamarack Project (defined below) and the Company has not yet determined whether the Tamarack Project contains ore reserves that are economically recoverable. The recoverability of the Company's property carrying value and of the related deferred exploration expenditures depends on the Company's ability to maintain an interest in the Tamarack Project, discover economically recoverable reserves and on the Company's ability to obtain necessary financing to complete the development and to establish profitable production in the future, or the receipt of sufficient proceeds on disposal of its interest in the Tamarack Project.

As at March 31, 2020, the Company had working capital of \$2.0 million (December 31, 2019 – \$6.1 million) and shareholders' equity of \$60.3 million (December 31, 2019 – \$55.8 million). Working capital is defined as current assets less current liabilities. Excluding deferred board fees and contingencies, working capital is \$2.5 million (December 31, 2019 - \$6.6 million).

These circumstances create a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and ultimately on the appropriateness of the use of accounting principles applicable to a going concern.

Please see "*Financial Condition, Cash Flow, Liquidity and Capital Resources – Liquidity and Capital Resources*" for further information, and also see "*Financial Instruments – Liquidity Risk*" for further important information regarding the potential impact of the COVID-19 Outbreak (defined below).

SUMMARY OF QUARTERLY RESULTS

The following table provides selected quarterly consolidated financial information for the periods ending as indicated. It is derived from the unaudited interim consolidated financial statements and the audited annual consolidated financial statements of the Company. All numbers below are unaudited.

	2020	2019				2018		
	March 31	Dec 31	Sept 30	June 30	March 31	Dec 31	Sept 30	June 30
Interest Income	13,533	11,257	6,002	17	700	311	857	1,619
Net income (loss)	(528,007)	226,253	(525,638)	(848,424)	(2,830,537)	(3,360,851)	(1,698,064)	(2,401,045)
Basic and diluted net income (loss) per share*	0.00	0.00	0.00	0.00	(0.01)	(0.03)	(0.01)	(0.02)
Comprehensive income (loss)	4,354,967	(411,322)	(525,638)	(848,424)	(2,830,537)	(3,360,851)	(1,698,064)	(2,401,045)

*Total of quarterly amounts may not reconcile to annual amount due to rounding

Quarterly trends in total revenues reflect in most part interest received on cash balances. Trends in quarterly expenses are driven primarily by office and general expenses and salaries, benefits, consulting and Brazil administration fees. Generally, the most variable component of total expenses over the past eight quarters has been gains/losses on the revaluation to fair value of the RCF Loan (defined below) in accordance with the IFRS fair value standards and stock option compensation.

REVIEW OF QUARTERLY RESULTS

Certain amounts in the condensed consolidated interim statements of loss and comprehensive loss have been reclassified to conform to the current year's presentation and, as such, the discussion that follows below takes into account such reclassification.

Interest income

Interest income is earned on the Company's cash and cash equivalents balance. Interest income for the three months ended March 31, 2020 was \$13,533 compared to a nominal amount in the same period in the prior year. The increase was due to the Company holding a higher cash balance as a result of financings in March, May and August of 2019.

Expenses

Salaries, benefits, consulting and Brazil administration fees increased to \$212,549 for the three months ended March 31, 2020, compared to \$146,857 for the three months ended March 31, 2019.

The increase was due to (a) salary increases awarded to the CFO and VP Geology in Q4 2019 and (b) a higher allocation of time to corporate, marketing and financing matters of senior management as opposed to time being spent directly on the Tamarack Project compared to the prior year, which resulted in a higher portion of senior management's salaries being expensed to the income statement instead of being capitalized to resource properties and deferred expenditures in accordance with the capitalization requirements of IFRS.

Effective April 1, 2020, Talon's CEO, President and CFO each agreed to reduce their salaries to \$110,000, while deferring the remaining amounts on terms and conditions to be mutually agreed upon by the Company and the executives.

From July 2015 to the present, fees to the Company's board of directors have not been paid but instead have been deferred. These fees were to be paid when the Company had at least \$3 million in its treasury and the RCF Loan was converted into common shares of the Company. As a result of the 2019 Prospectus Offering (defined below), the Company met these conditions, however, in order to maximize the amount of funds available for operational purposes, the board of directors agreed to further defer their fees. Nevertheless, as the likelihood of payment increased as a result of the 2019 Prospectus Offering and future potential financings, the deferred fees were recognized during Q3 2019.

Professional fees remained relatively constant for the three months ended March 31, 2020 at \$55,525 compared to \$56,375 for the three months ended March 31, 2019. As part of ongoing cost-cutting measures, the Company continues to perform legal and tax work in-house whenever possible.

Office and general expenses remained relatively constant for the three months ended March 31, 2020 compared to the same period in the prior year.

Insurance remained constant for the three months ended March 31, 2020 compared to the same period in the prior year.

Travel increased to \$11,318 for the three months ended March 31, 2020 compared to \$2,876 during the same period in the prior year as a result of increased travel to meet with potential investors in connection with the pursuit of various financing options and marketing efforts.

Marketing increased to \$52,268 for the three months ended March 31, 2020 compared to a nominal amount in the same period in the prior year as a result of increased marketing and the hiring of an investor relations consultant.

Listing, filing and shareholder communications expenses increased to \$55,571 during the three months ended March 31, 2020 compared to \$33,314 in the same period in the prior year. The increase was the result of higher TSX annual fees and Canadian securities regulatory authorities fees as a result of the Company's higher market capitalization compared to the prior year and an increase in the number of provinces that Company is a reporting issuer.

Stock option compensation expense was \$nil for the three months ended March 31, 2020 compared to \$1,890,780 for the three months ended March 31, 2019. In March 2019, after the closing of the 2018 Option Agreement, the repayment in full (through the issuance of common shares) of the RCF Loan and the other financing transactions in March 2019, directors, officers

and employees were awarded stock options. In addition to stock option compensation that was expensed on the Condensed Consolidated Interim Statements of Loss and Comprehensive Loss, the Company, in accordance with IFRS, capitalized \$140,901 during the three months ended March 31, 2020 (three months ended March 31, 2019 – nil) to Resource properties and deferred expenditures relating to the portion of the total stock option compensation cost attributable to work carried out on the Tamarack Project.

RCF Unsecured Convertible Loan

On November 25, 2015, the Company entered into definitive agreements with Resource Capital Fund VI L.P. ("**RCF**") whereby RCF agreed to provide US\$15 million to the Company (the "**RCF Financing**") to be used to earn an 18.45% interest in the Tamarack Project. After receipt by the Company of the US\$15 million, the entire amount was transferred to Kennecott on January 4, 2016.

The RCF Financing was subject to certain closing conditions, including the receipt of shareholder approval. The Company held a special meeting of its shareholders on December 29, 2015 where shareholders approved, among other things, the RCF Financing. The material terms of the RCF Financing were as follows:

- RCF provided the Company with US\$15 million, as follows: (a) US\$1 million via a private placement subscription for common shares in the capital of the Company at a subscription price of C\$0.12 per common share (the "**RCF Private Placement**"), and (b) US\$14 million via an unsecured convertible loan (the "**RCF Loan**", and the agreement governing the RCF Loan, the "**RCF Loan Agreement**"). The RCF Loan was to mature on the maturity date (the "**Maturity Date**") being the earlier of: (i) November 25, 2018; and (ii) the date upon which RCF elected to accelerate the due date upon the occurrence of certain events, including an event of default.
- The RCF Loan had an interest rate of 12% per annum. All interest accrued and became payable on the Maturity Date. The Company had a right to prepay the RCF Loan (including, accrued interest), in full or in part, only with the prior approval of RCF.
- Under the terms of the RCF Loan, RCF had the right to elect to convert all or part of the principal amount of the RCF Loan (including all capitalized interest) into common shares of the Company at any time at a conversion price of \$0.156 per common share (the "**Conversion Price**"), representing a 30% premium to the RCF Subscription Price. Interest that had not been capitalized was to be converted at a price equal to the volume weighted average trading price for the five trading days prior to the conversion. Any amount converted pursuant to RCF's conversion right was to be converted from United States dollars into Canadian dollars based on the currency exchange rate as reported by Bloomberg as of 5:00 p.m. (EST) on the first business day preceding the conversion date.

RCF Unsecured Convertible Loan Amendments

On December 16, 2016, Talon entered into an amending agreement (the "**RCF Loan First Amending Agreement**") with RCF to amend the RCF Loan Agreement. Pursuant to the terms of the RCF Loan First Amending Agreement, RCF agreed to increase the principal amount of the RCF Loan by US\$2,000,000 (from US\$14,000,000 to US\$16,000,000) to be provided, subject to

certain closing conditions, including the receipt of shareholder approval, in a second advance on substantially the same terms as the RCF Loan.

Pursuant to the RCF Loan First Amending Agreement, as consideration for RCF's agreement to increase the amount of the RCF Loan, the Company agreed to issue to RCF 15,000,000 common share purchase warrants (the "**RCF Warrants**"), each RCF Warrant exercisable for one common share in the Company at an exercise price of C\$0.11 up to January 18, 2021.

The effectiveness of the RCF Loan First Amending Agreement and the issuance of the RCF Warrants were subject to the approval of the shareholders of the Company. On January 18, 2017, at a special meeting of shareholders, the shareholders of the Company approved the RCF Loan First Amending Agreement and the issuance of the RCF Warrants.

On June 25, 2018, Talon entered into an amending agreement (the "**RCF Loan Second Amending Agreement**") with RCF to amend the RCF Loan Agreement, as amended. Pursuant to the terms of the RCF Loan Second Amending Agreement, RCF agreed to extend the maturity date of the RCF Loan to April 2, 2019.

The effectiveness of the RCF Loan Second Amending Agreement was subject to the approval of the shareholders of the Company. On July 26, 2018, at the annual general and special meeting of shareholders, the shareholders of the Company approved the RCF Loan Second Amending Agreement.

The RCF Loan was denominated in US dollars and convertible into common shares of the Company based on the principal and interest balance translated to Canadian dollars. Management determined that the RCF Loan represented a combined instrument that contained an embedded derivative, being the conversion option. As a result of the foreign exchange impact on the conversion factor, the conversion option did not meet the fixed for fixed criteria and therefore represented a derivative liability. In accordance with International Accounting Standard 39, the Company designated the entire RCF Loan at fair value through profit or loss. The RCF Loan was initially recorded at fair value and re-valued at period-end with changes in fair value being recorded through profit and loss.

RCF Unsecured Non-Convertible Promissory Note

On March 29, 2018, the Company entered into an unsecured non-convertible promissory note in the amount of US\$1 million (the "**Promissory Note**") with RCF. The Promissory Note carried an interest rate of 12% per annum and the proceeds were used for general working capital purposes.

The Promissory Note was originally scheduled to mature on November 25, 2018, however, at the same time the Company and RCF signed the RCF Loan Second Amending Agreement, RCF agreed to extend the maturity of the Promissory Note to April 2, 2019 (which extension became effective on July 26, 2018).

Conversion of the RCF Unsecured Convertible Loan and the RCF Unsecured Non-Convertible Promissory Note

On November 7, 2018, the Company entered into amending agreements in connection with the RCF Loan and the Promissory Note. Pursuant to the terms of the amending agreements, the Company agreed to reduce the conversion price under the RCF Loan to \$0.10 per share (from

\$0.156 per share) in respect of the principal component of the RCF Loan and maintain the Conversion Price in respect of the interest component of the RCF Loan (the "**RCF Loan Third Amending Agreement**"). In addition, the Company and RCF agreed to amend the Promissory Note to provide for its conversion at a price of \$0.10 per share for all outstanding principal and interest (the "**Amended Promissory Note**"). The RCF Loan Third Amending Agreement and the Amended Promissory Note (and the conversion of thereof) were to become effective immediately following the Initial Cash Payment (defined below) by the Company's 100% owned indirect subsidiary Talon Nickel (USA) LLC ("**Talon Nickel**") in accordance with the terms of the 2018 Option Agreement (defined below), evidence of US\$1.5 million in working capital to advance the Tamarack Project and shareholder approval at a meeting that was to occur in Q1 2019. Up until March 6, 2019 and including December 31, 2018, RCF retained its option to convert the RCF Loan into common shares at the Conversion Price.

On March 7, 2019, the Company completed a renegotiation of the terms of the RCF Loan Third Amending Agreement and the Amended Promissory Note. Pursuant to this renegotiation, RCF converted the outstanding principal and interest under the RCF Loan at the previously approved Conversion Price of \$0.156 per share. In connection therewith, RCF was issued 196,776,515 common shares (which assumed an exchange rate of C\$1.3350 = US\$1 and accrued interest to March 6, 2019). The RCF Loan was previously approved by shareholders in December 2015 and then again, as amended in January 2017. In addition, the principal and interest from the Promissory Note was repaid by issuing common shares of Talon at a conversion price equal to \$0.0826. In connection therewith, RCF was issued 18,043,542 common shares in the capital of Talon (calculated with an agreed exchange rate of C\$1.3350 = US\$1 and accrued interest to March 6, 2019). Shareholder approval of the conversion was not required given that the conversion of the RCF Loan occurred at the previously shareholder approved Conversion Price of \$0.156.

As of the date hereof, the Company no longer has any debt outstanding to RCF.

Pursuant to an investment agreement dated November 7, 2018 between the Company and RCF, for as long as RCF and its affiliates, on a partially diluted basis, hold common shares of the Company equal to or exceeding 10% of all common shares issued and outstanding, RCF has the right to participate in any equity or debt financings of the Company (other than certain exempt issuances) at the same price and on the same terms, on a pro rata basis, such that RCF is entitled to maintain its percentage interest in common shares of the Company on a partially diluted basis.

Effective July 25, 2019, the Company and RCF entered into a qualification rights agreement (the "**Qualification Rights Agreement**") pursuant to which, under certain circumstances and limitations, RCF has the right to require the Company to qualify shares of the Company held by RCF under a prospectus by way of secondary offering. These qualification rights expire July 25, 2022. Pursuant to the Qualification Rights Agreement, RCF can qualify certain of its shares in the capital of the Company under a prospectus offering initiated by the Company and, subject to certain limitations, can also require the Company to file a prospectus to complete a secondary offering on a maximum of two occasions during the term of the Qualification Rights Agreement. The Company is entitled to postpone any such request by RCF for a period of up to 90 days in certain circumstances, including in the event that the Company is actively employing its best efforts to complete an equity offering, and also in the event that the request is made 60 days after the filing of a final prospectus by the Company.

Taking into account the value of the Promissory Note as at March 6, 2019 (i.e., the day before the repayment of the Promissory Note), and the number of shares issued at a price of C\$0.08 per share based upon the price of the simultaneously completed private placement, a gain of \$54,728 was recognized. No gain or loss was recognized in connection with the conversion of the RCF Loan because the carrying amount was transferred to equity.

Royalty

On March 7, 2019, Talon Nickel granted a net smelter returns royalty to 10782343 Canada Limited (the "**Royalty Holder**"), a subsidiary of Triple Flag Mining Finance Bermuda Ltd., in consideration of the payment of US\$5.0 million. The Company, together with its subsidiaries, Cloudmine Holdings Limited and Talon Metals (USA) Inc., have agreed to guarantee the payment and performance obligations under the royalty agreement. The royalty is 3.5% of net smelter returns and will be based on Talon Nickel's participating interest in the Tamarack Project, except (i) where Talon Nickel's interest reduces below 17.56%, in which case it will be paid assuming Talon Nickel's interest is unchanged at 17.56% or (ii) where Talon Nickel has vested at 51% and Talon Nickel's interest reduces below 51%, in which case it will be paid assuming Talon Nickel's interest is unchanged at 51%; or (iii) where Talon Nickel has vested at 60% and Talon Nickel's interest reduces below 60%, in which case it will be paid assuming Talon Nickel's interest is unchanged at 60%.

The royalty agreement contains a one-time put right pursuant to which the Royalty Holder has an option, exercisable within 10 calendar days of March 7, 2022, to cause Talon Nickel to repurchase the entire net smelter returns royalty for a cash payment of US\$8.6 million ("**Royalty Put Option**"). This option may be accelerated in a number of circumstances, including upon an event of default as defined under the Royalty Agreement. In the event the Royalty Holder does not exercise the one-time put right, Talon Nickel has a one-time option to reduce the percentage of the net smelter returns royalty to 1.85% in exchange for cash in the amount of US\$4.5 million. Talon and its related entities have provided security to the Royalty Holder to support the payment and performance obligations related to the royalty and the guarantees. In connection with the royalty agreement, Talon has issued the Royalty Holder 5,000,000 warrants ("**Royalty Warrants**") exercisable to acquire one common share until March 7, 2022 at an exercise price of C\$0.0826 per share. In connection with the sale of the royalty, the Company paid a 6% commission and issued 4,944,375 warrants to a broker ("**Royalty Broker Warrants**") with the same terms as the Royalty Warrants.

The Company accounted for the royalty by first allocating the proceeds received of US\$5.0 million to the identified component parts of the transaction, namely the royalty, the Royalty Put Option and the Royalty Warrants, as follows:

	U.S. dollars	Canadian dollars	Expenses	Net
Royalty	\$ 4,055,219	5,456,297	(651,983)	4,804,314
Royalty Put Option	799,947	1,076,328	(128,613)	947,715
Royalty Warrants	144,835	194,875	(23,286)	171,589
	<u>\$ 5,000,000</u>	<u>6,727,500</u>	<u>(803,882)</u>	<u>5,923,618</u>

The royalty was valued using a discounted cash flow analysis and an estimated discount rate of approximately 15%. The Royalty Put Option was valued using a probability-adjusted discounted cash flow analysis with the following estimates: a risk-free discount rate of 1.63% and a probability that the Royalty Put Option will be exercised of 10%. The Royalty Warrants were valued using

the Black-Scholes model using the following estimates: risk-free interest rate – 1.48%, expected life – 3 years, expected volatility – 75% and dividend yield – 0%.

In conjunction with the sale of the royalty, the Company incurred financing and legal costs of \$803,882, which were allocated pro-rata to the components of the royalty financing with the portion related to the royalty capitalized to 'Resource properties and deferred expenditures', the portion related to the Royalty Put Option expensed in profit and loss and the portion related to the Royalty Warrants netted against the issuance of the Royalty Warrants in the Statement of Changes in Equity.

The Company has designated the Royalty Put Option as a financial instrument at fair value through profit or loss. The Royalty Put Option was initially recorded at fair value and revalued at period end with changes in fair value being recorded through profit and loss. Transaction costs have been expensed.

As at March 31, 2020 and December 31, 2019, the Royalty Put Option was revalued using the methodology discussed above with the following estimates: a risk-free discount rate of 0.22% and 1.59%, respectively, and a probability that the Royalty Put Option will be exercised of 10% and 9%, respectively. The changes in these assumptions along with foreign exchange resulted in a loss of \$243,673 for the three months ended March 31, 2020 compared to \$3,357 for the three months ended March 31, 2019.

Investments and Foreign Currency Translation

Foreign currency translation resulted in a gain of \$55,088 for three months ended March 31, 2020 compared to a loss of \$43,772 in the same period during the prior year. This balance is highly variable due to the volatility of exchange rates, translation of the Royalty Put Option and changing level of the Company's cash balance.

Net Loss

Net loss for the three months ended March 31, 2020 was \$0.5 million. Basic and diluted net loss per share was \$nil. The net loss was primarily the result of administration expenses¹ and loss on the fair value revaluation of the Royalty Put Option. This compares to a net loss of \$2.8 million or \$0.01 per share (basic and diluted) for the three months ended March 31, 2019, which was primarily the result of a loss on fair value revaluation of the RCF Loan, stock option compensation expense and administration expenses¹.

Comprehensive Income

During the three months ended March 31, 2020, the Company recognized other comprehensive income of \$4.9 million (three months ended March 31, 2019 - \$nil) related to currency translation differences associated with the translation from United States dollars to Canadian dollars of Talon Nickel. The large amount in the current quarter is the result of the significant change in the Canadian dollar/United States dollar exchange rate from 1.2988 at December 31, 2019 to 1.4187 at March 31, 2020. This IFRS accounting requirement primarily manifests itself on the balance sheet in the change in the value of Resource properties and deferred expenditures where the

¹ "administration expenses" include the following expenses: Office and General; Professional Fees; Salaries, Benefits, Consulting and Brazil Administration; Board Fees; Insurance; Travel; Listing, Filing and Shareholder Communications; and Depreciation of Equipment and Software.

change from period to period reflects actual capital expenditures during the period plus a foreign exchange gain or loss, as the case may be, consistent with movements in foreign exchange rates.

COMPANY OVERVIEW

The Company is a mineral exploration company currently focused on the exploration and development of the Tamarack nickel-copper-cobalt project (the "**Tamarack Project**") in Minnesota, USA (which comprises the "**Tamarack North Project**" and the "**Tamarack South Project**"). As of the date hereof, the only material property of the Company is the Tamarack North Project.

Tamarack Project

Tamarack Earn-in Agreement

On June 25, 2014, Talon's wholly owned indirect subsidiary, Talon Nickel (USA) LLC ("**Talon Nickel**"), entered into an exploration and option agreement (the "**Tamarack Earn-in Agreement**") with Kennecott, part of the Rio Tinto Group, pursuant to which Talon Nickel received the right to acquire an interest in the Tamarack Project.

On January 4, 2016, pursuant to the terms of the Tamarack Earn-in Agreement, as amended, Talon Nickel earned an 18.45% interest in the Tamarack Project by making payments totalling US\$25,520,800 broken down as follows:

Option payments	\$ 1,000,000
Exploration	21,200,000
Land purchases	3,320,800
	<u>\$ 25,520,800</u>

On December 16, 2016, Talon Nickel entered into an amending agreement with Kennecott (the "**Tamarack Earn-in Third Amending Agreement**") in respect of the Tamarack Earn-in Agreement (as amended). The Tamarack Earn-in Third Amending Agreement provided, among other things, that Kennecott may elect at any time up to and including September 25, 2017 to grant Talon Nickel the option to purchase the Tamarack Project for a total purchase price of US\$114 million (the "**Tamarack Purchase Option**") or proceed with a joint venture (the "**Tamarack Joint Venture**") in respect of the Tamarack Project (the "**Kennecott Decision Deadline**").

On the Kennecott Decision Deadline, Talon Nickel received notification from Kennecott that it had decided to grant Talon Nickel the Tamarack Purchase Option on the terms of the Tamarack Earn-in Agreement (as amended).

On November 16, 2017, Talon Nickel elected not to exercise the Tamarack Purchase Option. As such, pursuant to the terms of the Tamarack Earn-in Agreement (as amended), Talon Nickel and Kennecott had 90 days to enter into the Mining Venture Agreement (defined below) governing the terms of the Tamarack Joint Venture.

On January 11, 2018, Talon Nickel and Kennecott entered into a fifth amending agreement (the "**Tamarack Earn-in Fifth Amending Agreement**") in respect of the Tamarack Earn-in Agreement

(as amended), pursuant to which they agreed to (i) enter into the Mining Venture Agreement with immediate effect, and (ii) accelerate the timing of the approval process for the 2018 winter exploration program so that the 2018 winter exploration program was approved with immediate effect.

Following the Tamarack Earn-in Fifth Amending Agreement, Talon Nickel elected to not financially participate in any further funding made in respect of the Tamarack Project while Kennecott was the operator/manager of the Tamarack Project. This resulted in dilution of its interest from 18.45% to 17.56%. Going forward, Talon Nickel is required to fund the Tamarack Project in accordance with the 2018 Option Agreement (defined below).

Tamarack Joint Venture

On January 11, 2018, Talon Nickel and Kennecott entered into the mining venture agreement in respect of the Tamarack Project (the "**Mining Venture Agreement**").

During the term of the 2018 Option Agreement (defined below), the Mining Venture Agreement is in abeyance and the terms of the 2018 Option Agreement govern the relationship between Talon Nickel and Kennecott in respect of the Tamarack Project.

2018 Option Agreement

On November 7, 2018, Talon Nickel entered into an exploration and option agreement (the "**2018 Option Agreement**") with Kennecott which provides Talon Nickel with the right to acquire up to a 60% interest in the Tamarack Project. The 2018 Option Agreement has an effective date of March 13, 2019.

Pursuant to the terms of the 2018 Option Agreement, Talon Nickel has taken over operatorship of the Tamarack Project (with certain Kennecott employees being seconded to Talon) and has the right to acquire a 51% interest in the Tamarack Project upon:

- (1) the payment of US\$6 million in cash to Kennecott (the "**Initial Cash Payment**") – completed;
- (2) the issuance of US\$1.5 million worth of common shares of Talon to Kennecott (the "**Share Payment**") – completed;
- (3) within 3 years of the effective date of the 2018 Option Agreement (March 13, 2022), Talon Nickel either spending US\$10 million or completing a pre-feasibility study on the Tamarack Project; and
- (4) within 3 years of the effective date of the 2018 Option Agreement (March 13, 2022), Talon Nickel paying Kennecott an additional US\$5 million in cash.

Provided Talon Nickel has earned the 51% interest in the Tamarack Project, Talon Nickel shall then have the right to increase its interest in the Tamarack Project to 60% by:

- (1) completing a feasibility study on the Tamarack Project within 7 years of the effective date of the 2018 Option Agreement (March 13, 2026); and

- (2) paying Kennecott the additional sum of US\$10 million in cash on or before the seventh anniversary of the effective date of the 2018 Option Agreement (March 13, 2026).

Upon Talon Nickel vesting with its applicable joint venture interest in the Tamarack Project, the parties have agreed to enter into a new joint venture agreement, pursuant to which, so long as Talon Nickel has a majority interest, Talon Nickel will continue to act as operator of the Tamarack Project. In the event Talon Nickel has delivered a feasibility study on the Tamarack Project, upon the completion thereof, the parties have agreed to fund the Tamarack Project in accordance with their respective ownership interests, or be subject to dilution.

Pursuant to the 2018 Option Agreement, Talon Nickel initially had until February 5, 2019 to make the Initial Cash Payment and the Share Payment to Kennecott. On February 4, 2019 and on February 28, 2019, Talon was granted extensions by Kennecott to make such payment. On March 7, 2019, the Company issued US\$1.5 million worth of common shares of the Company to Kennecott. On March 13, 2019, Talon Nickel made the Initial Cash Payment, thereby causing the 2018 Option Agreement to become effective as of that date.

Tamarack North Project

The Tamarack North Project is located adjacent to the town of Tamarack in north-central Minnesota approximately 100 km west of Duluth and 200 km north of Minneapolis, in Aitkin County.

The Tamarack Igneous Complex ("**TIC**"), which sits within the Tamarack North Project boundaries, is an ultramafic intrusion that is associated with the early evolution of the failed, Midcontinental Rift (dated at 1105ma +/- 1.2). This age is significantly older than the Duluth Complex Intrusions which consistently date at 1099ma and is consistent with other earlier intrusions of the Midcontinental Rift that are often characterised by more primitive melts.

The TIC has intruded into Thomson Formation siltstones and sandstones of the Animikie Group and is preserved beneath shallow Quaternary glacial sediments.

To date, exploration by Kennecott and Talon has included diamond drilling and sampling, as well as a range of geophysical surveys, including, airborne magnetic and electromagnetic (EM, MegaTEM and AeroTEM), ground magnetic and EM, magnetotelluric (MT), gravity, seismic, resistivity/induced polarization and downhole EM.

On March 26, 2018, Talon released a second independent technical report prepared in accordance with National Instrument 43-101 – *Standards of Disclosure for Minerals Projects* ("**NI 43-101**") in respect of the Tamarack North Project. The second independent technical report is entitled "Second Independent Technical Report on the Tamarack North Project – Tamarack, Minnesota" dated March 26, 2018 (the "**Tamarack North Technical Report**") and was prepared by independent "Qualified Persons" (as that term is defined in NI 43-101) Mr. Brian Thomas (P. Geo) of Golder Associates Ltd. ("**Golder**"), Mr. Tim Fletcher (P. Eng) of DRA Americas Inc. ("**DRA**") and Mr. Oliver Peters (P. Eng) of Metpro Management Inc. ("**Metpro**").

TALON METALS CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three months ended March 31, 2020

Included in the Tamarack North Technical Report was an updated independent mineral resource estimate prepared in accordance with NI 43-101 (the "**Resource Estimate**"). The Resource Estimate has an effective date of February 15, 2018, was prepared by independent "Qualified Person" (as that term is defined in NI 43-101) Mr. Brian Thomas of Golder and is summarized below.

Domain	Resource Classification	Tonnes (000)	Ni (%)	Cu (%)	Co (%)	Pt (g/t)	Pd (g/t)	Au (g/t)	Calc NiEq (%)
SMSU	Indicated Resource	3,639	1.83	0.99	0.05	0.42	0.26	0.2	2.45
Total	Indicated Resource	3,639	1.83	0.99	0.05	0.42	0.26	0.2	2.45
SMSU	Inferred Resource	1,107	0.90	0.55	0.03	0.22	0.14	0.12	1.25
MSU	Inferred Resource	570	5.86	2.46	0.12	0.68	0.51	0.25	7.24
138 Zone	Inferred Resource	2,705	0.95	0.74	0.03	0.23	0.13	0.16	1.38
Total	Inferred Resource	4,382	1.58	0.92	0.04	0.29	0.18	0.16	2.11

All resources reported at a 0.83% NiEq cut-off.

No modifying factors have been applied to the estimates.

Tonnage estimates are rounded to the nearest 1,000 tonnes.

Metallurgical recovery factored into the reporting cut-off.

$NiEq\% = Ni\% + Cu\% \times \$3.00/\$8.00 + Co\% \times \$12.00/\$8.00 + Pt [g/t]/31.103 \times \$1,300/\$8.00/22.04 + Pd [g/t]/31.103 \times \$700/\$8.00/22.04 + Au [g/t]/31.103 \times \$1,200/\$8.00/22.04$

On March 16, 2020, Talon released an updated preliminary economic assessment over a subset of the Resource Estimate within the Tamarack Zone as part of an updated independent technical report prepared in accordance with NI 43-101 in respect of the Tamarack North Project (the "**Updated PEA**"). The Updated PEA is entitled "NI 43-101 Technical Report Updated Preliminary Economic Assessment (PEA) of the Tamarack North Project – Tamarack, Minnesota" with an effective date of March 12, 2020. The Resource Estimate maintains an effective date of February 15, 2018.

The Updated PEA was prepared by independent "Qualified Persons" (as that term is defined in NI 43-101) Leslie Correia (Pr. Eng) of Paterson & Cooke Canada Inc, Andre-Francois Gravel (P. Eng.) of DRA, Tim Fletcher (P. Eng.) of DRA, Daniel Gagnon (P. Eng.) of DRA, David Ritchie (P. Eng.) of SLR Consulting (Canada) Ltd., Oliver Peters (P. Eng.) of Metpro, Christine Pint (P.G.) of Barr Engineering Co. and Brian Thomas (P. Geo.) of Golder.

Please refer to the Updated PEA for further information, including the QA/QC, analytical and testing procedures employed at the Tamarack North Project. The Updated PEA is available under Talon's SEDAR profile at www.sedar.com and on the Company's website at www.talonmetals.com.

Work Completed/Expenditures – Tamarack North Project and Tamarack South Project

During the three months ended March 31, 2020, the Company recognized \$3.9 million of expenditures, primarily on the Tamarack North Project, as detailed in the following table:

Category	Amount (C\$)
Exploration, drilling and assays	\$2,132,809
Geophysics	456,414
Mining and geotechnical studies	34,456
Metallurgical testing	69,344
Environmental and permitting studies	98,588
Economic studies	143,197
Salaries related to exploration & development	592,458
Mineral leases and land purchases	216,038
Legal	11,335
Site costs, travel and general*	84,719
Site remediation	15,707
Utilities and fuel*	54,632
Total	\$3,909,697

*Partially relates to exploration, drilling and assays

Upcoming Work – Tamarack North Project

On November 7, 2019, the Company announced its operational plan over the coming months in respect of the Tamarack Project. More specifically, the Company announced that its main objectives were to:

- Continue exploration with the commencement of a drill program and additional work at the Tamarack Project, with the objectives of: (i) extending the established high-grade resource area (i.e., the Massive Sulphide Unit (“MSU”)); (ii) identifying new high-grade (MSU) exploration targets; and (iii) infill drilling the Company’s established resource to start the process of converting more resources from the inferred category to the indicated category (“**Objective 1**”); and
- Develop a process to potentially produce nickel sulphates. The ability to produce a value-added product could create a unique opportunity for the Company to explore direct sales to the battery industry (at a premium price for nickel sulphates as compared to the London Metals Exchange (LME) nickel price) as opposed to the traditional route of selling product to a smelter at discounted prices. The Company further indicated that once the process had been developed, the Company intended to complete the Updated PEA (“**Objective 2**”).

During Q4 2019 and Q1 2020, the Company substantially completed Objective 1, with the results to date outlined in the Company’s press releases dated January 21, 2020 (“*Talon Commences Drill Program at Tamarack*”), March 2, 2020 (“*First Drill Results: Talon Metals Intercepts 11.36 Meters (37 Feet) of Mixed Massive Sulphides Grading 7.1% Ni, 2.98% Cu, 1.11 g/t PGEs, 0.16g/t Au and 0.14% Co at Tamarack*”), March 16, 2020 (“*Talon Drilling Update: 10.54 Meter (34.6 Feet)*”).

Intercept of Wide Mixed Massive Sulphides Logged at the Tamarack Project"), April 2, 2020 (*"Talon Intersects 5.73 Meters (18.8 Feet) of Mixed Massive Sulphides Outside of Talon's Resource Area"*), April 8, 2020 (*"Talon Intersects 7.14 Meters (23.4 Feet) of Mixed Massive Sulphides at the Tamarack Project"*), April 28, 2020 (*"Talon Drills a Total of 38 Meters (125 Feet) of Mixed and Massive Sulphides and 363 Meters (1,191 Feet) of Disseminated Sulphides at Tamarack"*) and May 13, 2020 (*"Talon Announces Numerous High-Grade Nickel and Copper Intercepts at the Tamarack Project, Including 10.54 Meters (34.6 Feet) Grading 7.07% Nickel Equivalent (Or 18.72% Copper Equivalent)"*). As of the date of this MD&A, further results in respect of Objective 1, including additional assay results, remain pending.

In respect of Objective 2, the Company filed the Updated PEA (defined above) on March 16, 2020. As discussed above, it was originally anticipated that the Updated PEA would include the results of the test work necessary to develop a flow sheet for the production of nickel sulphates at the Tamarack North Project. However, in light of the anticipated timing with respect to completion of such work and the receipt of results and other considerations, the Company determined to move forward with the Updated PEA with an adjusted scope (the **"Adjusted Scope"**) that excluded the results of the test work necessary to develop a flow sheet for the production of nickel sulphates at the Tamarack North Project.

Going forward, the Company intends to complete the test work necessary to develop a flow sheet for the production of nickel sulphates at the Tamarack North Project with a view to determining whether nickel sulphates or nickel concentrates will be produced, all as more particularly set forth in the Updated PEA (**"Phase 1"**). Once this determination has been made, the Company intends to undertake a prefeasibility study in connection with the advancement of the Tamarack North Project.

The anticipated direct cost of completing Phase 1 is approximately \$650,400 (excluding development and testing of geophysical techniques as set out in the Updated PEA), with an expected completion date of approximately August 2020. This completion date remains subject to change given potential unknown negative consequences from the COVID-19 Outbreak.

In addition to Phase 1, the Company expects to incur approximately \$1.75 million on items related to the Tamarack Project including licenses and land costs, baseline monitoring, local costs and local salaries and benefits for the 12 month period from April 2020 to March 2021.

Thus, the total cost expected to be incurred for the 12 month period from April 2020 to March 2021 is approximately \$2.4 million. This excludes Head Office Costs (defined below).

Qualified Persons

Etienne Dinel, Vice President, Geology of Talon is a Qualified Person within the meaning of NI 43-101. Dr. Dinel has reviewed, approved and verified the technical information disclosed in this MD&A (other than the Resource Estimate), including sampling, analytical and test data underlying the technical information.

The Qualified Person who is responsible for the Resource Estimate in this MD&A is Mr. Brian Thomas, senior resource geologist at Golder and independent of Talon. Mr. Thomas has reviewed, approved and verified the data disclosed in this MD&A relating to the Resource Estimate including, sampling, analytical and test data underlying the Resource Estimate and has

visited the site and reviewed and verified the QA/QC procedures used by Kennecott at the Tamarack North Project and found them to be consistent with industry standards.

Sale of Trairao Iron Project and Director Resignation

On January 16, 2020, the Company, along with its wholly-owned subsidiary, Rancover Holdings Inc. ("**Rancover**") entered into a share purchase agreement ("**Share Purchase Agreement**") with MINERAÇÃO TARAUACÁ INDÚSTRIA E COMÉRCIO S.A. and MINERAÇÃO SANTA ELINA INDÚSTRIA E COMÉRCIO S.A. (collectively, the "**Brazil Purchaser**"). Pursuant to the Share Purchase Agreement, on or about February 18, 2020, the Company and Rancover transferred 100% ownership of the Brazilian subsidiary, TALON FERROUS MINERAÇÃO LTDA. (the "**Brazil Subsidiary**"), to the Brazil Purchaser. By transferring ownership of the Brazil Subsidiary, the Company and Rancover have, in effect, transferred 100% of its ownership interest in the Trairao Iron Project to the Brazil Purchaser. The Share Purchase Agreement provides that the Company will be paid US\$1 million by the Brazil Purchaser if and when the Trairao Iron Project goes into production. The Brazil Purchaser has also agreed to pay all costs associated with maintaining the Trairao Iron Project in good standing, which will significantly reduce the Company's future expenditures in Brazil, enabling the Company to focus its cash resources on the Tamarack Project.

The Company remains responsible for any liabilities pursuant to existing litigation in Brazil.

Effective April 28, 2020, Mr. Luis Azevedo resigned as a director of the Company. Mr. Azevedo, who is based in Brazil, was previously key to Talon when it had projects in Brazil, including the Trairao Iron Project. The timing of Mr. Azevedo's resignation corresponds with the Company's sale of the Trairao Iron Project to the Brazil Purchaser and with the Company's strategy to solely focus on the Tamarack Project in Minnesota, USA.

CAPITAL EXPENDITURES ON EXPLORATION PROJECTS

Deferred exploration and development expenditures of the Company are comprised as follows:

	Dec 31, 2019	2020 Additions	Foreign Exchange	Mar 31, 2020
<i>Mineral properties - Resource properties and deferred expenditures (presented in Canadian dollars)</i>				
Tamarack Project	\$51,843,427	\$3,909,697	\$5,000,081	\$60,753,205
Trairão Project	-	-	-	-
	\$51,843,427	\$3,909,697	\$5,000,081	\$60,753,205

Amounts incurred on the exploration of mineral properties for the three months ended March 31, 2020 amounted to \$3.9 million and is the result of amounts incurred by Talon in respect of the Tamarack Project in accordance with the 2018 Option Agreement as detailed in the table above under "*Tamarack Project - Work Completed/Expenditures – Tamarack North Project and Tamarack South Project*".

The foreign exchange gain of \$5.0 million is a non-cash item that is the result of the increase (decrease) in the Canadian dollar denominated carrying value of the project which has been converted from United States dollars, as a result of the change in the Canadian dollar/United States dollar exchange rate from 1.2988 at December 31, 2019 to 1.4187 at March 31, 2020.

IFRS requires that the year-end or period-end United States dollar balance of Resource properties and deferred expenditures be converted to Canadian dollars at the year-end or period-end exchange rate.

Amounts incurred on the exploration of mineral properties for the three months ended March 31, 2019 amounted to \$12,031,123 and is the result of amounts incurred by Talon in respect of the Tamarack Project: (a) outside of the Tamarack Earn-in Agreement (as amended); and (b) in accordance with the 2018 Option Agreement. Specifically, during the three months ended March 31, 2019, the Company paid US\$6 million to Kennecott (approximately C\$8 million), issued US\$1.5 million in shares to Kennecott (approximately C\$2 million), recognized an asset retirement obligation of \$1.0 million and incurred exploration and development expenses of \$1.0 million, such as license costs, land purchases, metallurgical studies and testing, local site costs and salaries.

FINANCIAL INSTRUMENTS

	Mar 31, 2020	Dec 31, 2019
<i>Held for trading, measured at fair value:</i>		
Cash and cash equivalents	\$2,953,268	\$7,270,711
Royalty Put Option	1,214,907	971,234

Talon is exposed to various risks related to its financial assets and liabilities. The most significant of these risks are discussed below and are managed on an ongoing basis.

Credit Risk Management

Certain of the Company's financial assets are exposed to a degree of credit risk. The Company endeavors to mitigate credit risk by holding its cash and cash equivalents as cash deposits, short-term government treasury bills, money market funds and guaranteed investment certificates ("GICs") with major commercial banks.

Credit risk relating to accounts receivable arises from the possibility that any counterparty to an instrument fails to perform. The Company does not feel there is significant counterparty risk that could have an impact on the fair value of cash and cash equivalents and receivables.

Liquidity Risk

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 in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its capital, development and exploration expenditures.

As of March 31, 2020, the Company had a cash and cash equivalents balance of \$2.9 million, (December 31, 2019 – \$7.3 million) to settle current liabilities of \$1.3 million (December 31, 2019 – \$1.3 million).

In order to meet future working capital requirements, the Company may need to raise additional capital, sell non-core assets and/or cut additional costs. There can be no assurance that the Company will be successful in raising capital, selling non-core assets and/or cutting sufficient costs to meet the Company's future working capital requirements. Such material uncertainty may

cast significant doubt on the Company's ability to continue as a going concern. Failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis, which would differ from the going concern basis.

On March 7, 2019, all outstanding principal and interest under the RCF Loan and the Promissory Note was converted into common shares in the capital of the Company (see "*Review of Quarterly Results – Conversion of the RCF Unsecured Convertible Loan and the RCF Unsecured Non-Convertible Promissory Note*").

On March 7, 2019, the Company completed a common share private placement raising gross proceeds of \$3,150,000 and a royalty financing (with warrants) raising gross proceeds of US\$5.0 million (approximately C\$6.73 million).

On May 15, 2019, the Company completed a common share private placement raising gross proceeds of \$1,756,398.

On August 29, 2019, the Company closed a short form prospectus offering of 65,222,300 common shares of the Company (the "**2019 Prospectus Offering**") at a price of \$0.17 per common share for aggregate gross proceeds of \$11,087,791. In connection with the 2019 Prospectus Offering, the Company issued 3,207,450 broker warrants with an exercise price of \$0.17 and an expiration date of August 29, 2021.

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19" (the "**COVID-19 Outbreak**"), has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 Outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its subsidiaries in future periods.

The COVID-19 Outbreak may have a significant negative impact on the Company's ability to raise capital and on operations.

See "*Financial Condition, Cash Flow, Liquidity and Capital Resources – Liquidity and Capital Resources*", "*Risks and Uncertainties*" and "*Outlook*" for further important information.

Market Risk

Market risk is the risk that changes in market prices, including foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments.

The Company records its investments using the closing price at the end of the reporting period. Changes in the closing price will affect the fair value of these investments.

As at March 31, 2020 and December 31, 2019, the Company held no investments other than cash and cash equivalents which management considers to not be materially susceptible to market risks.

Foreign Exchange Risk

The Company is exposed to movements in the United States dollar. Payments made to Kennecott and the majority of costs associated with the operatorship of the Tamarack Project are denominated in United States dollars. Talon's salaries, consulting and administrative costs are denominated in Canadian dollars. Talon's financing activities have been in both United States dollars and Canadian dollars.

Given the above, the Company maintains funds in both Canadian and U.S. dollars taking into account cash needs over the medium term.

Prior to March 7, 2019, Talon was exposed to movements in the United States dollar as a result of the RCF Loan and the RCF Promissory Note which has been repaid in full (through the issuance of common shares) and is no longer outstanding. As of March 31, 2020, Talon is exposed to movements in the United States dollar as a result of cash on hand, the Royalty Put Option, certain accounts payable and the majority of costs associated with the operatorship of the Tamarack Project.

At March 31, 2020, the Company had net monetary liabilities in United States dollars of \$0.3 million (Canadian dollar equivalent). If foreign exchange rates had changed by 5% on the last day of the period with all other facts/assumptions held constant, there would be a change in the net income or loss of the Company for the three months ended March 31, 2020 of approximately \$14,000.

The COVID-19 Outbreak has resulted in a strengthening of the U.S. dollar which, if sustained, will increase the Canadian dollar denominated cost of the Company's operations since a majority of costs associated with the operatorship of the Tamarack Project are denominated in United States dollars.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk to the extent of its interest income on holding of government treasury bills, money market funds and GICs (collectively, "**Short Term Investments**").

The Short Term Investments typically have a term of less than ninety days. It is management's opinion that the Company is not exposed to significant interest or credit risks arising from the Short Term Investments. The Company mitigates its risk by holding Short Term Investments low in risk and with highly rated reputable financial institutions.

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

As of March 31, 2020, the Company had no interest bearing debt (see "Review of Quarterly Results - Conversion of the RCF Unsecured Convertible Loan and the RCF Unsecured Non-Convertible Promissory Note").

The Company's financial instruments are classified as current assets or liabilities on the statement of financial position of the Company. For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

Fair Value Hierarchy

The fair value hierarchy establishes three levels to classify inputs to the valuation techniques used to measure fair value. Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly, such as prices, or indirectly (derived from prices). Level 3 inputs are unobservable (supported by little or no market activity), such as non-corroborative indicative prices for a particular instrument provided by a third party.

The Company has classified its financial assets and liabilities as follows at March 31, 2020:

Level 1

Cash and cash equivalents \$2,953,268

Level 3

Royalty Put Option \$1,214,907

FINANCIAL CONDITION, CASH FLOW, LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Highlights

	Three months ended Mar 31, 2020	Three months ended Mar 31, 2019
Operating activities	\$(646,370)	\$215,502
Investing activities	(3,768,796)	(8,307,461)
Financing activities	-	9,001,886
Increase (decrease) in cash & cash equivalents	(4,415,166)	909,927
Effect of foreign exchange on consolidation	97,723	(5,498)
Beginning cash & cash equivalents	7,270,711	222,630
Ending cash & cash equivalents	\$2,953,268	\$1,127,059

Operating Activities

Operating activities for the three months ended March 31, 2020 consumed \$0.6 million of cash primarily due to net operating expenses. This compares to \$0.2 million used in the same period of last year which was primarily due to net operating expenses. See "Review of Quarterly Results" for a discussion of operating expenses.

Investing Activities

Investing activities for the three months ended March 31, 2020 consumed \$3.8 million compared to \$8.3 million in the same period in the prior year. In both cases, it was due to capitalized exploration costs. Specifically, during the three months ended March 31, 2019, the Company paid US\$6 million to Kennecott (approximately C\$8 million) and incurred development expenses of \$0.3 million including such costs as metallurgical studies and testing, local site costs and salaries.

Financing Activities

On March 7, 2019, pursuant to the Royalty Agreement, Talon Nickel granted a net smelter returns royalty to the Royalty Holder, a subsidiary of Triple Flag Mining Finance Bermuda Ltd., in consideration of the payment of US\$5 million (approximately C\$6.73 million).

Concurrently with the entering into of the Royalty Agreement, the Company completed a private placement offering of 39,375,000 common shares in the capital of the Company at a price of \$0.08 per common share for aggregate gross proceeds of \$3,150,000, which included a finder's fee of 6,444,375 common share purchase warrants in connection with certain orders. Each common share purchase warrant is exercisable to acquire one common share in the capital of the Company until March 7, 2022 at an exercise price of \$0.0826 per common share.

On May 15, 2019, the Company completed a private placement offering of 20,235,000 common shares in the capital of the Company at a price of C\$0.0868 per common share for aggregate gross proceeds of \$1,756,398 (the "**May 2019 Private Placement**"). A finder's fee, which included 645,660 common share purchase warrants were issued in connection with certain orders under the May 2019 Private Placement private placement. Each common share purchase warrant is exercisable to acquire one common share in the capital of the Company until May 15, 2022 at an exercise price of \$0.116 per common share.

On August 29, 2019, the Company completed the 2019 Prospectus Offering.

On March 26, 2020, the Company filed a final short form base shelf prospectus (the "**Base Shelf Prospectus**") with the securities regulatory authorities in each of the provinces of Canada, other than the province of Québec. Pursuant to the Base Shelf Prospectus, Talon may issue common shares, debt securities, subscription receipts or warrants or any combination of such securities as units, in amounts, at prices, and on terms to be determined based on market conditions at the time of sale and set forth in an accompanying prospectus supplement, for an aggregate offering amount of up to \$40 million during the 25-month period that the Base Shelf Prospectus remains effective. Talon filed the Base Shelf Prospectus to give it flexibility to take advantage of financing opportunities as they may arise and as the Company deems appropriate, subject to market conditions and other relevant factors.

The Company evaluates possible financing activities on an ongoing basis, the Company's short and long-term budgets in respect of its projects and working capital requirements, as well as the availability and costs associated with raising additional capital.

Liquidity and Capital Resources

On March 7, 2019, all outstanding principal and interest under the RCF Loan and the Promissory Note were converted into common shares in the capital of the Company (see "*Review of Quarterly Results - Conversion of the RCF Unsecured Convertible Loan and the RCF Unsecured Non-Convertible Promissory Note*").

On March 7, 2019, the Company completed a number of financings. See "*Financial Condition, Cash Flow, Liquidity and Capital Resources - Financing Activities*" for further information.

On May 15, 2019, the Company completed the May 2019 Private Placement.

On August 29, 2019, the Company completed the 2019 Prospectus Offering.

As of March 31, 2020, the Company had a cash and cash equivalents balance of \$2.9 million, (December 31, 2019 – \$7.3 million) to settle current liabilities of \$1.3 million (December 31, 2019 - \$1.3 million).

The Company's monthly cash outflows are dependent on whether and to what extent the Company is pursuing an active exploration program. The Company's monthly cash outflows are also dependent on whether the Company is deferring non-critical expenses and/or deferring or reducing salaries of senior executives and employees.

Notwithstanding the foregoing, for the ensuing 12 month period, up to March 31, 2021, the Company expects its monthly burn on items including salaries, administrative costs, overhead costs and recurring costs related to the Tamarack Project such as local site costs, environmental, I/T, licenses and land costs (collectively, "**Recurring Costs**") to be approximately \$200,000 per month. Excluding Tamarack-related costs, Recurring Costs are expected to be approximately \$67,000 per month ("**Head Office Costs**"). Head Office costs include head office salaries and benefits, public company costs and general and administrative costs, and marketing and travel costs.

For the ensuing 12 month period (up to March 31, 2021), the Company expects to incur a total of approximately \$2.4 million on the Tamarack Project as discussed in the section "*Upcoming Work – Tamarack North Project and Tamarack South Project*" and approximately \$0.8 million on "Head Office Costs" for a total of \$3.2 million.

As at March 31, 2020, the Company had adjusted working capital of \$2.1 million. Adjusted working capital is cash less accounts payable, and excludes accounts payable related to board fees and excludes contingencies.

The Company may need to sell non-core assets, cut costs and/or raise additional capital to meet working capital requirements over the ensuing 12-month period. There can be no assurance that the Company will be successful in raising financing, selling non-core assets and/or cutting sufficient costs to meet the Company's future working capital requirements.

Such material uncertainty may cast significant doubt on the Company's ability to continue as a going concern. Failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis, which would differ from the going concern basis.

See "Financial Instruments – Liquidity Risk" (including in respect of the potential impact of the COVID-19 Outbreak) and "Risks and Uncertainties" for further important information.

A summary of Contributed Surplus for the period from January 1, 2019 to March 31, 2020 is as follows:

Balance	December 31, 2018	\$16,679,917
Stock options	Stock option compensation	3,371,501
Balance	December 31, 2019	\$20,051,418
Stock options	Stock option compensation	140,901
Balance	March 31, 2020	\$20,192,319

DISCLOSURE OF OUTSTANDING SHARE DATA

The following details the share capital structure of the Company as at May 14, 2020:

	Expiry Date	Exercise Price	Total
Common Shares			494,328,808
Stock Options	May 28, 2020	\$0.20	64,350
Stock Options	Nov 25, 2020	\$0.156	9,355,000
Stock Options	Apr 12, 2021	\$0.156	300,000
Stock Options	Mar 22, 2024	\$0.095	32,467,103
Stock Options	Jun 6, 2024	\$0.18	4,962,735
Stock Options	Oct 2, 2024	\$0.18	1,000,000
Stock Options	Oct 28, 2024	\$0.165	6,000,000
Stock Options	Dec 12, 2024	\$0.145	1,500,000
Stock Options	Mar 13, 2025	\$0.10	5,780,000
Warrants	Nov 25, 2020	\$0.156	1,000,000
Warrants	Jan 18, 2021	\$0.11	15,000,000
Warrants	Mar 7, 2022	\$0.0826	6,444,375
Warrants	Mar 7, 2022	\$0.0826	5,000,000
Warrants	May 15, 2021	\$0.116	750,000
Warrants	May 15, 2022	\$0.116	645,660
Warrants	Aug 19, 2021	\$0.17	3,207,450
Total fully diluted number of shares			587,805,481

On March 22, 2019, a total of 32,467,102 stock options were issued to members of the board, management, an employee and consultants of the Company. These stock options have an exercise price of \$0.095 and are exercisable until March 22, 2024. On June 6, 2019, a total of 4,962,735 stock options were granted to the CEO, President and CFO with an exercise price of \$0.18 and exercisable until June 6, 2024.

As the Company expanded its team given that it is now operator of the Tamarack Project, a total of 15,030,000 stock options were issued primarily to new employees and consultants as follows:

- October 2, 2019: 1,750,00 stock options with an exercise price of \$0.18 and exercisable until October 2, 2024. 750,000 of these stock options are subject to vesting as follows:

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25% on the date of grant and 25% on each of February 2, 2020, June 2, 2020 and October 2, 2020.

- October 28, 2019: 6,000,000 stock options with an exercise price of \$0.165 and exercisable until October 28, 2024, with 5,000,000 of these stock options being subject to vesting.
- December 12, 2019: 1,500,000 stock options with an exercise price of \$0.145 and exercisable until December 12, 2024.
- March 13, 2020: 5,780,000 stock options with an exercise price of \$0.10 and exercisable until March 13, 2025, of which 3,000,000 stock options vest over 2.5 years.

As part of the Company's ongoing efforts to identify potential funding and strategic alliance partnerships, on March 5, 2019, the Company entered into a non-exclusive Advisory Services Agreement with Harp Capital Inc. ("**Harp**"). Harp was engaged by the Company to make certain introductions within South Korea, a very important market for battery production. Pursuant to the Advisory Services Agreement, Talon agreed to grant Harp 750,000 common share purchase warrants (the "**Harp Warrants**") each exercisable into one common share in the capital of the Company. On May 15, 2019, the Harp Warrants were issued with an exercise price of \$0.116 and an expiry date of May 15, 2021.

On May 15, 2019, the Company completed the May 2019 Private Placement.

On August 29, 2019, the Company completed the 2019 Prospectus Offering.

The following details the change in stock options outstanding of the Company during the three months ended March 31, 2020:

	Options	Weighted Average Exercise Price
Outstanding – beginning of year	56,399,188	\$0.124
Granted	5,780,000	0.10
Expired	-	-
Cancelled	-	-
Outstanding – end of the period	62,179,188	\$0.122

Other than 1,233,733 stock options, all of the stock options outstanding have been issued pursuant to the Company's stock option plan.

Estimated fair value of stock options

The Company determined the fair value of the stock options issued during the three months ended March 31, 2020 and the year ended December 31, 2019 using the Black-Scholes option pricing model using the following assumptions:

	<u>2019</u>	<u>2020</u>
Risk-free interest rate	0.74%	1.30% - 1.64%
Expected life	5 years	5 years
Expected volatility	75%	75%
Dividend yield	0%	0%

Stock option compensation expense was \$nil for the three months ended March 31, 2020 compared to \$1,890,780 for the three months ended March 31, 2019. In March 2019, after the

closing of the 2018 Option Agreement, the repayment in full (through the issuance of common shares) of the RCF Loan and the other financing transactions in March 2019, directors, officers and employees were awarded stock options. In addition to stock option compensation that was expensed on the Condensed Consolidated Interim Statements of Loss and Comprehensive Loss, the Company, in accordance with IFRS, capitalized \$140,901 during the three months ended March 31, 2020 (three months ended March 31, 2019 – nil) to Resource properties and deferred expenditures relating to the portion of the total stock option compensation cost attributable to work carried out on the Tamarack Project.

RISKS AND UNCERTAINTIES

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

The exploration operations of the Company are speculative due to the high-risk nature of its business which is primarily focused on the acquisition, exploration and development of mineral projects. The Company's activities in pursuit of its objectives are subject to a number of risks and uncertainties.

The following is a summary of the most significant of those risks and uncertainties affecting or that could affect the financial condition or results of operations of the Company. For a further discussion of the risks and uncertainties facing the Company, please refer to the Company's Annual Information Form for the year ended December 31, 2019 under the heading "Risk Factors" available on SEDAR at www.sedar.com. 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, 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 risks actually occur, the business, financial condition or results of operations of the Company could be negatively affected.

Working Capital Requirements

In order to meet future working capital requirements, the Company may need to raise additional capital, sell non-core assets and/or cut additional costs. If the Company seeks to raise additional capital, it may not be available when needed, or if available, the terms of such capital might not be favourable to the Company. Global securities markets continue to experience volatility (and extreme volatility since the COVID-19 Outbreak), 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. There can be no assurance that the Company will be successful in raising capital, selling non-core assets and/or cutting sufficient costs to meet the Company's future working capital requirements. If the Company is not successful in doing so (or in doing so sufficiently), it may have a material adverse effect on the Company's business, financial condition and results of operations (including, in certain circumstances, the ability of the Company to continue to operate as a going concern).

Ability to Continue as a Going Concern

The Company believes that it has or will have sufficient funds to meet its obligations and planned expenditures for the ensuing twelve months as they fall due. In assessing whether the going concern assumption contained in the Company's financial statements for the three months ended March 31, 2020 is appropriate, the Company takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company's ability to continue future operations beyond March 31, 2021 may be dependent on the Company's ability to secure additional financing, sell non-core assets and/or reduce its working capital requirements.

COVID-19 Coronavirus Outbreak

The current global uncertainty with respect to the spread of the COVID-19 coronavirus, the rapidly evolving nature of the pandemic and local and international developments related thereto and its effect on the broader global economy and capital markets may have a negative effect on the Company and the advancement of the Tamarack Project. While the precise impact of the COVID-19 Outbreak on the Company remains unknown, rapid spread of COVID-19 and declaration of the outbreak as a global pandemic has resulted in travel advisories and restrictions, certain restrictions on business operations, social distancing precautions and restrictions on group gatherings which are having direct impacts on businesses in Canada and around the world and could result in travel bans, closure of assay labs, work delays, difficulties for contractors and employees getting to site, and diversion of management attention all of which in turn could have a negative impact on development of the Tamarack Project and the Company generally. The spread of COVID-19 may also have a material adverse effect on global economic activity and could result in volatility and disruption to global supply chains and the financial and capital markets, which could affect the business, financial condition, results of operations and other factors relevant to the Company, including its ability to raise additional financing.

Triple Flag Royalty Financing

The Royalty Agreement contains the Royalty Put Option. The Royalty Put Option may be accelerated where there is an event of default (as defined under the Royalty Agreement). There is a risk that at the time the Royalty Holder exercises the Royalty Put Option, Talon Nickel does not have the cash required to repurchase the Triple Flag Royalty. In such case, the Royalty Holder has the right to exercise its security and, among other things, acquire Talon Nickel's entire interest in the Tamarack Project.

The Royalty Agreement also provides Talon Nickel with a one-time right to reduce the percentage of the Triple Flag Royalty to 1.85% in exchange for cash in the amount of US\$4.5 million. There is a risk that at the time Talon Nickel's one-time right arises, Talon Nickel does not have the cash on hand required to reduce the percentage of the Triple Flag Royalty. In such case, the Royalty Holder will continue to have a royalty of 3.5% of net smelter returns (to be paid out of Talon Nickel's participating interest in the Tamarack Project), which could negatively impact the overall economic viability of the Tamarack Project.

Pursuant to the Royalty Agreement, Talon and its related entities have provided security to the Royalty Holder to support the payment and performance obligations related to the Triple Flag Royalty and the guarantees. In the event Talon Nickel fails to meet such obligations, the Royalty

Holder has the right to exercise its security and may, among other things, acquire Talon Nickel's entire interest in the Tamarack Project.

The Royalty Agreement contains restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company to amend the 2018 Option Agreement, cease to be the operator of the Tamarack Project, sell or dispose of Talon Nickel's interest in the Tamarack Project, incur additional indebtedness, to create liens or other encumbrances, to sell or otherwise dispose of assets and merge or consolidate with another entity. A failure to comply with these obligations could result in an event of default (as defined under the Royalty Agreement) which, if not waived, could permit the Royalty Holder to exercise its security and, among other things, acquire Talon Nickel's entire interest in the Tamarack Project.

Pursuant to the Royalty Agreement, Talon Nickel is required to make payment to the Royalty Holder based on an assumed ownership percentage in the Tamarack Project of 17.56%, 51% or 60%, depending on the particular circumstances. In the event that Talon Nickel dilutes below the assumed ownership percentage, it will nevertheless still be required to make payment to the Royalty Holder at the assumed ownership percentage (for example, if Talon Nickel has been diluted to a 14% interest in the Tamarack Project, it will still be required to make payment to the Royalty Holder as if Talon Nickel owns a 17.56% interest in the Tamarack Project). Given this unique payment structure under the Royalty Agreement, there is a risk that the Company may not have enough money to make the required payments to the Royalty Holder. In such circumstance, the failure by Talon Nickel to make adequate payment to the Royalty Holder would constitute an event of default under the Royalty Agreement, thereby entitling the Royalty Holder to exercise its security and, among other things, acquire Talon Nickel's entire interest in the Tamarack Project.

Litigation

The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely against the Company. Specifically, current litigation proceedings in Brazil, even in cases which the Company's legal counsel believes have a possible chance of success by the counterparty, may be determined, in whole or in part, against the Company. One or more of such determinations against the Company may adversely affect the Company's financial condition and may have a material adverse impact on the ability of the Company to carry on operations.

2018 Option Agreement

Pursuant to the terms of the 2018 Option Agreement, Talon Nickel has the right to initially acquire a 51% interest, and subsequently up to a 60% interest, in the Tamarack Project, subject to the completion of certain conditions. In the event that Talon Nickel fails to meet the requirements to earn such interests in the Tamarack Project, Talon Nickel may revert to a minority interest in the Tamarack Project, and cease to be the operator of the Tamarack Project. In such case, all future funding requirements for the Tamarack Project would be determined by Kennecott (in its capacity as operator), and any failure by Talon Nickel to fund its proportional share of such funding would result in dilution of its interest in the Tamarack Project.

In order for Talon Nickel to earn an increased interest in accordance with the 2018 Option Agreement, the Company will be required to raise additional capital and there can be no assurance that the Company will be successful in raising such capital. If the Company is

successful in raising capital, it could result in substantial dilution to existing shareholders of the Company.

Exploration, Development and Operating Risks

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. Actual exploration, development and/or other costs and economic returns may differ significantly from those the Company has anticipated. It is impossible to ensure that the exploration programs planned by Talon will result in a profitable commercial mining operation. Talon cannot give any assurance that its current and future exploration activities and/or metallurgical testing will be consistent with the Company's expectations or result in any additional mineralization and/or a mineral deposit containing mineral reserves. 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; commodity 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.

Although Talon's present activities are directed towards the financing, exploration and development of mineral projects, its activities may also ultimately include mining operations. Mining and exploration operations generally involve a high degree of risk. Talon's operations are subject to all the hazards and risks normally encountered in the exploration, development, production and beneficiation of nickel, copper and platinum, including unusual and unexpected geologic formations, seismic activity, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimize risk will be taken, mining and exploration operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequential liability.

The economic viability of mineral projects, including projects such as the Tamarack Project, may be affected, in part, by the ability of the operator to mine, beneficiate and enter into off-take agreements with potential end users. No assurance can be made that Talon will be successful in entering into off-take agreements in respect of local and/or export sales or, if necessary, in accessing local smelting facilities.

Exchange Rate Fluctuations

Certain of the Company's financing activities are completed in Canadian dollars while the majority of the Company's non-working capital costs are in United States dollars and any payments made under the 2018 Option Agreement and the Royalty Agreement will be made in United States dollars. As such, the Company is exposed to movements in the United States dollar.

A depreciation of the Canadian dollar against the United States dollar may negatively affect the Company's current or future cash balance and may require the Company to raise additional

capital to offset additional costs caused by exchange rate fluctuations. In addition, a depreciation of the Canadian dollar against the United States dollar may require the Company to raise more money than it otherwise would have been required to do. The Company may not be able to complete such a larger financing which may result in the Company not being able to meet its obligations in respect of the Tamarack Project. Such a failure may have a material adverse impact on the Company, including potential dilution of its interest in the Tamarack Project and its ability to continue operating.

Changes in the Price of Nickel

The ability to develop the Tamarack Project is directly related to the market price of nickel. Nickel is sold in an active global market and traded on commodity exchanges, such as the LME and the New York Mercantile Exchange. Nickel prices are subject to significant fluctuations and are affected by many factors, including actual and expected macroeconomic and political conditions, levels of supply and demand, the availability and costs of substitutes, input costs, foreign exchange rates, inventory levels, investments by commodity funds and other actions of participants in the commodity markets. Nickel prices have fluctuated widely, particularly in recent years. Consequently, the economic viability of the Tamarack Project cannot be accurately predicted and may be adversely affected by fluctuations in nickel prices.

Uncertainty Relating to Inferred and Indicated Mineral Resources

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

Governmental Regulation; Environmental Risks and Hazards

The mineral exploration activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances and other matters. Mining, beneficiation and exploration activities are also subject to various laws and regulations relating to the protection of the environment. Although the Company believes that its exploration activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted, including any limitation, or prohibition, on sulphide mining, 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 Minnesota, USA. 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 (including, changes to the regulations in Minnesota surrounding the protection of waters in which wild rice inhabits), 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, including approvals that may be required for the Company to act as operator in respect of the Tamarack Project while the Tamarack Project exploration leases are in the name of Kennecott. 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, including the Tamarack Project.

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

Increased Availability of Alternative Nickel Sources or Substitution of Nickel from End Use Applications

Demand for primary nickel may be negatively affected by the direct substitution of primary nickel with other materials in current and future applications. In response to high nickel prices or other factors, producers of batteries may shift from batteries with high nickel content to batteries with either lower nickel content or no nickel content. In addition, in response to high nickel prices or other factors, producers and consumers of stainless steel may partially shift from stainless steel with high nickel content to stainless steels with either lower nickel content or no nickel content. One or both of these shifts may adversely affect demand for nickel.

Land Title

With respect to the Tamarack Project, the mineral and surface interests are held in Kennecott's name through various Minnesota state leases, private agreements and fee ownership. Maintenance of all of such rights are subject to ongoing compliance with the terms of such licenses, agreements 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 the Tamarack Project, there is no guarantee that title 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.

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 (including, the Tamarack Project) 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 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.

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 operates and/or holds interests. Such changes 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, or abandonment or delays in development of the Company's existing and/or new properties, including impacting decisions to continue with the funding of the Tamarack Project.

RELATED PARTY TRANSACTIONS AND BALANCES

Related parties include directors and officers of the Company, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

Certain of Talon's accounting, legal and general administrative functions in Brazil (the "**Brazil Services**") were provided by a company owned by a director of Talon (Luis Azevedo who resigned from the board of directors of the Company in April 2020). In 2019, the Brazil Services were provided for \$31,691 (2018 - \$38,000). For 2020, no fees will be paid as the Company sold all Brazilian assets in February 2020. In addition, the spouse of the CEO provided recruiting services during the three months ended March 31, 2020 for a fee of \$19,684.

Accounts payable and accrued liabilities at March 31, 2020 include \$nil payable to a company controlled by a director of the Company (Luis Azevedo who resigned from the board of directors of the Company in April 2020) (December 31, 2019 - \$2,955, for services rendered in connection with the sale of a royalty previously held by the Company).

The remuneration, including benefits, of directors and officers of the Company for the three months ended March 31, 2020 and 2019 was as follows:

	Three months ended March 31,	
	2020	2019
Cash compensation	\$ 312,887	\$ 45,500
Contingent compensation	-	186,250
Board fees - deferred	20,625	-
Stock option compensation	5,558	1,729,108
Total Aggregate Compensation	<u>\$ 339,070</u>	<u>\$ 1,960,858</u>
Capitalized portion included in Aggregate Compensation:		
Cash and contingent compensation	\$ 158,927	\$ 128,160
Stock option compensation	5,558	-
Total	<u>\$ 164,485</u>	<u>\$ 128,160</u>

The increase in cash and contingent compensation was due to (a) salary increases awarded to the CFO and VP Geology in Q4 2019 and (b) a higher allocation of time to corporate, marketing and financing matters of senior management as opposed to time being spent directly on the Tamarack Project compared to the prior year, which resulted in a higher portion of the senior management's salaries being expensed to the income statement instead of being capitalized to resource properties and deferred expenditures in accordance with the capitalization requirements of IFRS

From July 2015 to the present, fees to the Company's board of directors have not been paid but instead have been deferred. These fees were to be paid when the Company had at least \$3 million in its treasury and the RCF Loan was converted into common shares of the Company. As a result of the 2019 Prospectus Offering (defined below), the Company met the conditions, however, in order to maximize the amount of funds available for operational purposes, the board of directors agreed to further defer their fees until the Company's next financing. Nevertheless, as the likelihood of payment increased as a result of the 2019 Prospectus Offering and future potential financings, the deferred fees were recognized during Q3 2019.

Effective April 1, 2020, Talon's CEO, President and CFO each agreed to reduce their salaries to \$110,000, while deferring the remaining amounts on terms and conditions to be mutually agreed upon by the Company and the executives.

On March 22, 2019, 29,690,990 stock options were issued to members of the board and management of the Company (a total of 32,467,103 stock options were issued on that date which, in addition to issuances to members of the board and management, also included issuances to an employee of the Company and certain consultants to the Company).

On June 6, 2019, 4,962,735 stock options were granted to the CEO, President and CFO with an exercise price of \$0.18 and exercisable until June 6, 2024.

In March 2020, 3,000,000 options were issued to the VP Mine Engineering of the Company with a term of 5 years, an exercise price of \$0.10, vesting over 2.5 years and being amortized to Resource properties and deferred expenditures over 2.5 years.

CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods when the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of each reporting period and for the periods then ended, 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 valuation of resource properties, the valuation of the RCF Loan, the estimation of contingencies, the valuation of the asset retirement obligation and the valuation of the Royalty Put Option.

The uncertainty regarding the valuation of resource properties arises as a result of estimates and judgments such as forecasts of metal prices, operating costs, capital costs and income taxes among numerous other valuation inputs, discount rates, comparability of the Company's properties to those of other market participants and the selection of market-participant assumptions used to determine recoverable value.

The uncertainty regarding the valuation of the unsecured convertible loan arises as result of certain key inputs such as expected volatility, the price of the Company's shares, the yield-to-maturity or discount rate on the loan portion and the selected valuation methodology.

The uncertainty regarding the estimation of contingencies arises as result of the uncertainty as to legal proceedings that are before the courts, as well the amount and probability of a future payment or award.

The uncertainty regarding the valuation of the asset retirement obligation arises as result of certain key inputs such as future estimated costs, future inflation, the possibility of changing laws and requirements, including changes in constructive obligations and the discount rate used to present value the future estimated costs.

The uncertainty regarding the valuation of the Royalty Put Option arises as result of certain key inputs such as the probability that the Royalty Put Option will be exercised which is determined by management based on a quantitative assessment of the value of the Royalty Put Option presently and at the exercise date along with qualitative assessments regarding permitting and other qualitative aspects of the Tamarack Project such as exploration potential and the quality of the project, among other items.

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 Company only capitalizes costs on its core properties and expenses all costs related to properties that were of a secondary focus.

The cost of mineral properties includes the cash consideration paid 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. The proceeds from options granted or royalties sold 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.

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

Convertible loan

In December 2015, the Company issued an unsecured convertible loan (the RCF Loan) and in January 2017, the Company increased said loan. The Company has designated the convertible loan at fair value through profit and loss. The Company has used estimates in determining the fair value of the convertible loan. Inputs used in the models employed in the valuation of the

convertible loan as a hybrid financial instrument require subjective assumptions including the expected price volatility and credit yield-to-maturity of the Company. Changes in these assumptions and the selected valuation model can materially affect the fair value estimate. The valuation methods and the underlying assumptions used in the re-measurement of the convertible loan are disclosed in Note 5 of the financial statements.

The convertible loan was denominated in US dollars and convertible into common shares based on the principal and interest balance translated to Canadian dollars. Management determined that the convertible loan represents a combined instrument that contains an embedded derivative, being the conversion option. As a result of the foreign exchange impact on the conversion factor, the conversion option does not meet the fixed for fixed criteria and therefore represents a derivative liability. In accordance with IFRS 9, the Company has designated the entire convertible loan at fair value through profit or loss. The convertible loan was initially recorded at fair value and re-valued at period end with changes in fair value being recorded through profit and loss.

INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes were made to the Company's internal control over financial reporting during the three months ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

OUTLOOK

On November 7, 2019, the Company announced its operational plan over the coming months in respect of the Tamarack Project. More specifically, the Company announced that its main objectives were to:

- Continue exploration with the commencement of a drill program and additional work at the Tamarack Project, with the objectives of: (i) extending the established high-grade resource area (i.e., the MSU); (ii) identifying new high-grade (MSU) exploration targets; and (iii) infill drilling the Company's established resource to start the process of converting more resources from the inferred category to the indicated category (defined above as 'Objective 1'); and
- Develop a process to potentially produce nickel sulphates. The ability to produce a value-added product could create a unique opportunity for the Company to explore direct sales to the battery industry (at a premium price for nickel sulphates as compared to the London Metals Exchange (LME) nickel price) as opposed to the traditional route of selling product to a smelter at discounted prices. The Company further indicated that once the process had been developed, the Company intended to complete the Updated PEA (defined above as 'Objective 2').

During Q4 2019 and Q1 2020, the Company substantially completed Objective 1, with the results to date outlined in the Company's press releases dated January 21, 2020 ("*Talon Commences Drill Program at Tamarack*"), March 2, 2020 ("*First Drill Results: Talon Metals Intercepts 11.36 Meters (37 Feet) of Mixed Massive Sulphides Grading 7.1% Ni, 2.98% Cu, 1.11 g/t PGEs, 0.16g/t Au and 0.14% Co at Tamarack*"), March 16, 2020 ("*Talon Drilling Update: 10.54 Meter (34.6 Feet) Intercept of Wide Mixed Massive Sulphides Logged at the Tamarack Project*"), April 2, 2020 ("*Talon Intersects 5.73 Meters (18.8 Feet) of Mixed Massive Sulphides Outside of Talon's Resource Area*"), April 8, 2020 ("*Talon Intersects 7.14 Meters (23.4 Feet) of Mixed Massive*

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Sulphides at the Tamarack Project"), April 28, 2020 ("*Talon Drills a Total of 38 Meters (125 Feet) of Mixed and Massive Sulphides and 363 Meters (1,191 Feet) of Disseminated Sulphides at Tamarack*") and May 13, 2020 ("*Talon Announces Numerous High-Grade Nickel and Copper Intercepts at the Tamarack Project, Including 10.54 Meters (34.6 Feet) Grading 7.07% Nickel Equivalent (Or 18.72% Copper Equivalent)*"). As of the date of this MD&A, further results in respect of Objective 1, including additional assay results, remain pending.

In respect of Objective 2, the Company filed the Updated PEA on March 16, 2020, with the Adjusted Scope as described above.

Going forward, the Company intends to complete Phase 1 (as defined above). Once Phase 1 has been completed, the Company intends to undertake a prefeasibility study in connection with the advancement of the Tamarack North Project.